

# agile government

A PROVOCATION PAPER

DEMOS





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### **About the provocation paper**

This provocation paper is a joint publication by Demos and the State Services Authority. The purpose of the paper is to generate ideas and provoke debate about the concept of agile government. The paper does not represent Victorian Government policy.

The provocation paper has been prepared by Simon Parker, Head of Public Services, and Jamie Bartlett, Researcher, Demos, together with the State Services Authority.

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Demos is the think tank for everyday democracy. We believe everyone should be able to make personal choices in their daily lives that contribute to the common good. Our aim is to put this democratic idea into practice by working with organisations in ways that make them more effective and legitimate.

We focus on seven areas: public services; science and technology; cities and public space; people and communities; families and care; arts and culture; and global security. Our partners include policy-makers, companies, public service providers and social entrepreneurs. Demos is not linked to any party but we work with politicians across political divides. Our international network – which extends across Eastern Europe, Scandinavia, Australia, Brazil, India and China – provides a global perspective and enables us to work across borders.

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The State Government of Victoria has vested the State Services Authority with functions designed to foster the development of an efficient, integrated and responsive public sector which is highly ethical, accountable and professional in the ways it delivers services to the Victorian community.

The key functions of the Authority are to:

- identify opportunities to improve the delivery and integration of government services and report on service delivery outcomes and standards;
- promote high standards of integrity and conduct in the public sector;
- strengthen the professionalism and adaptability of the public sector; and
- promote high standards of governance, accountability and performance for public entities.

The Authority seeks to achieve its charter by working closely and collaboratively with Victorian public sector departments and agencies.

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## Preface

In 2006, the State Services Authority released a report on *The Future of the Public Sector in 2025*. This report identified seven future issues and challenges for the public sector. One of these was fostering agility to support a high performing public sector. The uncertainty that the future holds means that the public sector cannot predict many of the challenges that it will confront. As such, the public sector requires agility in its systems and structures to respond to future issues.

The concept of agile government is the basis of a joint project with Demos and the State Services Authority. Demos is a UK think tank that operates in a range of subject areas including public services and government. The State Services Authority undertakes projects on public administration policy as part of its charter to strengthen the professionalism, adaptability and integrity of the Victorian public sector.

This provocation paper explores preliminary ideas about agile government.

# 1. Introduction

At shortly after 4.00am one February morning in 1997, fire swept through a factory in the Japanese city of Kariya. The building and its specially designed machinery were crippled, unable to produce any of the critical valves that the factory's owners, Aisin Seiki, would normally have supplied to Toyota. Within minutes of the fire starting, the famously resilient Toyota production system faced the possibility of a total shutdown lasting months.

Disaster was averted through a remarkable display of agility. Within hours of the fire, engineers from the Kariya factory met with Toyota and its other suppliers, and they started to improvise new production across their network of suppliers. Aisin sent blueprints for its valves to anyone who asked for them, and sent its engineers out to help rig up production lines in other premises, from unused machine shops to a sewing machine factory owned by Brother. Within two weeks Toyota's production was back to normal (Evans and Wolfe, 2005).

Governments are not like Toyota – they are bigger, more complicated and have to operate in a far more complex and uncertain environment than auto manufacturers. But that does not mean that the public sector should not aspire to the agility that companies like Toyota demonstrate at their best. As governments seek new ways to support their citizens in an increasingly risky and uncertain world, it is more important than ever that public services are able to move swiftly in spotting and tackling emerging challenges, while being responsive in real time to the everyday needs of citizens.

In this paper Demos and the State Services Authority explore the concept of agility and what it might mean for government. We examine characteristics of agile organisations and how these characteristics relate to the public sector environment. We argue that the fundamental challenge for government is to become more agile not just in the way that they meet changing citizen needs, but also to become agile in shaping what those needs are in the first place. This combination of effective shaping, adaptation and execution is the goal of much organisational theory, and government may have some unique advantages and challenges in achieving it.

The purpose of this paper is not to arrive at a prescription for how to create agile government. Rather, it seeks to provoke debate about how developing agility might equip government and the public sector to respond to new challenges in a changing world.

## 2. What is agility?

Simple dictionary definitions of agility centre on moving in ways that are quick, easy and nimble. It is easy to see agility as the simple act of responding to stimuli. But defining the term in a way that is useful for government is much more difficult – there is a considerable amount of ambiguity around the idea of organisational agility. The word is often used as little more than a synonym for ‘high performance’, or ‘customer service’. It is sometimes used interchangeably with terms like ‘responsive’, ‘dynamic’ and ‘adaptive’.

Agility in government is a more complex idea than any of its near synonyms suggest. Rather than trying to cut our way through this conceptual thicket, it is preferable to define agility in terms of the kinds of behaviour we might expect an agile organisation to exhibit. These seem likely to include:

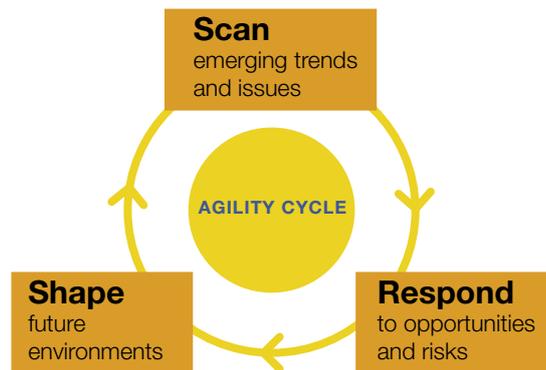
- Fast decision making
- Flexible resource allocation
- Accessing and analysing a constant stream of high quality data to understand the changing environment
- Appropriate risk taking
- Flexible policy making approaches that allow for rapid changes to plans and reversing decisions when needed
- Balancing short term responsiveness with long term management of uncertainty
- Actively shaping the operating environment
- A shared values base.

There is a wealth of work that borrows from the business world to explain how organisations can be more responsive to the changing day to day needs of the people they serve. Increasingly, management theorists are also focussing on how organisations can be more adaptive, developing better ways to change their products, structures and services in response to broader changes in their operating environment. Governments need to be agile at both these levels, but they also have to operate at a third level of complexity – they can also shape their environment on a uniquely grand scale through mechanisms such as policy making, taxation and service delivery.

So agile governments need to understand how they can become more agile at all of these levels simultaneously. It's not just about being the best player in the game, it's about writing the rules of the game. As shown in Figure 1, if governments want to become more agile, they need to develop three kinds of capacity:

1. **Scan** – gathering information and analysis that allows government to spot emerging trends and issues in the environment.
2. **Respond** – being sufficiently flexible to respond to new challenges at both the tactical level of day to day service provision, and the strategic level of innovating new approaches and adapting policy and strategy.
3. **Shape** – understanding how to drive change in the external environment to influence future opportunities and minimise future risks.

Figure 1 – agility cycle

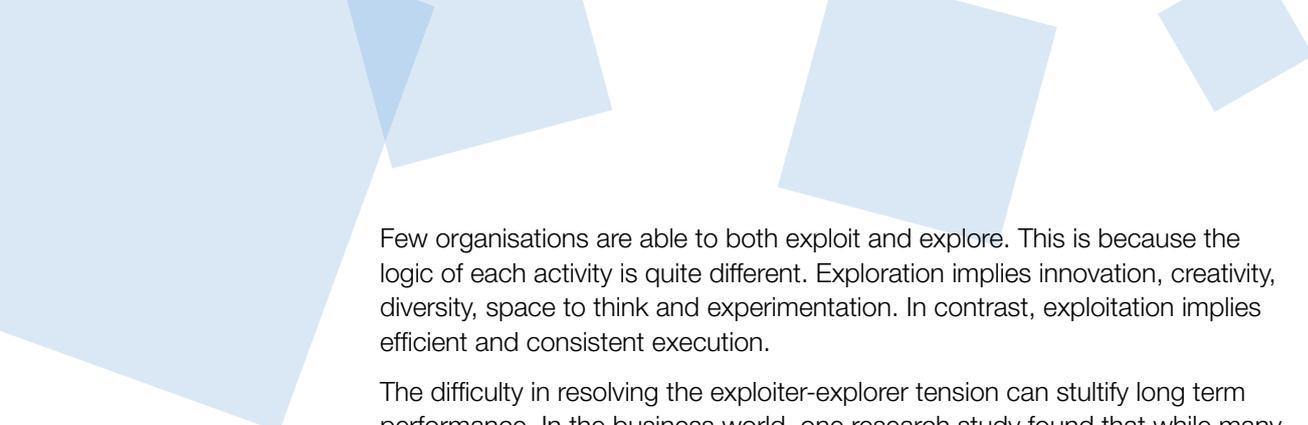


Interest in creating more agile organisations has been growing over recent decades as business and governments strive to respond to a rapidly changing world. As Pollard (2004) suggests, the agile organisation is “hyper strategic”, managing changes wrought on it by turbulent external environments, while also preparing for changes not yet facing it.

In broad terms, the bureaucracies of the 20th century and the scientific approach to organisations tended to prize hierarchy, specialisation, efficiency and standardisation. As the pace of global technological and social change accelerated, Taylorist organisations and Weberian bureaucracies struggled to keep up.

The need for responsiveness and dynamism led to a new wave of thinking about organisations. By the 1990s, management commentators such as Peter Senge were talking about learning organisations and systems thinking as a means of adapting and responding to a changing world rather than the rigid hierarchies of the past. Similarly, public administration thinkers began to explore new approaches to the way government is organised including concepts such as the adaptive state, public value and network government. Despite these new approaches, there is little consensus over what an agile organisation might actually look like.

Perhaps the biggest challenge that needs resolving is the question of how to strike the balance between maximising responsiveness at the day to day level of delivery, while also being an active participant in *driving* change. In other words, when and how would an agile government try to become better at responding to different needs, and when might it also try to shape those needs through an interventionist strategy and proactive innovation? When should government seek to be, in Stanford James March’s memorable phrase, an *exploiter* of existing approaches and when an *explorer* of new ones? (March, 1991).



Few organisations are able to both exploit and explore. This is because the logic of each activity is quite different. Exploration implies innovation, creativity, diversity, space to think and experimentation. In contrast, exploitation implies efficient and consistent execution.

The difficulty in resolving the exploiter-explorer tension can stultify long term performance. In the business world, one research study found that while many companies could sustain high performance in short bursts, few could maintain it over the long run. The study examined 6,722 companies over 23 years, and concluded that only one in 20 had managed to sustain high performance for more than a decade. The authors explained these short bursts of success as the product of successful execution let down by poor adaptation to the changing business environment (Wiggins and Ruefli, 2002).

The new public management reforms of the 1980s and 1990s illustrate the tension between exploitation and exploration. Public sector reform centred on making agencies efficient, transparent and accountable to performance targets. However, tight targets and efficiency drives risk discouraging experimentation. In the final analysis, managers were often reluctant to try something new if it risked missing a target. Even as governments rhetorically celebrated innovation and exploration, in reality they were strengthening their exploitation capacity. Public sector agencies were locked into the delivery at the expense of adaptation.

As the limitations of earlier reforms have become apparent, the idea of agile government is emerging as one of the key principles of a 'post-new public management' wave of reform. This wave extends to a focus on joined-up and networked government and digital technology (Dunleavy *et al*, 2006).

The economist Eric Beinhocker (2006) provides a compelling summary of the current state of debate about agile organisations. His argument is that agility depends on both hard institutional or structural systems, and softer cultural systems – or 'hardware' and 'software' elements. There are three hardware changes that can increase an organisation's adaptability:

1. Reducing hierarchy
2. Increasing autonomy
3. Encouraging diversity.

By essentially 'loosening up', organisations should be able to encourage a wider variety of perspectives and approaches – what some researchers have termed 'requisite variety' (Dyer and Shafter, 2003). This means that when the external environment changes, there is a greater likelihood that someone will have a response ready to go.

But even when structures are reformed to allow for more experimentation and diversity, organisations still struggle to develop the software – the cultural norms – that underpin agility. These cultural changes might be the key to combining exploring and exploiting, by allowing greater space for experimentation while maintaining a strong set of values that provide coherence and enable effective delivery, in particular:

1. Cooperating norms – creating a culture of cooperation that drives people to coordinate tasks and share information.
2. Performing norms – fostering a high performance culture in which staff take responsibility for good individual work.
3. Innovating norms – loosened structures need to be backed by a culture of innovation.

In other words, agile organisations need to tackle the apparently paradoxical feat of maintaining high levels of direction, stability and order, while simultaneously fostering high levels of experimentation, discovery and flexibility (Mannix and Peterson, 2003). Just as when dealing with computer systems, there is no fixed hardware and software combination guaranteeing agility. Formal structures and processes as well as informal culture and modes of operating require ongoing upgrades and development to remain attuned to present and future needs.

### 3. Why is agility important to government?

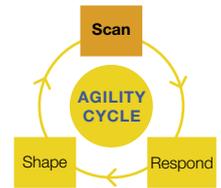
Agility matters because it has real benefits for government. An AT Kearney study suggested that agile public sector organisations benefit from higher levels of productivity, greater employee satisfaction and more favourable feedback from citizens. The study found that agile public sector agencies saw a 53 per cent rise in productivity, a 38 per cent rise in employee satisfaction and a 31 per cent increase in customer satisfaction (AT Kearney, 2003).

As citizens' expectations of government continue to grow, agility becomes a rising imperative. Private markets are offering consumers unprecedented levels of product choice and service responsiveness. We might question whether this really means that the public wants an explosion of choice – recent AustraliaSCAN surveys suggest people are suffering from too much of it (Quantum Market Research, 2006) – but it certainly creates an expectation that public services should be better attuned to citizens' wants and needs. If governments cannot keep up, they risk diminishing levels of public trust in their capacity to deliver. Without public trust, the operating legitimacy of public agencies is undermined.

Just as importantly, agility helps governments to ensure that they are ready for unpredictable future challenges. The recent State Services Authority report on *The Future of the Public Sector in 2025* contended that agility could help the public sector to deal with uncertainty in the operating environment and the challenges this entails.

Governments operate in dynamic environments and therefore public agencies cannot rely on static modes of operating. That is not to say that all things are in a state of dramatic flux. In some cases agility may involve adaptive change over time, while some core functions remain constant. For example, education systems have long developed children's literacy and will likely continue to do so. Curriculum content, teaching methodologies and literacy applications need to adapt over time. In other cases, sudden and disruptive changes in the external environment require a swifter response. For example, major natural disasters, pandemics or state security threats require immediate, decisive and coordinated responses.

Agility is especially important when government is dealing with complex problems in an uncertain environment. Challenges such as climate change, economic development or strengthening social equality are intractable because they have multiple, overlapping causes that can play out in very different ways in people's lives over time. Policy makers are unlikely to ever come up with a single solution to such issues, so they need to experiment, trying to find new approaches to discover what works. This requires a very particular kind of agility that is about creating shorter cycles of experimentation, execution and evaluation to allow policy makers and practitioners to learn from their own work.



## CASE STUDY 1

### Baltimore – scanning for service improvement

When he was elected Mayor of Baltimore in 1999, Martin O'Malley wanted quick ways to improve what he regarded as the poor quality of the city's public services and managers. His answer was CitiStat, a combination of an IT system and regular reviews that allowed O'Malley and his aides to get real time performance data. The system allows the city to constantly review its own performance, identifying and quickly responding to problems (Perry 6, 2004). In other words, it has increased the agility of the city in terms of its ability to scan and respond.

The first stage of developing the CitiStat model was to give each agency a template for reporting input, activity, output and outcome statistics. Analysts use the data to brief the Mayor, and can also test performance through site visits or calls to an agency's contact centre. The mayor then calls agency leaders into a specially designed meeting room and uses the data to question them about their performance. In some cases, this process can become quite confrontational – for instance, when one agency chief denied that he owned a certain kind of truck, O'Malley produced satellite photos taken minutes earlier showing one of the trucks on an agency site.

But CitiStat is not always used this aggressively. The system has spread to at least 10 other US cities (Behn, 2006) and has been piloted by a total of four local authorities and hospitals in Scotland (Sharp *et al*, 2006). An evaluation of the Scottish experience showed that CitiStat could actually be used to build constructive dialogue within agencies, encouraging communication and mutual understanding about performance challenges. Scottish managers and councillors used the data to challenge and praise service deliverers.

Just as importantly, CitiStat forced the Scottish pilot agencies to improve the quality of their scanning, focusing on *actionable* data rather than simply using what they already had available. Two of the organisations involved are continuing to use the CitiStat system.

Based on: Perry 6, 2004, Behn, 2006 and Sharp *et al*, 2006

## 4. What capabilities does agility entail?

The lack of a precise definition of agility in government means that there is no clear description of the capabilities that an agile public sector would need. In any case, public agencies are so diverse that it can be difficult to generalise about the forms of agility most appropriate for each. As James Q Wilson points out, the qualities needed to run a good prison are very different from those needed to run a good school or hospital (Wilson, 1989). Nevertheless, some of the general attributes that are likely to be found in agile public agencies are outlined below.

### 4.1 Outward-oriented culture

By looking outwards to the real results that the public sector achieves in the everyday lives of its citizens, agile governments are always scanning the environment so that they can capitalise on new opportunities and intervene early to address emerging challenges. An outward focus means that agile public sector agencies are constantly examining not only their own actions, but the impact of other social changes and trends, to understand the drivers of change in their operating environment.

An outward-oriented culture also helps public agencies understand that they cannot operate in isolation – few outcomes can be achieved by a single organisation. As this suggests, agile governments look to joining-up different departments and agencies in a flexible way to meet new challenges that require cross-cutting approaches. Finland, for example, has attempted to do this by creating networks of departments that are designed to meet the government's five outcome goals, which have included delivering 100,000 new jobs and increasing democratic participation (Parker, 2007).

An outward focus also implies that governments need to be able to shift resources between different priorities with relative ease. Governments are generally very good at starting new programs, but less successful at stopping them, except through efficiency drives and expenditure reviews. Taking stock of changes in the external environment will help to answer questions such as, 'is this program still achieving its original purpose or are we doing it simply because we always have?'; 'are others delivering similar programs in a more effective way?'; or 'has this program ceased to be valuable and relevant?'

Some writers have taken these questions to their logical conclusion, and argued that policy makers need to take a 'venture capital' approach to expenditure, scanning for opportunities and investing in new services and projects, but expecting a clear return on funds. If the program fails to deliver, then its funding would be rapidly stopped and redeployed (Filkin, 2007).

### 4.2 Systems and policy alignment

Agility cannot happen in isolation – it relies on the alignment of systems and policies oriented towards clear outcomes. Policy makers need to ensure that the whole system of government from top-to-bottom is aligned. The alignment of structures, incentives and accountability is critical to focussing governments' capacity to implement policy, explore new opportunities and execute effective responses.

As the British commentator Ed Straw (2004:10) puts it:

*The characteristic of high-performing organisations is 'alignment': their proposition to the market is compelling, their strategy to deliver this is clear and comprehensive; their whole structure is built around the proposition; their systems, incentives and performance measures all point in the same direction; and a set of shared value supports the whole.*

Agile governments would have well-aligned systems such as strategy, budgeting, human resources, service delivery, information management, project management, communications, monitoring, reporting and evaluation. They would also need to manage the softer aspects of alignment, understanding how to motivate professionals to deliver policy and harnessing their energy to create innovative approaches to implementation. Ultimately, agile governments might depend on creating a strong sense of shared vision and values.

Government is a dynamic business where goals and tactics will constantly shift. This means that policy makers need to regularly scan the external environment to ensure that they are still achieving the right kind of alignment. As one part of the system changes, the others need to realign accordingly.

In government, agility also entails policy alignment. This can often involve a delicate balance of objectives across policy domains. For example, clean air policy does not reside exclusively within the domain of environmental portfolios. Transport and industry policy are equally important to achieving environmental objectives. The challenge for government is to weigh the impact of congruent or conflicting policies and adjust and align approaches accordingly.

The UK's national health service provides an example of the difficulties of aligning policy and systems with professional values. In 2002, the Blair government asked to be judged partly on its ability to improve the NHS through new targets for reducing waiting lists, more patient choice between hospitals and pay and workforce reform.

But while ministers put in place strong forms of structural alignment to ensure their goals were met – from targets and inspections to pay incentives and competition – the pace and extent of change alienated hospital professionals. This has led to a resentful workforce. Some commentators now argue that the Brown government needs a new focus on negotiation and respect for professional expertise if it wants to continue its program of public service reform (Perry 6 and Peck, 2006).

### **4.3 Workforce adaptability**

Workforce adaptability in public agencies will affect their capacity to respond to changes in the external environment. The public sector needs a workforce that is adaptive to new ways of inter-agency cooperation, inter-professional engagement and service redesign. For example, policy practitioners need to develop project-based approaches to working that allows for their rapid redeployment across agencies depending on shifting priorities.

For this to work, staff need to be supported and feel connected to government strategy (AT Kearney, 2003). Their leaders need to be fast and flexible problem solvers, able to mobilise others to diagnose problems, process data, generate effective solutions and marshal the resources and energy necessary to implement those solutions quickly (Mannix and Peterson, 2003 and Fulmer, 2001).

Workforce adaptability entails matching skills to required tasks. Such shifts might include professions taking on new functions, as is the case with specialist nurse practitioners who can now, within limits, prescribe patients with medication. Alternatively, such shifts might relate to alignment with new modes of working. For example, increased private sector involvement in providing major public infrastructure requires skills adaptation to equip the public sector with necessary contractual and project management capabilities.

#### **4.4 Fast and effective decision-making**

Governments are generally regarded as not particularly fast when it comes to decision-making. At the political level, the need for legislative scrutiny and debate rightly constrains decision-making speed. However, this is not necessarily the case at the operational level.

Child protection workers need to intervene immediately if they believe a child is at risk of imminent harm; emergency services command needs to decide whether it is safe for fire fighters to enter a burning building to rescue life or property; and doctors need to decide whether to perform risky procedures on patients brought unconscious into emergency departments.

Although not all public sector decisions are a matter of life and death, agile governments will nevertheless display fast and effective decision-making capabilities.

In a world of imperfect and asymmetric information, public agencies cannot always wait until they have 'all the facts', some of which might be unknowable. Agile agencies will be equipped to undertake speedy checks and balances processes, making judgements and arriving at decisions across diverse domains, from communications programs to purchasing policy.

Alignment of systems of authority and accountability, supported by sound strategic decision-making frameworks, should support public sector leaders to make timely and responsive decisions.

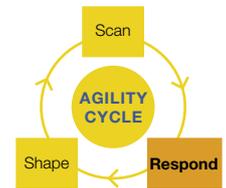
#### **4.5 Successful use of information**

High quality information and the skill to use it are critical to agility – if governments do not scan effectively, they cannot respond effectively. The improved capacity of information and communications technology (ICT) in particular is supporting government agility and decision-making speed.

ICT allows governments to better manage information, allowing for the faster gathering and sharing of data that should allow for better informed strategy and more responsive customer service (Dunleavy *et al*, 2006). In addition, it allows for the creation of more responsive relationships with citizens, who can now get more information to make their own decisions and use channels such as the Internet to access services.

However ICT also creates the danger of information overload. The extra processing power often leads to more data, which is not necessarily better data, and this can increase confusion among policy makers. The key to successful use of information for governments is filtering out the really important data and providing policy makers with the analytical skills to make sense of it (Short, 2006).

Even with the very best data, governments will still sometimes find themselves in a situation where they have to make hard decisions with soft evidence, so policy makers need to understand the value and limitations of a range of information, from statistics to qualitative research.



## CASE STUDY 2

### PS21 in Singapore – responding to citizen needs

In 1995, Singapore regarded itself as having a strong economy and good governing institutions, but government officials increasingly recognised that good performance today was not enough to secure success tomorrow. Their response was PS21, an ongoing program of civil service reform that aimed to help the public sector anticipate, welcome and execute change. The program was explicitly aimed at making government more agile by opening the public sector up to a broader range of ideas and approaches, ensuring that it can adapt more effectively to changing needs (PS21, 2005).

PS21 focussed partly on helping the public sector become more responsive to ideas from the frontline – staff ideas for making services more efficient and effective are channelled through a dedicated intranet and considered by a central steering committee chaired by the head of the civil service. Staff are trained to develop the skills necessary to turn their ideas into reality, and in 2000 an Enterprise Challenge office was set up in the prime minister's department to fund, test and implement new approaches and ideas from the public and private sectors. So far it has funded more than 65 innovations, which it expects will result in S\$600 million in savings (Lodge and Kalitowski, 2007).

But the scheme has also expanded to allow the public to feed directly into the process of public administration. Singapore's 'Cut Waste' panel invites public proposals for greater efficiency, and since its set up in 2003, it has received over 3,200 relevant suggestions ranging from calls for government agencies to use recycled printer toner cartridges to changes to official surveys. Just over 3 per cent of the suggestions have been implemented.

PS21 has also created a new process that allows citizens to highlight public issues that are not being effectively dealt with because they cut across different government agencies. Set up in 2000, the Zero-In Process has received more than 10,000 suggestions and acted on 108 of them. For instance, the process helped the government to free up land beneath viaducts and over canals that could be worth S\$11 billion, to appoint lead agencies to tackle issues such as noise pollution, and to pioneer an approach to development that allowed residents to choose between different combinations of roads, drains and trees (PS21, 2005).

Based on: PS21, 2005 and Lodge and Kalitowski, 2007

## 5. Agility challenges for government

Governments are complicated families of agencies, dealing with immensely complex issues. It is hardly surprising then, that many existing models of agility developed for large private sector corporations are not directly applicable to the public sector. In this section, we examine four of the key tensions that need to be tackled if we are to develop more effective approaches to agility in government:

1. **The accountability challenge** – managing complex lines of responsibility and accountability.
2. **The outcome challenge** – working across and beyond government to get results.
3. **The whole-of-system challenge** – balancing stability with rapid adaptation.
4. **The shaping challenge** – knowing when to respond and how to shape.

### 5.1 The accountability challenge

To whom and for whom are we agile? It seems like a simple enough question. The parliament and government are acting in the interest of the public, and the public sector is acting to serve the interests of the government. But in practice, things are not so straightforward and the lines of responsibility and accountability are much less clear.

In contrast to government, large private sector organisations have a more contained set of stakeholders and lines of accountability. Large corporations are characterised by shareholders, boards, executives, employees and customers. The relationship between each of these parties is comparatively straight forward. In contrast, the relationships are not so clear in government. Overt and covert power is exercised in a complex web of relationships between the public, parliament, government, public servants, public sector agents, business, non-profit agencies, advocates, lobbyists and political advisers.

Unlike shareholders or customers of a private company, the public cannot opt out of government. A shareholder can sell shares and have no further involvement with a private company. Similarly, in most circumstances a customer can choose not to buy a product. This is not the case when it comes to the state. Whether or not a member of the public supports the government, they remain subject to its laws and reliant on many of the services it provides.

This tangled web of accountabilities means that at any given time, many parts of the public sector are trying to find the right balance between the needs of government, citizens and a host of other possible stakeholders. There is no single solution to the ‘accountability challenge’ – complex accountabilities are a necessary and inevitable part of government and public sector management. As Charles Sabel notes, “the problem is at least as much determining ways actors can discover together what they need to do, and how to do it, as determining which actors ought to be the principals in public decision making” (Sabel, 2003: 6).

In other words, agility in the public sector is not just about responding, but about deciding who the right people are to be responsive to, and working with them to discuss, refine and legitimise government action.

When striving for agility amidst relationship complexity, public managers need to consider how governance systems take account of the multiple decision rights of those with a stake in any given field of endeavour. The way in which networks are mobilised, resources are drawn together and incentives are aligned, will affect the agility with which governments can act.

## 5.2 The outcome challenge

Governments increasingly want to deliver results in outcomes terms. This entails shifting focus from relatively easily measured outputs to the end result for citizens. This creates new challenges for governments. Not only do they need to continue effective output delivery, but they also require agility in the way they manage relationships, networks and influence to achieve final outcomes. For instance, we cannot frame climate change solutions exclusively in output terms, such as the percentage of local waste a government recycles. Meeting such challenges can only be understood in terms of whether society and technology changes are shaped in ways that sufficiently control or reduce carbon emissions.

Governments do not control all the levers that allow them to reach their outcome goals, so they need a broader sense of the way their actions will interact with those of others. This does not mean that governments should be seeking more control over the world around them. Rather it suggests the public sector needs to become more agile in the way it influences and incentivises different kinds of behaviour, both internally and externally.

An agile response to a complex problem will rarely be within the reach of a single agency. Nevertheless, alignment of objectives, actions and incentives – across agencies and beyond them – remains an important challenge for agile government in achieving outcomes. For instance, health outcomes are affected by policy decisions in health, education, sport and recreation, transport, and planning. Similarly, they rely on the actions of multiple internal and external parties including health professionals, insurance companies, the food industry, the advertising industry, land and housing developers, education providers and families.

The challenge for governments that want to develop better outcomes is to be agile in the ways they encourage different players to work together more effectively. Whether through direct service intervention or through market design and influence, achieving outcomes that traverse agencies, sectors and spheres of responsibility requires governments to understand their role as part of a larger picture.

### 5.3 The whole-of-system challenge

The public sector is not a single organisation, but a family of agencies in which the actions of one can have significant implications for another. The size of the public sector makes achieving whole-of-system alignment an enormously complex task.

This raises the question of where change should occur at a given point in time. If central agencies and departments continuously issue reform programs in an attempt to drive system change, they are likely to create confusion and disruption. It is not feasible to have all components of all public agencies rapidly changing at once.

The whole-of-system tension between stability and change can be illustrated through the relationship of central policy agencies to frontline service delivery. At times, central agencies will explore new modes of operating to achieve desired policy outcomes, planting the seeds of systems reform. While such exploration is underway, frontline service providers need to continue to exploit existing resources and systems to ensure service continuity. That is, teachers continue to deliver lessons and support student learning while Education Departments develop periodic reform programs. At other times, frontline service providers will experiment with approaches to better meet changing customer needs. For example, teachers will innovate at the local level to ensure classroom programs meet the particular needs of changing student cohorts.

Central reform programs need to be designed to provide a solid foundation for frontline activity. They need to provide broad direction and structure to enable fast and flexible responses to frontline realities. So while frontline agility might entail constantly adapting to local needs, central agility might entail periodic reform to refocus on desired outcomes.

Outside reform periods, central agencies and departments will maintain stability, focusing on overseeing policy implementation, removing barriers to achievement of objectives, and holding frontline agencies accountable for service delivery. In this way, the centre would help the frontline to adapt to reform policies and external realities, without overloading it with new initiatives.

Whole of system alignment also entails consideration of the broader political environment in which the public sector operates. In some instances, the setting of long term priorities, reforming service delivery, and achieving cross cutting outcomes will need strong political will. Alignment is required between the two systems (the public sector and the elected government of the day) in order to deliver policy priorities and outcomes.

#### 5.4 The shaping challenge

Governments' job is not simply to meet current needs, but also to shape society in the public interest. Some commentators argue that such 'shaping' is becoming more important as we move into a 'post-consumer' age in which government needs to change people's behaviour as well as respond to their demands. As the British writer Geoff Mulgan (2007:177) puts it:

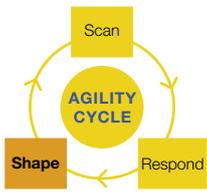
*Although in some services there is still more scope to empower consumers, in many we are moving into a post-consumerist era, when many of the biggest challenges involve encouraging changes to public behaviour and a spirit of shared responsibility between state and citizens.*

Health care is perhaps the best example of this need to shape society. The imminent retirement of the baby boomer generation is putting upward pressure on health care systems. Governments have a choice between increasing supply and reducing demand.

The first option implies higher spending on health care to create more hospital and specialist care capacity. The second suggests investment in prevention, early intervention and alternative care approaches to keep people fitter and healthier so as to contain the number of people needing acute hospital care. Agility means striking the right balance between innovating and adapting to rising need, and shaping society to reduce that need.

So when should governments shape rather than respond? Shaping activities are usually most appropriate for long term problems where the key factors affecting the likely long term outcome are well understood. If we know that good nutrition is likely to keep people healthy, then we also know that promoting it is likely to reduce demand for health care spending (Courtney, 1997).

When governments understand the problem, but not the methods for tackling it, then shaping is more likely to take the form of experimentation, with politicians encouraging a variety of approaches to establish what kind of shaping behaviour is most likely to work. Agile governments are likely to engage in shaping activity over the long term, while seeking to become more responsive to changing needs in the short term.



## CASE STUDY 3

### Victoria – shaping national reform

Australia is facing major challenges in the coming decades, due to the ageing population and the increasing competitiveness of the global economy. Successfully addressing these challenges requires Commonwealth, State and Territory Governments to work together. The National Reform Agenda (NRA) is a new partnership through which governments are taking a long term perspective and working together to drive greater productivity, higher labour force participation and improve standards of living in the decades ahead.

The State Government of Victoria played a lead role in shaping the agenda for reform. The Victorian Government has consistently advocated that collaboration between governments in the areas of health, education and early childhood development is particularly important. This began in 2004 with the commissioning of research on proposed reforms to the public and private health systems and approaches to education and training. In 2005, the Premier of Victoria released a communiqué which highlighted the need for further reform at a national level. In June 2005, the Council of Australian Governments (the peak intergovernmental forum in Australia) agreed to focus on a possible new reform agenda.

A month later, the Premier of Victoria released *Governments Working Together: a third wave of national reform* to advance public discussion about national reform. The paper called for broad reform across competition, regulation and human capital to deliver greater productivity and higher labour force participation. Central to the *Third Wave* vision was a new way of governments working together, whereby all governments agree common goals (outcomes), but where each retains the flexibility to deliver the solution. A reform framework was proposed to stimulate policy innovation, create a culture of continuous improvement and deliver results.

In February 2006, the Council of Australian Governments (COAG) agreed to develop the NRA encompassing competition, regulation and human capital. Victoria was asked to lead key work in health and education, and was actively involved in the negotiations across competition and regulation. Following the meeting, Victoria continued to develop the case for change through the release of a number of reports on issues such as sharing reform dividends, regulatory reform and a way forward for mental health care reform.

At the April 2007 COAG meeting, there was agreement on a number of NRA elements including competition and regulation reform. Reforms were agreed in energy, transport and infrastructure to boost productivity and reduce bottlenecks in the economy. COAG also agreed to multilateral initiatives to develop a core set of nationally consistent teacher standards for literacy and numeracy; implement diagnostic assessment systems for children in their first year of school; and develop a nationally agreed diabetes risk assessment tool.

Victoria has continued to shape NRA discussion and was the first jurisdiction to release State Action Plans. These set out ten year visions for the Victorian and Commonwealth governments to work together to improve outcomes in early childhood development, literacy and numeracy and type 2 diabetes.

The NRA has generated a number of significant policy initiatives, particularly in relation to human capital. It has been crucial in raising to a national level the importance of investment in human capital for future prosperity in Australia.

Based on: Department of Premier and Cabinet, 2007

## 6. Next steps and provocation questions

This paper is the first step in a project which is exploring agile government and how the public sector can operate in an uncertain, changing and unpredictable world. The question of how to become and remain agile in government requires further exploration. Demos and the State Services Authority will be developing deeper insights as we work through this project.

The next step of the agile government project will involve further research to interrogate the ideas in this paper. We will examine diverse public sector experiences and case studies to develop a deeper understanding of the dimensions of agility in Victoria and internationally as well as how agility might be attained.

A set of provocation questions is outlined below. We invite you to contribute to our exploration of agile government. Responses to the questions below or any other issues raised in this paper can be directed to the State Services Authority until 1 December 2007 at [agile@ssa.vic.gov.au](mailto:agile@ssa.vic.gov.au).

### PROVOCATION QUESTIONS

1. How can government reconcile agility with the inherently slower processes of deliberation and accountability under which the public sector operates?
2. What advantages might government have over other sectors when it comes to scanning, responding *and* shaping?
3. To what extent are public sector functions aligned, or not, to enable rapid adaptation to changing circumstances?
4. What are government's most significant constraints against agility and how might these be addressed?
5. What does agile government look like in practice?

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