Managing Governance Reform in the Public Sector

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ABSTRACT: *Corporate governance is the latest in a long list changes associated with New Public Management reforms which have been introduced into the public sector in Australia. Despite the wealth of research into change, a review of the literature shows that there is very little that takes into account the combination of the numerous factors involved in change, and still less those that characterise change in the public sector. This paper addresses this gap. Two hundred and thirty two chief executive and senior managers employed in all Australian state government departments were surveyed using a structured questionnaire. Factor analyses confirmed that political/cultural and rational/scientific factors proposed in a model influenced the adoption and operation of change management programs to introduce governance reforms.*

Keywords: governance, change management, public sector

The wealth of reforms in public sector management in recent years has meant that government departments have experienced a continuous round of change programs. Corporate governance is the latest in a long list of reforms which, beginning in the early 90s, have been introduced into the public sector in Australia. The concept of 'New Public Management' (NPM) has been identified as the common driver of many of these changes (Armstrong 1998; Barrett 2003; Considine & Lewis 1999; Halligan 2002; Hoggett 1996; Pollitt 2003).

The rapid progress of change has resulted in little consideration of what are the best methods of implementing these to achieve the adoption and achievement of change program objectives. The implementation of changes to departmental governance is no exception.

Defining 'public sector governance'

The literature on governance offers many definitions, guidelines and principles relating to governance. Widely used corporate governance guidelines in the public sector (Prasser 2004) include those prepared by the Australian National Audit Office (ANAO), (Australian National Audit Office 1997) the NSW Audit Office (NSW Audit Office 1998) and the Municipal Association of Victoria

(Municipal Association of Victoria 2004).

Governance is essentially concerned with the structures and processes for decision-making, accountability, control and behaviour at the top of organisations (Standards Australia International 2003). The Public Accounts and Estimates Committee of the Parliament of Victoria (PAEC 2002) extends this definition by noting that corporate governance relates not only to these structures and processes but also to an agency's purpose, values, culture, stakeholders (including employees) and mode of operation. Others such as Bovaird & Loffler (2003) and Murdoch and Abram (1998) further consider governance in the public sector to mean the ways in which stakeholders interact with each other in order to influence the outcomes of public policies.

Despite different legal boundaries, the concept of corporate governance as applied in public sector agencies essentially reflects the same principles used by their private sector counterparts (Edwards 2002), although a number of key difference have been identified (Armstrong and Francis 2004a, b).

ANAO (1997) observes that public sector governance must 'satisfy a more complex range of political, economic and social objectives and operate according to a quite different set of external constraints and influences'. In particular, corporate governance is often challenged in the public service by complex structures involving an elaborate set of relationships between Parliament, Ministers (and their advisors), Boards and CEOs; intervention by Ministers, other parts of government, or the political process. Unclear or conflicting economic objectives and community service obligations; the selection process for board members – which might give rise to divided loyalties on the part of the appointee; and direct appointment of Chairs and CEOs by, or on, the advice of Ministers also complicate public sector governance.

Barriers to public sector change and innovation

The change management literature defines a range of broad factors that impact on change within organisations. One of the most documented findings from studies of individuals and organisational behaviour is that organisations and their members resist change (Robbins, Millett, Cacioppe, & Waters-Marsh 2001). While there is an extensive literature on implementing public policy measures, there are, however, fewer studies of change in management settings with a focus on implementation (Stewart & Kringas 2003a).

Literature regarding traditional differences between the public and private sectors suggest that the basic characteristics of public organisations may impede the success of planned change interventions (Robertson & Seneviratne 1995). However, detailed analyses of the distinctions between public and private organisations confirms that the two sectors are not as distinct as suggested (Perry & Rainey 1988). Instead, organisations can be viewed as a continuum with any given organisation characterised as more or less 'public', with some organisations falling near the end points of this continuum (Robertson & Seneviratne 1995).

Despite the diminishing distinctions between public and private sectors, several unique barriers to change in the public sector have been identified. These include the fact that public sector organisations have multiple, sometimes conflicting, missions and few face the consequence of poor or mediocre performance (Osborne & Plastrik 1997). Compared to private organisations, many public sector entities are also subject to a greater range of rules, regulations and procedures (H. Rainey 1983). Multiple actors in the change process also have access to multiple authorities, thus presenting a complex array of possible supporters or resistors for change (H. G. Rainey 2003).

The highly political nature of the public arena can increase the difficulty in attaining leadership support for a change process. In particular, public organisations are often characterised by complex command linkages that involve competing identifications and priorities (Robertson & Seneviratne 1995) and public sector operations are frequently affected by prevailing political ideologies (Considine and Lewis 1999; Pollitt 2003).This can lead to spending more time lobbying for an intervention in the public sector than a private organisation (Robertson & Seneviratne 1995).

It has also been argued that many public sector programmes appear to reflect more a concern to collect 'trophies' than to engage in effective change management programs, largely a reflection of the skills of the personnel managing the change process.

Argyris (1993) extensively reviewed the literature on barriers to change. He suggests that in the public sector "informal" or "political" behaviours inhibit adoption. They included "pet projects and games', personal challenges wrapped in "guise", ignoring orders, rejecting responsibility, holding ritualised meetings that discourage rethinking, or managing meetings so that no thorough airing of views was possible. One consequence was the accumulation of bad feeling which could cause people to find ways of retaliating.

Fear also generates defensive routines that (p.44) "overprotects individuals and groups and inhibits them from learning new actions". These strategies can persist when norms sanction, protect and legitimise them.

The purpose of the study

Despite the wealth of research into change, a review of the literature shows that there is very little that takes into account the combination of the numerous factors involved in change, and still less those that characterise change in the public sector. This paper addresses this gap. It describes empirical research that supports development of a model of the various factors involved in the prime processes of change adoption and implementation. It defines the variables investigated, the methodology and the results of the analyses.

The conceptual framework

Variables investigated in this study are associated with two distinct stages of corporate governance reform: adoption and operation. Corporate governance adoption reflects the capacity of an

organisation to interpret knowledge about corporate governance while operation reflects the capacity of an organisation to act upon that knowledge.   A previous framework developed to understand the use of performance measurement systems with human services organisations (Ramage & Armstrong 2005) (Figure 1) defines variables within adoption and operation stages as either rational/scientific or political/cultural.

Rational/scientific factors are associated with scientific fact-finding methods to identify the right way to perform a task – a statement of hypothesis, collection of data, identification of alternatives, testing and then selection of action based on test results. It supports the belief that by careful investigation of work, organisational practices can be refined
and made more efficient (Wren 2005). Rational/scientific factors are based on the premise that work-related tasks can be rationally examined and problems logically solved.

Political/cultural factors recognise that the culture along with the impact human behaviour has an impact on decision making (Langan 1979). Organisational culture is an amalgamation of the values and behaviour of the people in an organisation. It reflects the way people within an organisation relate to one another and how they work together to get things done (Deal & Kennedy 1982). Culture is made up of the values and norms of the people that work in an organisation and are taught to new members as the correct way to perceive, think and feel (Schien 1984). These values and norms effect organisational behaviour, strategies, image and services. Previous studies about organisational culture, such as that conducted into change within a number of Queensland public sector agencies (Parker & Bradley, 2000), have found that culture is difficult to change, particularly as a result of the limited understanding of change managers about the strong role culture plays in an organisation.

Rational/scientific and political/cultural factors recognise the existence of both a formal organisation with its rules, orders and plans simultaneously with an informal organisation comprised of complex human interaction, behaviour and expectations.

This new model identifies the factors impacting on the adoption and operation of corporate governance reforms according to the categories of rational/scientific and political/cultural influences and labels these as:

Rational/scientific adoption factors	RA
Rational/scientific operation factors	RO
Political/cultural adoption factors	PA
Political/cultural operation factors	PO

RA factors include a range of influences. They include the requirements for improved accountability and efficiency, both frequently advanced by central agencies and regulators as reasons for organisational change (Scott 2003). The drive from within an organisation to improve its services though enhanced coordination is also included (Bovaird and Loffler 2003), along with the impact existing decision making processes have on change adoption (Robbins et al 2001). The cost of change (both recurrent and capital) is also included as a RA factor, reflecting the potential constraint an organisation's budget has on decision making. The requirement of regulators, such as the Auditor General, may also constrain change so it similarly has been included. Lastly, the level of knowledge and skill within an organisation will have an important impact on decisions to adopt change.

PA factors include those issues relating to the influence on an organisation of interest groups, both internal and external, along with the concerns the community more generally may have about a proposed reform (Bovaird and Loffler 2003). The competition between other priorities in the decision making process and the effect a change may have on relationships within the organisation (Robbins et al 2001) are also included as PA factors.

RO factors include the attributes of reform, organisational knowledge and skills, communication and

information sharing processes (Stewart and Kringas 2003), availability of resources, organisational control processes and time constraints (Post and Altman 1994).

PO factors include organisational support and culture (including attitudes to innovation), administrative heritage, change fatigue (Stewart and Kringas 2003a), stability seeking responses to change (Robbins 2001), continuity of leadership (Stewart and Kringas 2003) and the number of actors in the change process (Robertson and Seneviratne 1995).

The proposition underlying this research is that it is the combination of these factors that determines the successful management of change in the public sector. This paper reports the results of the investigation into the research questions: are the constructs in the proposed factors present? If so, are they indicative of distinctive processes in the management of the adoption and operation of changes such and the implementation of governance reform?

METHODS

A structured questionnaire was designed to obtain measures of the theoretical constructs (RA, RO, PA, PO) proposed in the above theoretical model.

Data were collected in a survey of senior executives involved in governance from all Australian state government departments. Four hundred and sixty four were identified. Two hundred and thirty two surveys were completed by chief executive and senior managers employed in ninety seven state government departments across Australia (a response rate of fifty percent).

Analyses

The questionnaire was analysed using principal component analysis with an oblique rotation to extract

the factors and confirm the structure suggested by the model**.**

The factor analysis confirmed the existence of political/cultural and rational/scientific influences during both the adoption and operation stages of corporate governance change.   The patterns of factor loadings supported the robustness of the conceptual model. They were high, variables loaded on distinct factors, and factors explained substantial amounts of variance (Tables 1 and 2). The loadings were above .5. For a sample of 200, it is significant if above .3 (Stevens 1992). The factors that describe adoption and operation are described below.

Adoption

Six factors (Table 1) that affected reform adoption explained sixty nine percent of the variance. All but one factor (factor three) are comprised of discrete, self contained RA or PA influences. Five of the six factors reflect rational/scientific influences, while the remaining factor also includes an RA influence.

Operation

The factor analysis of reform operation responses (Table 2) identified five factors that explained fifty eight percent of the variance and were comprised of discrete, self contained PO or RO influences. Two of the five operation factors are comprised of political/cultural influences while a third factor is comprised primarily of political/cultural influences. Although the combination of these factors present a complex relationship between rational/scientific and political/cultural influences, it is clear that the frequency of PO influences is greater than the frequency of RO influences.

During the operation stage of reform, the PCA reveals the dominance of political/cultural influences, although not to the same extent that rational/scientific influences dominate the adoption of corporate governance reform.

CONCLUSION

In response to the first research question, are the constructs proposed in the model (RA, RO, PA,PO) present during the change process, the analysis confirmed the existence of the constructs in the management of change. Furthermore, the analysis revealed that there were separate factors involved in the two stages of implementation, adoption and operation.

During the adoption of corporate governance reform the factors identified were:

Leadership. This study revealed a significant relationship between the level of senior management involvement in reform adoption and the successful adoption of reform.

External improvement drivers. Requirements to improve departmental accountability and efficiency provide important support for the adoption of reform. This is consistent with the literature (Halligan 2007).

Organisational politics. The political nature of organisations also impacts on the adoption of corporate governance reform. In particular, competition with other organisational priorities, effects on power and relationships and the resources available to implement change are key influences that require management.

Internal improvement drivers. Drivers aimed at improving decision making and service coordination were found to have generally provided the impetus for internally led change.

Organisational capacity to interpret knowledge. This factor includes rational/scientific influences associated with understanding and applying knowledge about corporate governance reform, namely the level of knowledge and skills in an organisation and the decision making processes used to apply these.

Operating environment changes. The need to respond to changes in government policy and to meet regulatory requirements reflects a group of influences associated with an organisation's operating environment. .

Five factors that require management during the operation stage of corporate governance reform were:

Leading change. This is an expanded version of the leadership factor identified during the adoption phase of reform. In the operation of reform, leadership includes the oversight of implementation issues

such as the time available to establish the reform as well as directing the scale and scope of the reform.

Embedding change. This is a related, but separate factor, to the leading change factor. The embedding change factor relates to how change is fixed into an organisation. It includes political/cultural influences associated with the number of actors in the change process and the hierarchical nature of public sector organisations. The rational/scientific factor associated with organisational attributes is included here as it is closely related to the concept of organisational hierarchy.

Attitudes to change. This factor includes influences heavily dominated by the culture of an organisation. These include the acceptance of innovation and change.

Organisational politics. The impact of change on employees, along with their stability seeking responses, is well documented (Parker & Bradley 2000; Robbins & Barnwell, 2002; Robbins et al. 2001). This factor includes the impact of change on power and institutional relationships along with managerial fear of loss of control.

Organisational capacity to understand change. This final factor relates to how an organisation understands the change that has been implemented. It includes level of knowledge and skills, communication and information sharing processes and the processes used to direct the organisation (including how to apply knowledge and skills and share information).

The results of this research are consistent with those previously reported by de Lancer Julnes and Holzer (2001) about factors impacting on the use of performance measurement systems in American public sector bodies. Although similar categories of influences (namely rational and political) were observed, this research confirmed the that the conceptual model reflects (a) that a combination of factors is required for the successful implementation of change, and (b) that the mix of factors found in the successful adoption of reform is different from those found in the reform's successful operation. While many of the constructs measured in the factors have been studied in isolation, there has not previously been studies of how they are combined in a conceptual model of the implementation of change, nor how the factors operate differently at the adoption and operation stages of implementation. Furthermore, this research also suggests that political/cultural influences on decision makers and change actors are just as significant for reform as the purely rational influences.

This research focussed on the adoption of governance reform in the public sector. However, the knowledge gained through this research offers practitioners new insights into managing any major change. The rational/scientific and political/cultural factors identified by this research provide an integrated approach that can be drawn upon by change actors. It acknowledges the significance of rational/scientific and political/cultural factors that come into play during corporate governance reform.

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	Adoption	**Operation**
Rational/scientific	• External requirement for improved accountability • External requirement for improved efficiency • Internal drive to improve services through enhanced coordination • Recurrent and capital costs including availability of resources • Regulatory constraints • Organisational knowledge and skills • Organisational decision-making processes including increasing centralisation of control RA	• Reform attributes • Organisational knowledge and skills • Communication and information sharing processes • Availability of resources • Organisational control processes • Time constraints RO

Political/cultural	• Influence of external interest groups (including central agencies)
	• Influence of internal interest groups
	• Competition with other organisational priorities
	• Re-distributive effect on power and institutional relationships
	• Community concerns
	
	PA
		• Organisational support/culture
		  • agenda of interest groups
		  • attitudes to innovation
		  • attitude to why reform implemented
		  • managerial fear of losing control
		• Administrative heritage
		• Hierarchical nature of public sector organisations (or RO)
		• Change fatigue
		• Stability seeking responses to change
		• Continuity of leadership
		• Number of actors in change process
		
		PO

Figure 1. Conceptual Framework

Table 1: Factor pattern matrix - governance adoption

Pattern Matrix[a]

	Component					
	1	2	3	4	5	6
Adoption - External drive to improve accountability		.907				
Adoption - External drive to improve efficiency		.887				
Adoption - Implement new govt policy						-.856
Adoption - Comply with regulatory requirements						-.826
Adoption - Internal drive to improve decision making				.859		
Adoption - Internal drive to improve service coordination				.907		
Adoption - Level of knowledge and skills					.835	
Adoption - Organisational decision making processes					.769	
Adoption - Influence of external groups						
Adoption - Influence of internal groups						
Adoption - Competition with other organisational priorities			.831			
Adoption - Effect on power and relationships			.558			
Adoption - CEO leadership	.906					
Adoption - Snr manager leadership	.900					
Adoption - Costs associated with implementing change			.728			

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.

a. Rotation converged in 12 iterations.

Table 2: Factor pattern matrix - governance reform operation

Pattern Matrix[a]

	Component				
	1	2	3	4	5
Operation - time to implement change	.508				
Operation - availability of resources					
Operation - CEO leadership	.505				
Operation - Snr manager leadership	.650				
Operation - leadership continuity from adoption	.617				
Operation - Scale and scope of reform	.613				
Operation - Level of knowledge and skills					-.573
Operation - Communication and information sharing processes					-.752
Operation - Organisational control processes					-.700
Operation - Effect on power and relationships				.719	
Operation - Managerial fear of loss of control				.753	
Operation - Number of actors in the change process		-.527			
Operation - Organisational attributes incl workforce size		-.799			
Operation - Hierarchical nature of public sector		-.545			
Operation - Organisation accepts innovation			.871		
Operation - Organisation easily accepts change			.831		
Operation - Change fatigue has an impact					

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.

a. Rotation converged in 21 iterations.