

Contemporary
Government

Challenges



Australian Government

Australian Public Service Commission

Agency Health

Monitoring Agency Health and Improving Performance



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Commissioner's foreword

Over the years, the Australian Public Service (APS) has invested heavily in improving the performance of the public service and public institutions. This has provided enormous benefits to the country and increased the effectiveness of government, with the APS now widely recognised as one of the best in the world.

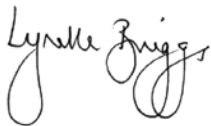
From time to time, however, we have experienced serious agency performance lapses which have given rise to concerns about the quality of our agencies, their ability to manage in a rapidly changing environment, and their effectiveness.

This publication seeks to tackle this issue head on. It provides a resource for all agencies to use in monitoring their corporate health and, in particular, to detect signs of failing health. A rigorous approach to monitoring corporate health allows agencies to take corrective action to deal with problems before they develop into serious performance issues.

The publication identifies key indicators of corporate health, and of failing corporate health, in a range of governance-related areas. These include organisational direction, leadership, organisational capability, corporate governance processes, relationships and integrity, and agency culture. It also identifies some indicators of particular relevance to the public sector, and looks at strategies for agencies to use in assessing their corporate health. Corporate health indicators are illustrated through a number of case studies.

The publication includes a two-part checklist for use in agency discussions. The first part is comprised of corporate health indicators for agencies that perform well, and the second is comprised of corporate health indicators associated with agencies at risk of poor performance.

This publication will be of use to all APS managers, but will be particularly relevant to agency heads and Senior Executive Service employees. I hope that the publication and its accompanying checklist will assist agencies to put a strong focus on corporate health in their organisations, and to identify any corporate health issues well before they affect agency performance.



Lynelle Briggs

Australian Public Service Commissioner

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Introduction

Corporate health is about the ability of APS organisations to deliver high-quality and timely outcomes. It includes governance issues like how an organisation is managed, its corporate and other structures, its culture, its policies and strategies, and the way it deals with its various stakeholders.¹ High levels of corporate health are directly linked to high levels of overall performance.

In the APS context, a high-performing agency is one that is able to use available resources efficiently and effectively to deliver its goals, realise its mission and deliver the outcomes required of it by the Government.² High-performing agencies are flexible and adaptable, able to respond quickly to changes in Government direction or in their operating environment so as to continue to deliver effective outcomes. They are future focused, concentrating not only on immediate pressures and demands, but on strategies to ensure that they will continue to be able to deliver high-quality outcomes into the future.

There have been a range of improvement initiatives across government to track the achievement of business objectives. The work of the Cabinet Implementation Unit in the Department of the Prime Minister and Cabinet, in ensuring that major government projects are being planned, monitored and delivered effectively, and the introduction by the Department of Finance and Administration of the Gateway Review process, a project assurance methodology that involves short, intensive reviews at critical stages of a project, are recent examples.³ Other initiatives have concentrated on financial management, information and communications technology (ICT), and people management. At the agency level, agencies have increasingly become outcome-focused while taking into account the needs of a range of stakeholders. Individual performance management strategies are in place across the APS.

¹ Australian National Audit Office, *Public Sector Governance Vol. 1: Framework, Processes and Practices*, Better Practice Guide (July 2003) <<http://www.anao.gov.au>>

² Performance means the proficiency of an agency in using its resources efficiently and effectively to achieve its performance targets.

³ For the Cabinet Implementation Unit see <http://www.pmc.gov.au/implementation/index.cfm> and for the Gateway Review process see <http://www.finance.gov.au/gateway>.

Conventional performance management frameworks, however, can have limitations. They tend to focus on measuring immediate past performance and are not always the best way of alerting agencies to warning signs of potential problems with future performance. This is a particular concern in the public sector where the consequences of a failure to achieve outcomes can be significant in terms of the economy, national security, the welfare of the community, and public confidence.

To address this issue, performance management in the APS has been increasingly supplemented by risk management approaches. Risk management encourages APS agencies to identify the risks that could potentially harm their business objectives, and provide the strategies, processes and tools to monitor, recognise and deal with these risks. One of the potential risks facing any APS agency is a failure in corporate health.

There has been a strong focus on the link between corporate health and performance in private sector management literature. As far back as the late 1980s work was undertaken in the management consultancy field to identify warning signals, categorise decline phases, and provide frameworks to help managers reverse the direction of decline in an organisation.⁴ Reflecting a series of high-profile corporate failures, there has been a recent resurgence of interest in the field of detecting warning signals of underperformance in the private sector.

In the public sector, work on the link between corporate health and agency performance is in its infancy. More information is generally available from audits, inquiries or reviews that examine incidents after they have occurred than work on identifying signs of impending problems. Nevertheless, the key elements of corporate health that emerge from the literature apply to both the public and private sectors.

This publication is designed as a resource for APS agencies to use to facilitate discussions about the corporate health of their agencies. Monitoring the health of an agency in each of the identified areas allows agencies to ‘take the pulse’ of their organisation, and to identify early warning signs that they may be at risk of poor performance.⁵

Corporate health is of course a relative concept which needs to take account of an agency’s operations and their context. It is not possible to provide definitive measures that will apply to all APS agencies, and which will allow agency heads to produce a comparable measure of their corporate health. Instead, we identify indicators that are likely to be relevant to a discussion about corporate health. It will be up to each agency to interpret its performance against these indicators in light of its own operational context, and to identify areas where it may need to concentrate to improve its corporate health.

⁴ P. S. Scherrer, ‘From Warning to Crisis: A Turnaround Primer’, *Management Review*, Vol. 77, No. 9, September 1988, p. 30. Scherrer was executive director of the Turnaround Management Association, based in Chapel Hill, North Carolina.

⁵ Poor performance refers to the inability of an APS agency to deliver its goals, its mission and the outcomes required of it by the government in a sustainable and efficient manner.

This publication draws on articles from the academic and management consultancy literature, as well as specific examples of public service agencies where corporate health concerns have led to poor performance outcomes. It also reflects input from the Public Service Commissioners of the Australian states and territories, the New Zealand State Services Commissioner, and a range of Portfolio Secretaries. The Commission is grateful for their contribution.

The paper identifies:

- key indicators of corporate health
- the characteristics of high-performing organisations
- the characteristics of organisations at risk of poor performance
- strategies for monitoring and assessing corporate health.

The publication does not pretend to provide the solutions for agencies which discover that they need to improve their corporate health. Instead, the focus is on providing a resource to assist in identifying emerging problems so that they can be quickly addressed. It is up to agencies to identify suitable measures appropriate to their own operational context.



Corporate Health and Agency Performance

Six broad areas of corporate health are central to the early identification of agencies at risk of poor performance. These areas cover the broad spectrum of governance issues and include organisational direction, leadership, organisational capability, corporate governance processes, relationships and integrity, and organisational culture. There are also some issues that are specific to the public sector.

These areas are of course not mutually exclusive. In assessing corporate health the areas need to be considered as a whole.

Each area is discussed in detail below. A checklist highlighting the key points that need to be monitored under each heading is at Attachment A.

1. Organisational Direction

A strong and clear sense of organisational direction is central to the corporate health of any agency. Agencies need to maintain an awareness of, and keep a focus on, their core business, including by communicating organisational purpose, strategies and vision to their staff.

In the dynamic environment of the modern public sector, what is core business may be fluid. Organisational purpose and strategies, and communication mechanisms for relaying these to staff, need to be reviewed regularly if an agency is to maintain high performance.

For organisational direction to be embedded within an agency, the agency's structure should stem directly from an identification of organisational direction. Organisational structure should make sense to the agency's employees, be understood and be easily communicated.

Organisational direction needs to be underpinned by a significant investment in research and strategic policy capacity. High-performing agencies do not let the pressures of day-to-day activities and management allow them to erode their research and policy base. Research and policy needs to be seen as an investment in the future.

An agency that demonstrates a strong sense of organisational direction by consistently achieving improvements in the quality and efficiency of its outputs through innovation and continuous improvement, and where staff understand how they contribute to organisational goals, is unlikely to be at risk of poor performance.

Signs of a lack of strong direction, however, include:

- neglecting core business and core processes
- failing to invest in research and strategic policy capacity
- taking on too much risk and innovation
- exercising little delegation and not adequately empowering staff
- staff losing sight of, or never being informed of, the outcomes being sought by the organisation.

A key issue in ensuring a strong sense of organisational direction is responding appropriately to changes in the operating environment of the organisation. Failure to notice a changing environment such as a change in government policy, expectations of new Ministers, or public expectations, puts an agency at clear risk of poor performance.

2. Effective Leadership

Agencies need effective leadership which identifies and addresses emerging signs of poor performance in organisations.

The expectations of the APS concerning the capability and behaviour of its senior leaders are set out in the Senior Executive Leadership Capability (SEL) Framework, and expanded in more detail through the Integrated Leadership System.⁶ The leadership of high-performing agencies will demonstrate strong capability against all elements of the SEL Framework including in the areas of achieving results, cultivating productive working relationships, displaying personal drive and integrity, and communicating with influence.

More specifically, high-performing organisations tend to enjoy a strong, diverse and talented leadership which is:

- enthusiastic and well-regarded
- displays visible commitment to the values it espouses
- has a clear sense of its roles and responsibilities
- effectively communicates organisational direction
- pays appropriate levels of attention to all aspects of an agency's operations
- looks beyond immediate priorities and engages in forward planning
- balances the need to provide vision with a focus on the process of achieving results
- brings a relatively high level of scrutiny and focus to the work of the teams that they manage
- provides a strong framework of support to build judgment and confidence in making decisions.

⁶ <<http://www.apsc.gov.au/ils/index.html>>

Effective leadership is particularly important in responding to threats to organisational performance. Bazerman and Watkins⁷ argue that anticipating and avoiding a business disaster requires a number of steps by the organisation's leadership, including recognising the threat, making it a priority in the organisation, addressing it, and mobilising the resources required to prevent it.

In contrast, leadership characteristics that may be early warning signs for an agency at risk of poor performance include:

- lack of depth in the management team
- leaders not effectively managing poor performance
- leaders failing to resolve issues
- leaders failing to communicate to staff the direction and purpose they set
- a disconnect within and between senior leaders and middle managers
- an inability of leaders to prioritise between policies and initiatives
- a focus on the most high-profile aspects of the agency's operations at the expense of other important line and support areas.

Management literature draws a particularly strong link between failing organisations and leaders not open to alternative or dissenting views. Finkelstein⁸ outlines four main reasons why organisations fail, with an emphasis on executive mindset failures (incorrect strategy and assumptions) and poor leadership behaviour. These habits include:

- the illusion of personal pre-eminence
- the attitude that the organisation is theirs (including identifying too strongly with the organisation)
- having all the answers in every situation
- refusing to countenance contrary viewpoints
- allowing image or public relations to override operational importance
- failing to overcome obstacles by thinking there is nothing that cannot be beaten
- inability or unwillingness to learn.

Some of these habits are echoed by Gettler,⁹ who observes that groups led by narcissistic leaders go off the rails when everything is built around the autocrat and where dissent and diversity of thinking are not tolerated. Gettler mentions the 'echo chamber effect', where adulation from followers generates self-confidence which grows. The charismatic leader is less inclined to listen to advice and words of caution. This can lead to wilful arrogance and delusional thinking and the taking of poor risks. It can also result in badly-conceived strategies and distorted visions.¹⁰

⁷ M. H. Bazerman and M. D. Watkins, 'Predictable Surprises: The Disasters You Should Have Seen Coming', *Harvard Business Review*, Vol. 81, No. 3, March 2003, p. 74. Max Bazerman is the Jesse Isidor Staus Professor of Business Administration at the Harvard Business School and Michael Watkins an Associate Professor of Business Administration at the Harvard Business School.

⁸ D. Tarrant, 'Cautionary Tales of Corporate Confusion', *AGSM Magazine*, 8 December 2005 <<http://www2.agsm.edu.au/agsm/web.nsf/Content/AGSMMagazine-SydneyFinkelstein>> Professor Finkelstein is the Stephen Roth Professor of Management at Dartmouth's Amos Tuck School of Business Administration in the USA.

⁹ L. Gettler, *Organisations Behaving Badly: A Greek Tragedy of Corporate Pathology*, John Wiley and Sons Australia, Milton, 2005, p. 96.

¹⁰ L. Gettler, *Organisations Behaving Badly: A Greek Tragedy of Corporate Pathology*, John Wiley and Sons, Australia, Milton, 2005, p. 115.

While Finkelstein and Gettler tend to focus on the private sector, and the language may sound foreign to the public sector, there are important lessons here for the APS. In the public sector, these attitudes might be reflected in hostility amongst senior leaders to scrutiny by external bodies. They may also be reflected in the selection of staff for positions on governance committees who are unlikely to challenge the status quo, and in the expectations of the behaviour of staff on such committees.

A related but slightly different issue is the danger of 'group think'. Here, senior leaders share the same views and put a high emphasis on consensus and avoiding conflict. This can mean that poor organisational decisions go unchallenged, and a lack of independent critical thinking is applied to governance processes.

In contrast, leaders in high-performing organisations welcome constructive critical views and are prepared to put the organisation regularly under the spotlight. They recognise the dangers of complacency and the potential for rapid declines in corporate health and performance if the conventional wisdom goes unchallenged.

The impact of the failure of leaders to listen to alternative or dissenting views in the Australian context was highlighted in Western Australia's King Edward Memorial Hospital Inquiry.¹¹

Case Study 1

King Edward Memorial Hospital Inquiry¹²

Throughout the 1990s, medical and nursing staff at King Edward Memorial (KEM) Hospital, in Western Australia, repeatedly and without result raised concerns with management about high error rates and a culture among consultants that minimised accountability and supervision of junior staff. During this period, the hospital regularly received Australian Council on Healthcare Standards accreditation focused on the nominal existence of structures and processes. In 1999, a newly appointed Chief Executive Officer (CEO), Michael Moodie, wrote to the Metropolitan Health Service Board providing evidence of major quality and safety deficiencies. The deficiencies identified by Mr Moodie included:

- substandard patient care
- problems with senior management identifying and rectifying clinical issues
- inadequate systems for monitoring and reporting on adverse clinical incidents
- absence of a proper and transparent system for dealing with patient complaints and claims
- lack of an overall clinical quality management system

¹¹ <<http://www.health.wa.gov.au/kemhinquiry/recommendations/index.cfm>>

¹² <http://www.nja.com.au/public/issues/181_01_050704/fau10254_fm.html#elementId-1087499>

- shortage of qualified clinical specialists, particularly after hours
- inadequate supervision of junior medical staff.

The Health Service Board commissioned an investigation by an independent senior clinician, which was followed by a further two-week review. The CEO attempted to implement the resulting recommendations, but many senior clinicians questioned his competence and refused to cooperate. One sought unsuccessfully to obtain a permanent injunction against the release of the report. The CEO was forced to resign.

The Minister for Health, in consultation with the Western Australian Premier, finally established a formal inquiry lasting two years and costing \$7 million. The inquiry's findings centred on issues of leadership and systems. The inquiry found that a major factor contributing to the organisation's poor performance was that, although responsibility and authority were devolved, few were prepared to address or accept responsibility for the King Edward Memorial Hospital's problems. Other contributing factors were that those in a position to do something ignored problems, referred matters to one or more committees, and reiterated the mantra that the hospital was unique.

The recommendations of the inquiry on quality and safety emphasised:

- the need for strong, sustained leadership supporting a culture of open disclosure, transparency and effective response to the performance problem
- a rigorous third-party accreditation system that assured acceptable practice and performance standards
- practical and useful data collection systems for inter-hospital comparisons
- standardised credentialing systems to ensure clinicians have appropriate skills and training
- reliable and consistent incident and adverse-event reporting systems and follow-up processes
- clear and tenable statutory requirements and systems for mortality reporting and investigation.

3. Organisational Capability

Building and sustaining organisational capability across all parts of an organisation is central to an agency's ability to perform effectively. Organisational capability covers a broad range of concepts that relate to the capacity of an agency to achieve its business outcomes. Overall organisational capability is determined by a combination of people, processes, systems, culture, structures, and assets.

A failure in organisational capability can have a strong impact on organisational performance. The Commonwealth Ombudsman report *Inquiry into the Circumstances of the Vivian Alvarez Matter* (Comrie Report), highlighted the consequences of failing to ensure capability of staff in key business areas, notably the application of regulations.¹³ Similarly, the Palmer Report, *Inquiry into the Circumstances of the Immigration Detention of Cornelia Rau*, highlighted the importance of organisational capability in the areas of systems and effective processes. This includes administrative systems around ICT and finances, but also extends to governance arrangements and human resources management systems and processes.¹⁴

On the people side of organisational capability, there is a strong focus in the literature on the link between the 'intellectual capital' of an organisation, in terms of depth and breadth of experience and relevant educational qualifications, and its performance.¹⁵ A framework for assessing corporate health needs to have a focus on assessing the intellectual capital of an organisation, including by measuring an organisation's accumulating (or declining) expertise in terms of long-term experience, and the undergraduate and postgraduate qualifications of personnel, particularly in high-risk areas and senior management. It may also involve examining trends in staff turnover across the agency. In the APS, it may involve measuring the extent of the experience of staff, particularly leaders, in portfolio agencies as well as the strength of advisory committees.

Assessing an agency's intellectual capital needs to occur in context. A lack of experience among management, for example, due to high staff turnover and a loss of key executives and expert staff, is likely to be an indicator of potential problems, particularly where it is accompanied by staff being promoted (or acting) beyond their level of competence. However, low levels of turnover of senior management and a lack of exposure to fresh ideas from outside the organisation can also expose an organisation to serious risks. Agencies may benefit from undertaking cross-sectoral comparisons on such issues, and benchmarking their performance against that of comparable organisations.

A particular risk in the area of capability that all agencies need to monitor is the impact of the ageing of the population on their workforce. Agencies need to be aware of the age profile of their workforce and to have put in place formal approaches to workforce planning, succession management, and knowledge transfer designed to address the impact of a loss of a significant proportion of their workforce.

¹³ Australian Public Service Commission 2005, *State of the Service Report 2004–05*, Commonwealth of Australia, Canberra, p. 6.

¹⁴ M. J. Palmer, *Inquiry into the Circumstances of the Immigration Detention of Cornelia Rau: Report*, July 2005 <<http://www.minister.immi.gov.au>>

¹⁵ See, for example, A. Carmeli and A. Tishler, 'The Relationships between Intangible Organisational Elements and Organisational Performance', *Strategic Management Journal*, Vol. 25, No. 13, December 2004, p. 1260.

The extent to which an agency values and invests in learning and development is also important, but can be harder to assess. Nevertheless, there are likely to be a number of indicators that can be used to reflect this, including:

- the extent to which the agency identifies the capabilities it needs and any skills gaps
- the extent of investment within the organisation in the development of key skills, for example, managerial and strategic skills
- the level of take-up of training and development activities among staff generally
- the breadth of the agency's approach to capability development. For example, is formal learning and development available; is it supplemented with targeted approaches to allowing employees to broaden their experience and exposure; and is the organisation providing improved infrastructure and systems that allow employees to perform more effectively?

More broadly, high-performing organisations with a strong emphasis on improving employee capability are likely to be characterised by:

- a focus on aligning capability with organisational priorities
- a strong emphasis on providing performance feedback
- capability strategies integrated with reward and recognition frameworks
- a strong focus on encouraging and rewarding innovation
- a focus on effective recruitment processes which ensure the right person is recruited at the right time
- a focus on organisational and personal resilience.

Agencies at risk of poor performance are less likely to put a strong focus on improving employee capability, and may have pockets of poor capability in critical areas, for example, policy development or programme management skills.

Organisational capability, of course, extends well beyond the capability level of employees. It also reflects, for example, the effectiveness with which knowledge is handled within organisations. Robertson¹⁶ argues that persistently failing organisations inhibit knowledge transfer, including across internal boundaries, and knowledge transfer downwards. Since information is largely concerned with the successful management and manipulation of data and its conversion into effective learning, organisations that stem the circulation of information close down their learning.

Organisational capability also extends to the effectiveness of other systems within an organisation, whether programme management, ICT, financial or workforce planning. In a healthy organisation, these systems will be consciously aligned to corporate outcomes and priorities, and lines of accountability for the performance of systems against corporate outcomes and priorities will be clear. Governance systems will be established to ensure that large projects are properly managed and there will be a strong emphasis on effective risk management. There will be a clear focus on project implementation, supported by coordinated implementation strategies, the development of project management capability, and adequate business continuity planning.

¹⁶ D. Robertson, 'Persistently Failing Organisations: Some Tell-Tale Signs', *Training Journal*, November 2000, p. 23.

High-performing organisations are likely to be characterised by a continual focus on improving organisational systems. Agencies at risk of poor performance may have failed to emphasise the need for effective systems; have poor systems in key areas, such as the management of large-scale projects, ICT or human resources; or have inadequate resources for necessary systems and developments.

A major failure in administration such as a poor financial situation, a major ICT failure, a large-scale project that overruns budget and timeframes, or an adverse finding in an audit can be a signal that there are other underlying corporate health issues that need to be addressed within an organisation. Such failures can be the result of the cumulative effect of a number of weaknesses in organisational capability and should always be taken seriously.

The impact of an organisation's systems and processes on project outcomes was highlighted in the ANAO's report on the Customs Cargo Management Re-engineering (CMR) Project.¹⁷

Case Study 2

Customs Cargo Management Re-engineering (CMR) Project¹⁸

The Australian Customs Service published its Cargo Management Strategy (CMS) in 1997. The strategy sought to fully integrate the people, processes and technology associated with cargo management. The Cargo Management Re-engineering (CMR) Business Model outlined the project's objective to introduce new cargo management processes and systems to improve the effective delivery of services to Government, industry and the community.

The CMR Project was a large and complex ICT project that spanned many years. It was designed to:

- improve import and export processes
- increase cargo management efficiency for industry
- improve the targeting of high-risk cargo.

The project involved legislative change to support the new business environment and developing the Integrated Cargo Systems (ICS) to replace Customs' transaction processing systems. The ICS was to be implemented by 20 July 2003, following the passing of the *International Trade Modernisation Act*. The Act was passed in 2001 and amended in 2004.

¹⁷ <<http://www.health.wa.gov.au/kemhinquiry/recommendations/index.cfm>>

¹⁸ Australian National Audit Office, *Customs Cargo Management Re-engineering Project* (February 2007) <http://www.anao.gov.au/director/publications/auditreports/2006-2007.cfm?item_id=9>

The CMR Project encountered significant delays and cost increases. In 1999, Customs estimated the project would cost \$30 million; by the end of February 2006 the total cost was \$205 million. Between February and June 2006, Customs made additional payments of \$7.7 million for development and support of the ICS and the Customs Connect Facility (CCF), the secure communication gateway that allows internal users and external clients to interact with the ICS.

EDS (Electronic Data Systems) Australia began developing the CMR applications in 1998 under existing ICT outsourcing arrangements. In October 2001, Customs and EDS agreed that EDS would continue to manage the infrastructure with remaining analysis and development to be done by one or more third parties. In 2002, the Computer Associates Consortium was engaged to develop the ICS and separate contracts were established with IBM and SecureNet to develop the CCF.

ICS was implemented in three stages:

- Release 1, was a trial with industry in March and April 2003
- Release 2, the exports component, was implemented on 6 October 2004
- Release 3, imports processing, was implemented on 12 October 2005.

The Exports component (Release 2) was relatively successful, in contrast to ICS Imports (Release 3), which had a significant impact on Australia's supply chain and international trading environment, resulting in substantial disruption to the movement of cargo, particularly sea cargo. As widely reported, Australia's major ports were congested with a backlog of containers awaiting clearance for many weeks.

ANAO has examined Customs' management of the CMR Project with a view to determining whether the ICS and CCF met project and operational objectives, and user capability and functionality requirements. After the audit had commenced, Customs engaged Booz Allen Hamilton (BAH) to undertake a separate review of the ICS. ANAO consulted closely with the BAH team and supported the recommendations in its report released in May 2006.¹⁹

The size and complexity of the CMR Project was a major challenge for Customs in its roles of balancing border protection and legitimate trade. ANAO found that:

- Customs lacked the management framework to implement a large ICT project
- the outcomes achieved and the benefits expected were never clearly defined
- there was no overall CMR project plan, financial management plan, project budget or proper assessment of the risks facing the project

¹⁹ Booz Allen Hamilton, *Review of the Integrated Cargo System*, May 2006, pp. 47–9 <http://www.customs.gov.au/webdata/resources/files/BoozAllenHamilton_ICSRReport.pdf>

- Customs underestimated the complexity of risks associated with the project and did not respond to emerging issues and changes in risks
- there was a lack of supporting documentation surrounding contractual arrangements
- delays in the early years of the project had repercussions for later stages which necessitated three amendments to the legislated implementation date
- project teams were under pressure to meet tight deadlines which were not achieved
- implementation was not supported by a coordinated strategy or adequate business continuity planning
- insufficient time was allowed for system testing
- Customs did not have quality assurance mechanisms to assess the readiness of third party software providers or the quality of their software or preparedness of industry participants
- problems with the Cargo Risk Assessment (CRA) system, used to identify and assess potentially high-risk cargo, affected Customs' ability to clear cargo, increasing the risks to Australia's border security and revenue collection
- the CMR Project involved significant changes in systems and processes, operating procedures, working relationships, skills levels and attitudes which impacted on industry significantly—Customs imposed these changes but did not manage the change process well
- a lack of understanding of industry's business processes contributed to problems in October 2005 when ICS Imports was introduced.

Throughout the development of the CMR Business Model, industry raised concerns about a number of issues and these were never resolved to its satisfaction. ANAO found that if some of the issues raised by industry had been more thoroughly examined by Customs early in the project, a number of the problems faced in October 2005 may have been minimised.

Customs acknowledged that the CMR Project was not managed well and initiated a number of reviews to improve its processes, revised its organisational structure and is modifying the ICS in order to more closely align it with user and business requirements. It also took steps to engage more actively with industry to realise the full benefits of the CMR Project.

4. Corporate Governance Processes

The effectiveness of the governance processes by which an agency is directed, controlled and held to account is a key indicator of an agency's corporate health.

Organisations that perform well tend to establish a simple, holistic operating governance environment that cascades from key business outcomes and incorporates support mechanisms such as research programmes, evaluation, audit and fraud programmes, financial and other business support systems, and appropriate measurement instruments.

In high-performing agencies:

- resources are aligned with desired outcomes
- responsibility and accountability requirements are made clear
- key risks are identified, articulated and remediated, and the focus is on effective risk management, rather than on an absolute focus on process monitoring and measurement, beyond what is mandated
- a conscious assessment is made about the appropriate level at which particular decisions should be made
- performance is benchmarked against the wider environment
- governance arrangements are regularly reviewed to take into account changes in the agency's internal or external environment
- committee systems operate in a timely and efficient manner with a clear sense of purpose
- committee membership is considered carefully
- agency leadership cooperates fully with external scrutiny requirements.

A lack of clarity in accountabilities and responsibilities can be associated with poor performance. The Western Australian King Edward Memorial Hospital case (Case Study 1 above) is a good example of this.²⁰

Effective governance processes require integrated systems and processes for finance, human resources, and ICT aligned to business needs, with effective controls of costs and core processes. The importance of such processes was particularly highlighted in the Palmer Report which stressed the link between establishing a culture of governance and accountability with sound systems and effective processes. It was also highlighted in the Customs CMR Project (Case Study 2 above).

Effective information management systems are of particular importance. The impact on an organisation of poor information management, and a range of other governance process deficiencies, were illustrated by the experience of the New South Wales Department of Community Services (DoCS). Effective recordkeeping has also attracted substantial attention at the Australian Government level, for example, in the Magnetic Resonance Imaging Services Case, the inquiry into A Certain Maritime Incident, and in the Palmer Report.²¹

²⁰ <<http://www.health.wa.gov.au/kemhinquiry/recommendations/index.cfm>>

²¹ Australian Public Service Commission 2005, *State of the Service Report 2004–05*, Commonwealth of Australia, Canberra, p. 46.

Case Study 3

New South Wales Department of Community Services²²

The core business of the New South Wales Department of Community Services (DoCS) includes:

- protecting children and young people from risk of harm
- helping families to protect and care for their children
- providing care and support for children who cannot live with their families
- supporting homeless children
- regulating adoption services.

Complaints to the New South Wales Ombudsman led to extensive investigations by the Ombudsman and a special report to the New South Wales Parliament in April 2002. This report focused on critical issues in the management and performance of DoCS which placed the welfare of children and young people at risk.

DoCS operated in a high-risk environment. There had been a significant growth in child abuse complaints and the department had difficulty adjusting to increasing workloads.

Since May 1999, DoCS has been required to notify allegations of child abuse and convictions against its employees to the Ombudsman within 30 days of becoming aware of them. The report found that there was a consistent delay in DoCS making such notifications to the Ombudsman. This meant that DoCS investigations were not subject to appropriate scrutiny as required by Parliament.

It was found that not all DoCS foster carers were authorised to provide out-of-home care prior to the placement of children. DoCS monitoring and support of foster carers was intermittent and unplanned. Reviews indicated that DoCS failed to adequately assess the suitability of foster carers.

The Ombudsman found the DoCS procedures for making decisions whether or not to join Family Court proceedings and the guidance provided to its officers, about the circumstances in which it is appropriate to join such proceedings, to be inadequate. It was unclear what information was needed to make the decisions, who should be consulted, who the final decision maker should be, and the time within which a decision should be made.

Risk assessments and risk management are essential components of any investigation by DoCS. The New South Wales Ombudsman found that adequate risk assessments in any format were not being completed in the majority of cases.

²² NSW Ombudsman, *DoCS: Critical Issues, Concerns Arising from Investigations into the Department of Community Services: A Special Report to Parliament under s. 31 of the Ombudsman Act 1974*, New South Wales Government, Sydney, April 2002, pp. 14–17.

DoCS was also found to have failed to undertake full assessments of employees of other agencies when allegations of child abuse had been made against them.

The Ombudsman identified a number of information management issues that undermined the effectiveness of DoCS. In particular, the recordkeeping practices of DoCS meant that workers may not have known all information when required to make serious decisions in potentially life threatening situations. This had implications for staff safety when entering the home of a family they were unfamiliar with as well as for the quality of the decisions that could be made in such circumstances.

Recordkeeping practices were extremely poor, with:

- no centralised or unified records management system
- casework files which were hard to follow and which contained inadequate records
- documents out of chronological order
- no or inadequate file notes about decisions or actions
- no or inadequate notes of important meetings
- no or inadequate notes of telephone conversations.

When a family moves, stringent procedures should be in place to ensure that casework continues with the family where there are concerns about the children. In the case of transfer of client files between Community Service Centres, when families move, it was found that most files were not moved within the DoCS mandated 21-day timeframe. The files were not compiled according to DoCS guidelines and did not contain appropriate documentation to ensure a seamless transfer of casework.

The Ombudsman concluded that the level of supervision and support provided to Community Service Centres appeared to be restricted due to the structure of DoCS, including the geographic dispersal of its offices. At the time DoCS operated through its Central Office, eight area offices, 16 network offices and 84 Community Service Centres. DoCS's geographically largest area, Western, covered 26 Community Service Centres in locations including Albury, Broken Hill, Deniliquin, Lithgow, Walgett and Cootamundra. Some managers reported spending 10 out of 12 days out of the Area office travelling. This meant they were hard to contact and often unable to deal with matters because they were away from their own office and did not have the necessary information with them.

There also appeared to be significant difficulties disseminating information between Central Office and Areas, and between Areas and Community Service Centres. Generally, staff in the Community Service Centres provided prompt and helpful information about matters they were dealing with, but when information was required collectively from a Centre, an Area and Central Office, the process was cumbersome and time consuming.

The Ombudsman concluded that there was a clear link between poor internal processes and DoCS interventions on the ground. For example, there was poor communications between DoCS officers, and between Community Service Centres, Area Offices and Central Office. An inadequate computer system meant incomplete information that affected management's efforts to plan work across DoCS. A lack of administrative support meant reduced capacity to meet community calls for child protection.

Issues of information management are of course broader than those of effective recordkeeping. An overly secretive culture, a reluctance to share information, and a lack of transparency are also qualities that can be associated with poor corporate health.

Choo²³ identifies three main information failures and links them with leadership issues. First, signals are not recognised because they are consistent with organisational beliefs and aspirations. Secondly, warning signals are noticed but those concerned do not act on them. Thirdly, problems can arise because groups have partial information and interpretations, and no one has a view of the situation as a whole. Ultimately, Choo believes that a vigilant information culture is a continuing set of conversations and reflections about safety and risk, backed up by the requisite imagination and will to act.

How an agency responds to difficulties can itself be an indicator of corporate health. In high-performing agencies, change is more likely to be initiated through an effective governance programme (including self-criticism and analysis of an organisation's actions, processes and outcomes which takes a holistic view of root causes) than as a result of crisis management directed at fixing an immediate problem. High-performing agencies tend to have rigorous audit and evaluation programmes in place, including the use of staff and stakeholder surveys. A lack of evaluation or tardiness in completion of evaluations can itself be a sign of poor corporate health.

5. Relationships and Integrity

Organisations that perform well have high ethical standards, effective and appropriate relationships with stakeholders, and high levels of service provision and client or customer focus. Good internal relationships—between and among employees and management—are also important.

Concerns about relationships and integrity in the context of the health of organisations are not unique to the public sector. The demise of a number of firms has been linked to corruption, greed and its association with collusion and deceit, for example, the corporate cases of Enron, Waste Management, Sunbeam and HIH.²⁴ In the public sector, concerns

²³ C. W. Choo, 'Information Failures and Organisation Disasters', *MT Sloan Management Review*, Vol. 46, No. 3, Spring 2005, p. 8.

²⁴ L. Gettler, *Organisations Behaving Badly: A Greek Tragedy of Corporate Pathology*, John Wiley and Sons, Australia, Milton, 2005, p. 4.

about the way some public servants exercise their duty have attracted public attention through inquiries such as those undertaken by Comrie, Palmer and Cole.²⁵

There can be significant overlap between information failures, leadership, management, governance issues, and matters of integrity. Gettler²⁶ argues that collusion and cover-up form the backdrop to organisational dysfunction. In Gettler's view, ignoring the obvious can be a function of greed and sometimes of power but it is usually a mixture of deception and self-delusion. People dissenting or asking hard questions are swept aside so the organisation seems to be unaware that it is falling apart.

The integrity and effectiveness of relationships with key stakeholders are fundamental to the effectiveness of organisations. A clear and consistent strategy that is well-known and understood by key stakeholders, and with stakeholders understanding their importance to the agency, is likely to be a sign of an organisation that performs well. Conversely, poor stakeholder relationships can put an agency at risk of poor performance (see Case Study 2 above).

For almost all APS agencies a key stakeholder relationship is the one between the agency and the Minister and the Minister's office. An agency that is performing well is likely to have put considerable effort into developing effective working relations between the agency and the relevant Minister's office. Conversely, a lack of understanding of the role of the Minister and the Minister's office, and a lack of timely and effective responses to Ministerial requests is likely to reflect a lack of understanding of the organisational direction and purpose, and could be a sign of poor corporate health.

The effectiveness of interactions with clients and customers, in particular, is another important measure of organisational effectiveness. High levels of client-focused behaviour, both internally and externally, are likely to be a sign of an organisation that performs well. Client satisfaction surveys can be an important tool in measuring corporate health in this area as can regular reviews of complaints and identification of emerging systemic issues. Nevertheless, in the public sector a fine balance needs to be maintained between high levels of client service, and an understanding that in many cases public servants are exercising regulatory power, and need to do this consistently within their regulatory framework.

Another important area is the relationship between an agency and the consultants it contracts to perform specific services. Agencies need to be confident that consultants appreciate their business requirements and understand the impact of what and when they deliver.

Public perceptions of agencies more generally, while not definitive, can also help to provide an early indication of emerging problems. Warning signs can include sustained bad press or gossip about agencies among a range of stakeholders, public concern about the ethical behaviour of employees or perceived 'perks' enjoyed by senior staff, and concerns raised by MPs and Senators. Agencies need to be careful in this context to differentiate between criticism of government policies and the performance of an agency.

²⁵ Australian Public Service Commission 2005, *State of the Service Report 2004–05*, Commonwealth of Australia, Canberra, p. 6.

²⁶ L. Gettler, *Organisations Behaving Badly: A Greek Tragedy of Corporate Pathology*, John Wiley and Sons Australia, Milton, 2005, p. 36.

At the internal level, there are a number of behaviours that may be a sign of poor corporate health. These include bullying tolerated or practised by leaders, unhelpful game playing in the organisation, and a lack of professionalism and respect for others, such as poor meeting behaviours or a culture of malicious gossip. Staff surveys and the monitoring of workplace harassment and grievance indicators can help to identify some of these behaviours.

A range of research suggests that high levels of engagement of employees, with their work and their organisation, are associated with improved productivity in organisations and the retention of employees.²⁷ Similarly, a high proportion of employees who are actively disengaged with their work could be a sign of an agency at risk of poor performance. The extent of engagement and disengagement is likely to reflect a range of factors relating to the quality of internal relationships, including the quality of immediate management, the provision of feedback, the quality of broader workplace relationships, and the quality of leadership.

An important indicator of corporate health for any agency is the level of staff morale or job satisfaction. There can be real advantages to an agency in regularly testing the level of staff morale through employee-senior staff interaction as well as more formal processes such as staff surveys.

6. Effective Agency Culture

An agency's performance in the area of relationships and integrity is clearly linked to the next indicator, that is, the effectiveness of an agency's culture.

Agency culture is difficult to define, but is what people experience when they deal with an organisation or work in it. Agency culture relates to shared assumptions, beliefs, values, norms and actions as well as language patterns. These collective beliefs shape behaviour.

An agency's culture needs to be effectively aligned to its outcomes and business. There is no one culture that will suit each agency's circumstances. The culture in a regulatory and/or inspection agency, for example, will differ from the culture of an agency with a strong policy development focus.

Nevertheless, all APS agencies need to create a high performance culture with a focus on continual improvement, empowerment of staff and trust. To create such a culture, an agency must have a strong focus on its people and a strong focus on performance. It must take steps to address elements of its culture that do not support its employees and support, to the extent possible, an effective work-life balance.

In the APS context, high-performing agencies also need to be characterised by a culture that encourages collaboration with other agencies and whole of government outcomes. Perceptions by stakeholders that an agency is insular and inwardly focused could be a sign of poor corporate health.

In large agencies, with a range of different business lines, it is appropriate for there to be a number of different sub-cultures. Nevertheless, agency leaders need to focus on the

²⁷ For example, D. Robinson, S. Perryman and S. Hayday, *The Drivers of Employee Engagement*, Institute for Employment Studies, Sussex, UK, 2004 and Corporate Leadership Council, *Driving Employee Performance and Retention through Engagement: A Quantitative Analysis of the Effectiveness of Employee Engagement Strategies*, CLC, Washington, DC, 2004.

overarching values and objectives that provide coherence. There may be a need to take action if incompatibilities between cultures are affecting business outcomes or undermining organisational cohesiveness and cooperation.

Although difficult to measure, culture can have a direct impact on agency performance. A fiefdom mentality, with a widespread culture of 'us and them', that treats all customers, clients and sometimes work units or occupations within the organisation as 'the enemy', is unlikely to make for a healthy organisation. A lack of confidence among the senior leadership group that their colleagues are committed to identifying and working towards achieving corporate goals is of particular concern. A fear that colleagues may attack one another at any time doesn't encourage creativity or innovation or even cooperation.

A consistent culture of crisis, blame and lack of accountability, an inwardly focused culture that is unwilling to learn from other organisations, or even the lack of any clearly articulated and understood 'culture', can also be early warning signs of underperformance.

A culture of openness, transparency and collegiate behaviour, built on the APS Values and Code of Conduct is desirable.

One of the best ways to measure agency culture, and changes in agency culture, is through regular surveys of staff attitudes. Such surveys can cover issues such as integrity, consultation, handling of risk, conflict of interest, staff recognition, attitudes to learning and development and attitudes to performance improvement.

7. Factors Particularly Relevant to the Public Sector

There are some indicators of agencies at risk of poor performance which may be unique to the public sector. In the public sector, even where organisations have the best leadership and the best governance structures in place, agencies can be affected by government decisions, changes in the political environment, the influence of advocacy groups, and the ongoing sustainability of their funding base (for both front line and support activities).

Agencies that have to take on rapidly a range of new responsibilities, absorb a large number of new staff, or which experience massive workload increases are likely to have their capacity to manage these changes stretched, from a governance, financial, leadership and cultural perspective.

To deal effectively with such situations, agencies need to foster high levels of agility, and establish effective systems for anticipating and managing change. Agencies facing such issues need to be particularly vigilant about monitoring their corporate health, and respond immediately to indicators that changes are having an adverse impact on corporate health.

The nature and level of contention around the work performed by agencies can also have an impact on corporate health. Under the Westminster system of government, the public service must be responsive to the Government of the day. Nevertheless, agencies can have their corporate health compromised where there is a high level of public attention to the work of the agency, leading to frequent political involvement in day-to-day operations. Agencies in these situations need to ensure that their staff understand the nature of the

APS's relationship with Ministers and Ministers' offices, and ensure that staff feel free to approach senior managers and/or a central area of expertise and support if they are facing a challenge in handling this relationship. The Australian Public Service Commission's guide, *Supporting Ministers, Upholding the Values*, is a useful resource in this regard.²⁸

The performance of agencies is also fundamentally dependent on the sustainability of the funding base provided by government. A high-performing agency will put a strong emphasis on managing its operations in an efficient and cost-effective way, and in pursuing continuous improvements in productivity. Nevertheless, where funding for the agency is not sustainable, whether for front line policy development, regulation and service delivery, or for support services, such as information management, a high-performing agency will be proactive about raising such issues with central agencies and with government. This is not a sign of failure, but a sign of an agency that puts a high priority on maintaining its corporate health.

A particular issue for some public sector agencies is the tension between the need to ensure compliance with the regulatory framework and the need to provide enough flexibility to deliver outcomes. Agencies need to monitor this issue, to ensure that they are achieving the right balance.

There are a range of additional challenges for APS agencies whose staff are dispersed across Australia and in overseas posts. This situation is not unique to the public sector, but is a characteristic of many APS agencies.

High-performing agencies in these circumstances are likely to be characterised by the establishment of:

- governance controls, processes and communication that maintain a consistent focus across all geographic areas and provide coherence
- establishing effective feedback loops to allow communication to occur horizontally and vertically across the organisation (including through effective use of ICT)
- establishing effective approaches to knowledge management and knowledge transfer across teams (Case Study 4).

In contrast, geographically dispersed agencies at risk of poor performance may be characterised by:

- a failure to communicate a common sense of organisational direction across regions
- the creation of pockets of isolated and incompatible organisational culture
- marked differences in performance and compliance between regions
- ineffective staff training arrangements across regions
- poor communication across regions and between regions and senior leadership, with problems presented when there are crises rather than early on.

(See Case Study 2 for an example of problems caused by poor management of geographical diversity).

An assessment of agency corporate health needs to take into account these issues.

²⁸ Australian Public Service Commission 2006, *Supporting Ministers, Upholding the Values: A Good Practice Guide*, Commonwealth of Australia, Canberra <<http://www.apsc.gov.au/publications06/supportingministers.htm>>

Case Study 4

The Australian Broadcasting Corporation Knowledge Pool²⁹

The Australian Broadcasting Corporation (ABC) is addressing challenges associated with skills recognition and knowledge sharing in a large geographically dispersed organisation, with the development of the Knowledge Pool—an online system used to define and record the skills within the organisation and to capture and share the experience and knowledge of its workforce.

The Knowledge Pool offers an innovative solution to current trends in the implementation of workforce training in that it recognises all forms of learning, including informal learning, which is responsible for 70%–80% of all learning.

The skills capture and audit component of the system will create a dynamically evolving picture of the skills-set of the ABC by allowing individuals to record their skills and add new skills to the system.

The second component of the Knowledge Pool will be used to record the knowledge and experience of those recognised as experts in particular skill areas.

Knowledge may be recorded in the form of narratives, case studies, diaries, articles or other means, which together form a valuable, growing, self-correcting and self-regulating real-world learning resource.

The knowledge capture will develop into an online library, allowing anyone in the organisation to access this pool of knowledge and learn from these experts.

A third phase is proposed which will allow individual employees to match their existing skills against national competencies. This will allow employees to self-assess their potential for recognition of prior learning (RPL) and recognition of current competencies (RCC), easing access to nationally recognised qualifications and units of competency.

Once implemented, ABC staff will be able to browse and search for skills, job roles, individuals' stories, knowledge or specific people. For example, if a radio or television programme needs to find someone in the organisation who can speak Hungarian, they can search for this skill on the Knowledge Pool. If an employee wants some information on how to gain the skills and experience for a particular job they may want to pursue, they can look up the knowledge that has been gathered for that job and can instantly locate and connect with potential mentors and coaches across the country.

²⁹ <<http://industry.flexiblelearning.net.au/industry/casestudies/abc.pdf>>



Assessing Corporate Health

Agencies already have in place a range of performance indicators to measure the quantity and quality of their performance against specified outcomes. For some measures of corporate health it will be possible to establish similar measures (for example, levels of turnover or length of service). However, by its very nature, corporate health involves a mixture of objective and subjective judgments. Making consistent judgments can be difficult due to the different circumstances faced by each agency, as well as changes over time.

Assessments of corporate health need to take account of the contextual environment in which each agency and the APS as a whole operate. Agencies vary in terms of their size, budgets, policy, public perceptions, and the types of employees. Different stakeholders will hold different views about organisational performance, sometimes coming from opposing positions. It is important to look at the whole picture rather than focusing on individual indicators in isolation.

Assessments of corporate health also need to be made at a number of levels within the agency, from the organisation as a whole, down to much smaller units. Looking at corporate health in this way helps to identify issues at the levels at which they arise, so that effective and innovative approaches can be shared, and corrective action effectively targeted, rather than unnecessarily applied at a broad level. Each agency will need to consider the best level at which to monitor each indicator. It is likely that for most agencies there will be a combination of monitoring at the organisational level and at an agreed lower level (for example, divisional). Where emerging problems are identified, agencies may choose to drill down further.

There may be a range of reasons for what seems to be poor performance against a particular indicator, not all of which require action. Assessments of corporate health require high-level judgment in deciding how serious a situation is and when preventative strategies and approaches to handling problems need to be employed.

On some issues, benchmarking across the APS may give an indication of areas where attention is needed, for example, in comparing levels of bullying and harassment or job satisfaction. However, differences in the nature of agencies and their contextual environments, means that this will not be definitive. Different agencies manage different risk profiles. Agencies need to look both at their relative performance, and at changing patterns in their agency over time. Staff survey results of 10% below the APS average will generally be a key indicator of problems.

The indicators identified in this paper can be an aid to robust agency self-assessment approaches. Nevertheless, the limits of the approach need to be acknowledged. The indicators focus on signs of corporate health associated with agency performance, and do not themselves reflect good or poor performance against agency objectives. Instead, the indicators should be viewed as an aid to identifying possible issues that may need further exploration.

Strategies to monitor agency health and identify early warning signs of performance issues include:

- regularly reviewing governance arrangements in light of the issues identified in this paper
- regular management meetings focusing on some of the key indicators (as outlined in Attachment A)
- where agencies use a balanced scorecard approach, ensuring that the scorecard covers key elements of corporate health
- use of internal auditors to pursue issues of concern in more detail
- internal and external monitoring of existing relevant indicators including:
 - human resources processes such as staff turnover, skills requirements, Employee Assistance Programme statistics, Occupational Health and Safety statistics and cases referred to Comcare
 - finance and auditing processes
 - ICT systems
 - communication channels
- regular strategic reviews of policies and procedures
- seeking multiple sources of feedback and/or monitoring complaints and media interest from internal sources (e.g. staff feedback) and external sources (e.g. Ministers, clients, customers, interest groups and peer review)
- regular use of staff surveys, and benchmarking of performance against State of the Service employee survey results
- ensuring that outcomes of reviews are investigated and analysed comprehensively
- ensuring corporate health issues are addressed in risk management exercises
- for agencies required to respond to a Statement of Expectations by their Minister, using the preparation of a Statement of Intent as an opportunity to review the impact of corporate health on agency performance

- engaging a consultant to review the impact of corporate health and culture on performance (a range of private sector companies offer different approaches to such reviews)
- the agency head talking one-on-one at least annually with key stakeholders about the agency's performance, culture and effectiveness.

These processes need to supplement the direct monitoring of the agency's performance in terms of key business processes and results.

The extent of monitoring and measuring within an agency will need to occur within general principles outlined in the recent Management Advisory Committee report, *Reducing Red Tape in the Australian Public Service*, where the benefits of any new processes need to outweigh their costs.³⁰

The nature and extent of any corporate health issues will determine the type and extent of action required. Sometimes solutions may be clearly linked to problems, such as improved recordkeeping or enhanced information management processes. Solutions may involve improving capability, replacing managers or, in more extreme cases, implementing machinery of government changes.

In assessing corporate health there is a place for periodic external reviews. However, it is healthier for the organisation to have an institutionalised practice of continuous improvement. The indicators of corporate health identified in this paper are designed as a tool for agency leaders in driving continuous improvements in corporate health across their organisation.

³⁰ Management Advisory Committee 2007, *Reducing Red Tape in the Australian Public Service*, Commonwealth of Australia, Canberra.



Conclusion

Focusing on corporate health to identify organisations at risk of poor performance in the public sector is a relatively new development, although a number of agencies have implemented ‘balanced scorecard’ approaches. Nevertheless, several points are clear:

- there is a direct connection between an organisation’s corporate health in terms of its overall governance framework and its performance against its business objectives
- focusing on identifying signs of poor corporate health can help in the early identification of agencies at risk of poor performance, and allow the early implementation of remedial strategies to avoid poor outcomes
- monitoring corporate health needs to be viewed as an essential part of an agency’s risk management framework
- there is no one-size-fits-all approach—ultimately agencies need to adapt or tailor processes or systems to reflect such things as their business objectives, size, organisational structure and interaction with the community
- a strong sense of organisational direction, effective leadership, strong organisational capability, appropriate governance processes, a focus on relationships and integrity, and an effective agency culture are crucial to any agency’s corporate health
- agency leaders need to take responsibility for monitoring their organisation’s corporate health and taking action where problems are identified.

Where areas of concern are identified, it is important that leaders focus on remedying problems rather than being distracted by assigning blame. It is also important that leadership and management teams acknowledge the potential for problems and accept responsibility for addressing any problems that arise. The general focus in agencies should be on moving forward, rather than on focusing on past issues which are of secondary importance.

Checklist for Agency Discussions on Corporate Health

1. Corporate health indicators associated with organisations that perform well

Organisational Direction

- an awareness of, and focus on, core business throughout the organisation
- organisational structure reflects organisational direction
- investment in research and strategic policy capacity
- an appropriate balance between innovation and risk aversion
- agency monitors and responds to changes in the external environment
- organisational purpose and strategies reviewed regularly
- agency achieves improvements in quality and efficiency through innovation and continual improvement

Effective Leadership

- an emphasis on all elements of the Senior Executive Leadership Capability (SELC) Framework
- leaders display a visible commitment to the values they espouse
- leaders understand their roles

- leaders pay appropriate attention to all aspects of an agency's operations
- strong and effective linkages between middle and senior managers
- leaders effectively manage poor performance
- leaders and managers are open to alternative or dissenting views
- a strong framework of support to build judgment and confidence in making decisions
- leaders look beyond immediate priorities and engage in forward planning

Organisational Capability

- a focus on all aspects of organisational capability, including people, processes, culture, structures, and assets
- high relative intellectual capital (based on length and breadth of experience and qualifications of employees) and a focus on assessing trends in intellectual capital
- a balanced age profile, or workforce planning strategies in place to deal with the impact of an ageing workforce
- levels of staff turnover are neither too high nor too low
- significant investment in training and development (formal and informal) and high take-up of training opportunities
- capability strategies are integrated with performance management, reward and recognition frameworks
- effective recruitment and induction processes
- effective knowledge management systems and transfer
- organisational systems, including programme management, ICT, financial, and human resources systems are aligned to corporate outcomes and priorities
- a focus on project implementation

Effective Corporate Governance Processes

- clear accountabilities and responsibilities
- resources are aligned with outcomes
- an emphasis on effective risk management rather than rigid process monitoring, with key risks identified, articulated and remediated
- governance arrangements are reviewed regularly
- committee systems operate in a timely and efficient manner, and with a clear sense of purpose
- committee membership is considered carefully

- appropriate assessment of delegations and decision-making levels
- a focus on evaluation, including benchmarking of performance against the wider environment and the use of staff and stakeholder surveys
- full cooperation with external scrutiny
- effective management information systems

Relationships and Integrity

- professionalism, including showing respect for others and an understanding of a public servant's duty
- an emphasis on building effective workplace relationships with Ministers' offices
- high levels of client focus
- employees exercising regulatory power understand the basis of that power and act in accordance with the regulatory framework
- ethical and effective relationships with stakeholders (measured through stakeholder consultation and surveys)
- consultants appreciate business requirements and understand the impact of what they deliver and its timeliness
- generally favourable public perceptions of integrity
- an internal culture of respect
- high levels of staff morale and job satisfaction (measured through staff consultation and surveys)

Effective Agency Culture

- promotion of a culture of continual improvement, empowerment of staff and trust
- focus on early identification of signs of cultural problems such as lack of information sharing, poor relationships and improper behaviour
- high levels of collegiality and confidence among the leadership group
- strong support for employees
- a focus on effective work-life balance
- support for diversity within the workplace
- an understanding of differences in internal agency culture, and an emphasis on whole-of-agency identity and approaches
- an emphasis on collaboration and engagement with other agencies and relevant stakeholders

Public Sector Factors

- anticipates and responds to emerging issues or priorities of government
- fully aware of the context (political, social, economic) of the agency's operations
- an emphasis on agility and effective systems for managing change
- effective and proactive handling of public relations
- staff are supported in dealings with Ministers and/or Ministers' offices
- an emphasis on continual productivity improvement and the agency is proactive about dealing with funding concerns
- procedures are in place to effectively manage geographically dispersed offices
- an effective balance between regulatory compliance and flexibility

2. Corporate health indicators associated with agencies at risk of poor performance

Shortcomings in Organisational Direction

- poor communication of organisational purpose, strategies and vision
- organisational structure is not related to organisational direction, and is difficult to understand
- neglect of core business and business processes
- neglect of research and strategic policy capacity
- an inappropriate balance between innovation and risk aversion
- exercising little delegation and empowerment of staff
- failing to notice or respond to a change in operating environment

Poor Leadership

- a lack of depth and breadth of experience of the management team (particularly in the areas of people management and shaping strategic thinking)
- a lack of clarity in leadership responsibilities
- leaders not effectively managing performance
- a disconnect between senior leaders and middle managers
- a low level of scrutiny and focus by leaders and managers
- a lack of forward planning
- leadership is not open to alternative views or criticism

- ❑ evidence of decision inertia
- ❑ hostility at senior levels to scrutiny by external bodies
- ❑ a focus on image or public relations rather than issues of operational importance

Organisational Capability Shortcomings

- ❑ neglect of some aspects of capability (e.g. people, processes, culture, structures, or assets)
- ❑ a lack of alignment between capability and organisational priorities
- ❑ low relative intellectual capital (based on length and breadth of experience and qualifications of employees) and a lack of focus on assessing trends in intellectual capital
- ❑ a lack of employee capability in key areas, either in core business areas (e.g. policy development, regulatory work) or support work (e.g. ICT or HR)
- ❑ an ageing workforce profile, with no strategies in place to deal with the loss of valued older staff
- ❑ a lack of, and/or poor take-up of, training and development
- ❑ excessively high or low turnover of staff
- ❑ ineffective recruitment and induction processes
- ❑ little integration between rewards and recognition frameworks and capability development
- ❑ poor knowledge transfer
- ❑ a lack of focus on effective systems, or poor systems in key areas, such as the management of large-scale projects, ICT or human resources
- ❑ a major failure in administration such as a poor financial situation, a major ICT failure, a large-scale project that overruns budget and timeframes, or an adverse audit finding

Ineffective Corporate Governance Processes

- ❑ a lack of clarity in accountabilities and responsibilities
- ❑ a lack of thought given to the appropriate decision-making levels
- ❑ a failure to regularly review governance processes
- ❑ ineffective committee structures and processes
- ❑ a non-strategic approach to committee membership
- ❑ poor resource management (including financial overspending and underspending) and ineffective alignment of resources with business needs
- ❑ an absence of evaluation measures and a lack of staff and stakeholder surveys

- ineffective risk management and a concentration on rigid process monitoring and measurement
- ineffective management information systems
- slowness in adopting financial, human resources and management reforms
- a repeated failure to fix or deal with identified problems or deficiencies

Difficult Relationships and Integrity Issues

- poor and ineffective stakeholder relationships (measured through stakeholder consultation and surveys)
- poor service provided to Ministers and/or Ministers' offices
- low levels of client focus
- a lack of capability in exercising regulatory power
- sustained complaints to politicians about the organisation or sustained bad reports across the media
- gossip among a range of stakeholders
- a high incidence of, or level of tolerance for, alleged improper behaviour such as harassment and/or bullying
- general concerns about perceived 'perks' by senior staff
- low levels of employee engagement and signs of active disengagement among staff (as measured through staff consultation and surveys)
- staff raising concerns about any of the broad areas of corporate health

Shortcomings in Organisational Culture

- a lack of a clearly articulated and understood 'culture' aligned with the business focus
- low levels of staff empowerment and trust
- perceptions by stakeholders that the agency's culture is insular and inwardly-focused
- a failure to respect workplace diversity
- poor work-life balance
- a culture of crisis and blame
- conflicting internal cultures and directions
- a low commitment to collaboration internally or with other agencies, and a fiefdom mentality or 'us against them' culture

- ❑ an inwardly-focused culture characterised by a lack of interest in learning from other organisations

Public Sector Factors

- ❑ a failure to anticipate and respond to changes in government priorities
- ❑ insufficient understanding of agency context (political, social, economic)
- ❑ insufficient agility and ineffective systems for managing change in response to rapid growth in agency responsibilities, employee numbers and/or workload
- ❑ a lack of support for staff dealing with Ministers and/or Ministers' offices
- ❑ a lack of initiative in responding to funding pressures
- ❑ an ineffective balance between regulatory compliance and flexibility
- ❑ no thought about, or an ineffective approach to, managing geographically dispersed offices



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