

TE WHARE WĀNANGA O TE ŪPOKO O TE IKA A MĀUI



### ***Future State 2 - Working Paper 6***

*Future State 2 is a research project being undertaken on behalf of state services chief executives as part of the Emerging Issues Programme (EIP). The project aims to identify how the 'centre' can support new ways of working that are required for the public sector to respond effectively to emerging complex problems, and how individual agencies could promote new ways of working. There are several strands to this work: 1) international perspectives, 2) emerging trends in governance, 3) joint accountability, 4) experimentation and learning in policy implementation, 5) agency restructuring, 6) skills and capabilities, and 7) the authorising environment.*

## **Restructuring – an over-used lever for change in New Zealand’s state sector?**

Richard Norman and Derek Gill

‘If all you have is a hammer, everything looks like a nail’, management theorist Abraham Maslow observed in 1966.<sup>1</sup>

Is restructuring the hammer of organisational change in New Zealand’s state sector? A State Services Commission (SSC) survey of state sector employees in 2010 identified that 65 per cent of the 4,600 staff sampled had been involved in a merger or restructure during the previous two years, a sharp contrast with a similar survey of the federal government of the United States, which found that only 18 per cent were affected. These statistics raise questions which form the basis of this paper: why, how and to what effect are state sector organisations restructured in New Zealand?

Our research started with a review of empirical data on restructuring and of perspectives from the literature on restructuring in the public and private sectors. We then explored these perspectives in three separate focus groups in May 2011, with chief executives, human resource managers and Public Service Association (PSA) delegates and organisers. Not surprisingly, chief executives (CEs) who initiate restructuring have a considerably more optimistic view about its role and impact than those who are affected by it. Annex One is a reflection piece written by one of the most experienced New Zealand public service chief executives, Christopher Blake, Chief Executive of the Department of Labour, (and Chief Executive of the New Zealand Symphony Orchestra from 2012), provides a balance to the more sceptical argument presented in this paper.

We conclude that restructuring has indeed become the ‘hammer’ of organisational change in New Zealand, a result of the ‘freedom to manage’ formula adopted in the late 1980s to break up a unified and ‘career for life’ bureaucracy that was seen to respond to slowly to the economic crises of the 1980s. Restructuring has become almost an addiction, reinforced by short, fixed term contracts for chief executives and a belief by those chief executives that their employer, the State Services Commission, expects them to be seen to be ‘taking charge’. Restructuring is a symbol and sometimes and substitute for action. It treats organisations as though they are mechanical objects with interchangeable parts rather than as living systems of people who have choices about the extent to which they will commit to their work. Organisational change receives considerably less scrutiny than funding proposals for major capital works. We advocate that restructuring should be subject to such scrutiny and chief executives need to act more like stewards of their organisations and less like owners.

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<sup>1</sup> Maslow (1966: 15).

## Restructuring – Data Sources and Interpretation

There are two sources of data available from the SSC on restructuring in the state sector.<sup>2</sup> The integrity and conduct survey (conducted in 2007 and 2010) collects information on the number of *employees* affected by restructuring. In addition, an inventory of Machinery of Government changes mandated by Cabinet records the number of *organisations* potentially affected by externally sanctioned restructuring.

The integrity and conduct surveys undertaken by the SSC includes a question “[Has your] *Organisation been involved in a merger or restructure in the last two years?*” In 2010, of the 4641 staff surveyed, 65 per cent replied ‘yes’, 27 per cent ‘no’ and 8 per cent ‘don’t know’. This was a significant increase from 2007 when the answers were 55 per cent, 33 per cent and 12 per cent respectively. This distribution is remarkably consistent across all types of organisations in the public sector and is not restricted to the departments and ministries that comprise the public service proper. 65 per cent of staff in public service departments, 66 per cent in Crown agents, 66 per cent in DHBs and 64 per cent in other Crown entities replied ‘yes’. The response to the identical question in the US (Ethics Resource Centre, 2007: 50) for 2005 was 18%. While the American statistics can be seen as an extreme because federal restructuring requires approval of Congress, the contrast is striking. Restructuring may be as prevalent in Australia as New Zealand, judging by experiences of students for the Masters of Public Administration delivered by the Australia and New Zealand School of Government (ANZSOG). One of us (Norman) works with these classes of 130 students annually, and has found consistently that more than 80 per cent have been personally affected by restructuring during the previous three years.

The SSC’s inventory records changes that needed a cabinet mandate for legislation; i.e. changes in names, legal form, establishment /disestablishment etc. It does not include chief executive or internally initiated changes that do not require legislative change. No direct estimates are available for the frequency of CE initiated restructuring, although Gill (2008a: 29) reported a practitioner’s estimate that 50% of CEs restructured their departments in the first year in the role.

We analysed the SSC inventory of data, assigning each machinery of government change to one of four types: change in change in legal name only, change in legal form, undertaking a new function or losing an existing function, or merger or break-up of an existing organisation. Any double counting of organisational types was netted out.

The two sets of data on employees and number of organisations can, with some caveats, be compared. The SSC Integrity Survey asked respondents about the previous two years. For public service departments, only 10% (on an organisation weighted basis)<sup>3</sup> or 2.4 per cent (on an employee weighted basis) were subject to a cabinet mandated change over a three year period 2008-2010 whereas (on a employee weighted basis) 66 per cent of public servants reported being involved in an merger or restructuring during the two years before

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<sup>2</sup> We are grateful to Frank Peek in SSC for comments on the data sources and analysis.

<sup>3</sup> Organisational weighting gives the same weight to each agency regardless of size whereas employee weighting is based on the number of people not the number of organisations. The SSC survey data is employee weighted.

2010. This analysis suggests that restructuring in New Zealand is mainly internally initiated rather than cabinet mandated. In fact, internally generated restructures in New Zealand exceed the *total number* reported in the US federal government service. In comparison with the United Kingdom (UK), where prime ministerial concerns about portfolio allocations are a primary driver (Dunleavy and White, 2010), restructuring in New Zealand is predominantly chief executive driven.

In the New Zealand system the departmental CE is more akin to the combined CEO and Chair of the Board of a United States private corporation. New Zealand chief executives have broader authority to act than in perhaps any other jurisdiction, what Schick (1996: 46) described as 'virtual carte blanche to run their departments.

New Zealand chief executives must do certain things that career managers in the Public Service generally have not been accustomed to doing. They must weed out weak managers, shed redundant workers, re-examine or sever long-standing relationships with suppliers, actively recruit from outside the Public Service, negotiate the wages of senior managers, revamp operations, abandon low-priority activities, manage their assets, commit in advance to output and cost levels, take responsibility for the volume and quality of services, negotiate employment, purchase and performance agreements, respond to numerous inquiries from Parliamentary committees and central agencies, represent the department to the media and public, be responsive to the Minister, and more. They must drive the department to be more efficient, productive, and responsive. They must act as if their own job is on the line and their own money is being spent.

This gives them very considerable powers to shape the organisation as they wish.

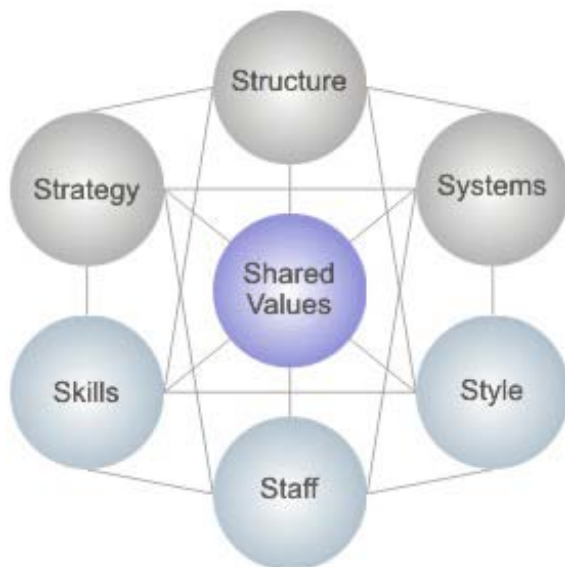
### Perspectives from the Literature on Restructuring Practices

Governments restructure for internal and external reasons (OECD, 2005a). Internal causes include the quest for management improvement by, for example, splitting or merging agencies or aligning or separating policy making and implementation. External reasons for change include the emergence of a new policy priority, often in response to a crisis. A commonly cited international example is the creation of the United States Department of Homeland Security after the 2001 attack on the World Trade Centre in New York, while the recent example in New Zealand is the creation of the Canterbury Earthquake Recovery Authority. Budget deficits have been a major driver of restructuring in New Zealand since 2008, as savings have been sought by merging agencies and back office functions.

The previous section discussed how in contrast to the UK, restructuring in New Zealand is initiated predominantly by chief executives. A key motivation for restructuring in comparable jurisdictions is political pressures within cabinet to align portfolios around new priorities or to reward politicians with a larger department. In New Zealand, there is not the same requirement for one-to-one relationship between departments and the lead minister. As Boston and Gill discuss in Working Paper 11/3 of this series, three distinct arrangements can be observed for lead portfolio ministers in New Zealand. The most common is *one department, many ministers*. Less common is an arrangement of *one minister, one department* or *many departments, one minister*.

A major driver for restructuring in New Zealand during the 1980s and 1990s was the theory drawn from new institutional economics which advocated that organisations should have 'simple and clear purposes', particularly the separation of policy, delivery and regulation in order to align incentives for officials and reduce 'opportunistic' behaviour (OECD, 2005a). Looking at a range of countries, Dunleavy et al (2006a) described 'new public management' (NPM) as a recipe of 'disaggregation, incentivisation and competition.' While the overall number of public organisations and the official doctrines applied by State Services Commission have been remarkably stable for the last decade (Gill 2008a; Lodge and Gill 2011), a shift in thinking is evident in the last three years. Now the structural focus is to 'shift the burden of proof towards amalgamation' (DPMC, 2011). Whereas much restructuring of the 1980s and 1990s was to disaggregate larger organisations, the trend since 2008 has been to bring them back together, as seen with the merging of the Foundation and Ministry for Science and Research and merging of the Ministry of Fisheries with Agriculture and Forestry. This shift in emphasis raises the question of the contribution of structure to organisational performance. One influential approach is the 'McKinsey Seven S' model shown in Figure 1, which was popularised by *In Search of Excellence* by Peters and Waterman (1982). According to the McKinsey model, improved performance comes when all the seven 'Ss' are lined up. Peters and Waterman distinguishes between the 'hard' or visible elements of organisation life such as structures, strategy and systems, compared with the 'soft' people based elements of skills, staff, style and shared values. The authors noted that, contrarily, the 'hard' issues, with their emphasis on documents, measurement and the easily visible are 'soft' or easy to deal with. The 'soft' dimensions of organisational life, focused on the distinctive contributions of shared values and people are 'hard' or difficult.

Figure 1: The McKinsey 7S Model



Source: McKinsey 7S model: [http://www.mindtools.com/pages/article/newSTR\\_91.htm](http://www.mindtools.com/pages/article/newSTR_91.htm) [Accessed 1 October 2011].

A different conceptualisation of the role of structure was provided by Bolman and Deal (1997) who describe 'structure' as a metaphor that prompts thinking about organisation as

factories or machines. Perhaps it is not surprising that restructuring is a favoured tool for public sector agencies when the term ‘the machinery of government’ is still widely used to describe the form and functions of government. This metaphor from the machines and factories of nineteenth century industrialisation and public sector reform has an effect described by Morgan (2006: 13): ‘If we talk about organisations as if they were machines, we tend to expect them to operate as machines: in a routinized, efficient, reliable, and predictable way.’ Morgan explores alternative metaphors for organisations, including the brain, organisations as cultures, organisms or political systems. Similarly, Bolman and Deal (1997) liken organisations to families (the human resource approach), jungles (politics rule), or to a carnival, temple or theatre (symbolism is important).

### The ‘how’ of restructuring

Processes for the ‘how’ of restructuring have been well established in the New Zealand state sector since the first moves in 1986-87 to break up large, long established departments to create state owned enterprises, focused service delivery entities and policy ministries. More than private sector employers, public agencies are constrained in how they proceed with restructuring, and legislative provisions for ‘good employer’ practices create greater consistency and focus on fairness that in the more diverse practices of the private sector. To some extent these processes result in an overstating of the use of restructuring in public organisations, which must follow formal processes where smaller, private sector organisations can be more informal.

Restructuring affects staff when it removes security of employment and puts staff into a competition for positions in the restructured organisation. Such competition inevitably tests the loyalty of staff, whose focus shifts to individual economic survival rather than service to the organisation or wider public. Cascio (2002) distinguishes between numbers driven change and ‘responsible restructuring.’ ‘Downsizers’ constantly ask themselves, ‘What is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?’ A second and smaller group of ‘responsible restructurers’ see employees as assets to be developed. They ask themselves, ‘How can we change the way we do business, so that we can use the people we currently have more effectively?’ Further:

The downsizers saw employees as commodities, like microchips or light bulbs, interchangeable, substitutable, and disposable, if necessary. In contrast, responsible restructurers see employees as sources of innovation and renewal (Cascio 2002: xii).

The responsible restructurer has a much greater likelihood of retaining ‘organisational citizenship behaviours, such as:

- altruism (e.g., helping out when a co-worker is not feeling well)
- conscientiousness (e.g., staying late to finish a project)
- civic virtue (e.g., volunteering for a community program to represent the firm)
- sportsmanship (e.g., sharing the failure of a team project that would have been successful if the team had followed your advice)
- courtesy (e.g., being understanding and empathetic, even when provoked)

Another contentious issue in restructuring is the pace of change. Is it better to move as quickly as possible to reduce uncertainty? Or should a measured process of consultation be followed? An example of the first approach was the change process led by Sir Roger Douglas during the 1980s, in which he advised: 'implement reform by quantum leaps. Moving step by step lets vested interests mobilise. Big packages neutralise them. Speed is essential. It is impossible to move too fast. Once you start the momentum, never let it stop'(Douglas, 1990). One consequence of this speed of reform was that New Zealand voters opted for proportional representation politics in part to put breaks on first-past-the-post majority rule. For organisational restructures, the speed of change remains a key issue as seen in varied responses from the focus groups.

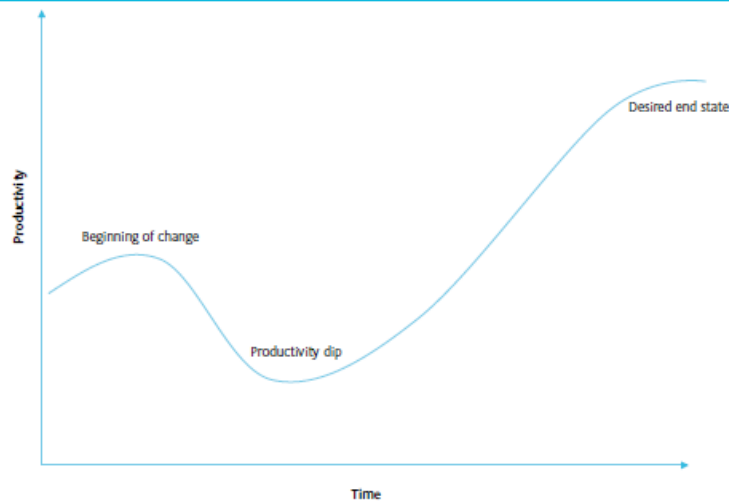
### To what effect?

New Zealand research about effects of restructuring is rare. The one significant study, based on change in the 1980s, reviewed the effect of restructuring of State Owned Enterprises (Duncan and Bollard, 1992). A case study of the creation of the Ministry of Social Development in 2001–2002 (SSC, 2003) examines the change processes used for that merger. Recent analysis of four restructures in government departments in Britain (White and Dunleavy, 2010) provided useful insights. These researchers identified problems such as lack of time for planning, lack of funding, overloaded staff and little central support. These restructures had largely been driven by Cabinet changes, often initiated by the Prime Minister to reallocate political portfolios. Different pay rates in merging organisations created a major challenge, the researchers concluded. The result could be substantial costs in terms of finance or morale in either upgrading those on lower rates or suppressing pay increases for the better paid. White and Dunleavy concluded that the results from restructuring are disappointing as the costs are higher and the benefits take longer than expected to be realised. They pose the question: can we afford productivity dips and to wait for at least two years before realising concrete benefits of this reorganisation?

Disappointing returns on restructurings are not limited to the public sector. One widely cited study of private sector mergers concluded that fewer than 25 per cent of all mergers achieve their stated strategic objectives (Marks and Mirvis, 2001). Research into private sector organisations benefits from an ability to compare bottom line profitability pre and post-merger, whereas public sector mergers are particularly difficult to research. 'Public value' (Moore, 1995), a proposed counterpart of bottom line private value, is inherently difficult to measure and political in its definition.

Figure 2. Productivity dip in most mergers and acquisitions

Figure 34: The productivity dip experienced in most mergers and acquisitions



Source: White and Dunleavy (2010: 79, figure 34)

## A research puzzle

The initial research thus revealed an intriguing puzzle. On the one hand, analysis of the data showed extensive, repeated restructures in the New Zealand state sector, the majority of which were internally initiated rather than externally imposed. On the other hand, the available evidence suggested that the cost of restructuring were significant with benefits taking around two years to be realised. In a number of recent cases, outgoing Chief Executives led restructuring immediately prior to stepping down, only to have the new incoming CE trigger a further set of changes in their first year in the role. Are the costs of restructuring recognised by practitioners? And why do they restructure? We therefore sought practitioners' views on why and how restructuring was conducted in the New Zealand state sector.

## Practitioners' perspectives on restructuring within the New Zealand state sector

We explored the topic of restructuring with three groups which could be expected to have very different perspectives on the topic: chief executives, human resource managers and union delegates and organizers. These groups were given the opportunity to contribute anonymously through decision support software which enabled individuals to brainstorm and vote on ideas.<sup>4</sup> The workshops focused on three questions:

1. Why is restructuring used as an organisational change tool and is it used too frequently ?

<sup>4</sup> The software used was WIQ from Ynsyte, at <http://www.gowiq.com/ynsyte/home.php>



2. How well in your experience is restructuring carried out within New Zealand public sector organisations?
3. What are the results from restructurings?
4. How could restructuring processes be improved?

Notable insights from these sessions included the pressure perceived by chief executives to restructure to demonstrate change is happening and the scepticism from Human Resource Management specialists compared with chief executives.

### Why restructure?

The chief executive group was small in numbers (five), but it had longer time for discussion of restructuring than the other two focus groups. Firstly, the group challenged the survey figures quoted earlier about the extent of restructuring, suggesting these overstated the case by including 'technical' restructures. Reasons for restructuring noted by this group included changing formal mandates, political pressure, budget reductions, and the need to align an organisation to new expectations. The intention of a restructure internally was to change and improve the mix of capabilities and if necessary to shore up deficiencies. For a CE coming in new, there may be a need to 'reboot' and 'decouple' an organisation from a non-performing past. Structure needed to be aligned with vision, strategy and desired performance. Restructuring was a way a new CE could clarify expectations for a department seen as poor in capability by politicians.

PSA delegates agreed with the reasons which prompted change but thought that restructuring seemed to be 'the 'only improvement tool' the Government knew how to use. Human Resource Managers thought that restructuring has become almost a 'preferred and first choice method for tackling individual performance problems', a way of avoiding potentially long drawn out performance processes.

### *Pressures on CEs to restructure.*

According to the CE focus group, newly appointed chief executives frequently decide that existing second tier management is not able to deliver on expectations for change. If an outsider has been appointed as CE, it is probably because an external jolt has created a different environment from that which the existing management team has been prepared for. One CE referenced Charles Darwin and observed that 'adaptability is the key to survival - rather than strength or intellect'. Restructuring was an important part of the process of shaping organisations to be fit for purpose. Often that needed different people on a management team, people comfortable with 'uncertainty and driving down costs'.

As one CE put it, 'context is everything'. The current budget environment required savings and the funding of redundancies out of baseline revenues, restrictions which state sector managers have not had to face for some time. 'That pushes you to get it absolutely right. You do try to hold on to the talent you have and avoid losing the mobile people.' A fundamental difference however between public and private sectors was the need to work within a single year appropriation, compared with the private sector flexibility of posting a significant loss in a year marked by restructuring. The five-year appointment term of public service CEs increased the imperative to restructure at the beginning of the term. A typical

cycle involved restructuring the second tier in the first and second years, using the third and fourth years to anchor change, and hope to see the benefits come through by year five when the focus of the CE would be on reappointment or a different and perhaps larger role.

Human resources managers, whose roles involve them in implementing restructures, were considerably more sceptical about reasons for restructuring and the results. This group agreed that restructures 'happen too frequently, sometimes to satisfy political ego'. It was the 'easiest lever to pull and often not the most effective' in contrast to less tangible cultural change based on continuous reflection about organisational performance. Restructuring often created action but not forward motion and was a technique to 'be seen to be doing something.' For union organizers and delegates, restructuring was about 'reducing staff', 'reducing budget', 'cost cutting, not innovation'. This focus group had the resigned acceptance of a reactive role, responding to management initiatives.

### *Is restructuring a substitute for effective performance management?*

In terms of the McKinsey 7S model, structure was seen by chief executives as a key lever to align organisations with strategy. An alternative view was that restructuring was used as a substitute for a systematic effective performance management. The HR focus group certainly thought the latter was the case, voting that restructuring was 'frequently used to tackle long standing performance issues' without the legal risks of performance management processes. Such restructuring masked 'fundamental flaws in the organisational culture' and was 'a dishonest alternative to managing poor performance.' The group thought restructuring had become 'a default position for performance managing leadership teams', and was used instead of 'hard conversations' about the real issues. The PSA group experienced restructuring as 'A CE wanting to impose her/his priorities on the organisation' and for 'new CEOs to stamp their look or branding on their new fiefdom.' It was a 'great tool for management where they can get rid of perceived dead wood and trouble makers.' Not unexpectedly, CEs had different and positive views about their roles as change makers. One CE commented:

Leaving non-performers in displaced positions can undermine efforts to lift performance - they can compete for leadership, and you can look as though you've avoided the tough calls.

Elaborating on the performance challenges they had experienced, CEs reflected on finding 'long term performance issues at the second tier' had not been tackled. One CE thought it would be possible to get a team to work effectively and took four months to find it could not.

Through a combination of verbal and on-line discussion, the CE group exchanged views about the pressures on leadership. The comment 'none of us are appointed to the job as baby sitters' set the tone for a discussion about realities of the CE role, which included the value of 'building affiliation and allegiances through appointing (one's) own team.' 'You can't drive change as one person. You don't have a magic stick - if you're going to change you to start with a team that you believe that can help you drive that change.' From the outside was an 'unexpressed expectation' of central agencies that a CE is 'perceived not to

be decisive is you don't change the top team'? One CE reflected on the experience of being seen as 'too slow' by central agencies, a reaction that went away after a restructure. CEs are conscious of the pressure of fixed contracts, usually five year terms, which mean that 'change needs to occur early in your tenure, to ensure you reap the expected rewards.' 'Five years is a relatively short time to ensure change is completed and embedded - so you need to do it quickly.'

### **How to go about restructuring?**

Structural change can be initiated in order to change the shared values and organisational culture, or change can start with culture first and then move to structure. CEs suggested culture change was easier to achieve if a hard edged approach was first taken to introduce 'a new leadership in the organisation to drive it.' As one CE put it, 'if you want cultural change, you need to be hardnosed. It takes too long to teach old dogs new tricks, if you can do it at all!' One CE reflected on the importance of avoiding giving a 'false expectation that this will be the last change' - creating a need to 'unfreeze, change, and refreeze' quickly. CEs saw attempts to move on culture change first as less certain, while human resource managers preferred this approach.

### **How much consultation and communication is needed?**

CEs agreed that for larger restructurings, 'a powerful and compelling case for change' was best made through a set of principles. 'Principles that are sound and communicated well generate better buy-in and healthier culture.' Structural change had to be reinforced by cultural change, a focus on important values. Restructuring was just the start of the process needed to deliver change, and more likely to succeed if staff were involved in the design, taking longer with consultation, but then implementing swiftly.

The HR focus group was particularly concerned about consultation and communications, agreeing that 'managers don't always communicate enough and changes can drag on,' that there can be 'issues around communication if there is a perceived agenda,' and that 'too often consultation is a sham process that has little effect on what the CE wanted to begin with.' The group thought that change was 'usually well managed in terms of the risks of personal grievance cases, but not well managed in terms of bringing people along.'

The PSA focus group believed that to be effective, a restructure should involve 'staff input into the dialogue and process', rather than simply following a 'pre-conceived idea': 'Sometimes it is done effectively and staff have buy-in – usually when there is early engagement of staff, unions and management working together.'

### **Scale of change – speed, how comprehensive?**

One of the perennial issues in organisational change is the choice between rapid 'big bang' change and gradual, organic change. For CEs, bottom up consultation can work well if the goal was to achieve small adjustments which could enable business as usual. However if the

organisation needs rebuilding and repositioning and a turnaround was needed, a comprehensive approach is needed.

CEs discussed the challenges of taking ministers with them while working to a timetable. Restructuring within current resources, rather than with special funding is a special challenge – if anything went wrong the money wasn't there for alternative strategies. As far as possible, the aim is to 'create certainty for people so they know the process. The worst thing is that it all suddenly goes into a hole and then you get destabilised people.' One CE commented that 'at the end of most change processes most people will say we should have done that more quickly. There is something about how you make the decisions carefully but 'execute' well and quickly.'

The HR focus group was strongly in favour of 'constant, small changes' unless there was a 'genuine shift in strategy.' Commented one: 'having just done massive restructuring I believe organic change delivers the best results.'

### *How is restructuring evaluated?*

Restructuring is very specific to context, but some clear trends emerged from the role-based focus groups, particularly the pragmatism of CEs, the uneasiness of HR specialists and the reaction to management initiative response of unionists.

For CEs, the 'longer term performance gains from a large shift in internal culture are considerable' and there can be impressive 'efficiency/effectiveness benefits from carefully executed small/incremental restructures.' An issue for CEs was whether sufficient time was given for the benefits to be derived – 'or will the new CE want to start over!!'

For the HR group, restructuring works if 'there is genuine reason for change and follow through to achieve real outcomes.' Implemented with 'strong and early staff involvement', restructuring can be very effective. While that might be the mainstream theoretical view, the HR focus group was strongly sceptical about restructuring. The statement 'I have yet to see a well-executed restructure in the public service' summed up the concerns. Instead, three views were that restructures tend to create 'nervous, wary staff', a 'loss of engagement', 'inertia' and 'reduced work outputs'. A restructuring can paralyse an organisation for a year and distract from ongoing business. Too often CEs are forced into restructuring, not because it was the right thing to do. Ironically in the view of the HR group, the real 'dead wood' seldom is restructured out – 'because dead wood is smart in hiding.' Overall, restructuring 'costs a lot and promises more than it actually delivers.'

The union focus group had the view that 'the loss of staff in a restructuring adds significant pressure to the staff remaining as they struggle to pick up the extra load,' and 'restructuring creates an environment of mistrust and fear' that often is not erased until any long term benefits are realised. Staff are fearful 'with their noses down and bums up, towing the party line and trying not to be noticed as a non-performer.'

### *How could restructuring processes be improved?*

In reviewing the input of the different groups, a striking trend emerged; only CEs provided comments about ways in which restructuring might be improved. In part this was because the HR and union groups were asked to comment on other public sector issues, but their negative experiences and perceptions of restructuring so dominated discussion that improvements were not identified. CEs agreed with the approach of Christopher Blake (in Annex One) that 'sureness of execution is a critical issue.'

Central agencies, in the view of CEs, should be 'exemplars of best practice', ready to share experience and knowledge and provide a 'professional change capability' rather than stand on the side line. For new CEs, referrals to CEs who had successfully restructured could be helpful. Measurable success indicators should be set for the objectives of a restructure, and later evaluated. The state sector system overall – not just individual agencies – needed a clearer end-state.

### Discussion of Research Findings:

Restructuring is a fact of life for public sector organisations, whether a result of changes in political mandate, tightening budgets or a CE who seeks to anticipate change. Restructuring is a human resource management strategy which illustrates the diversity of theoretical perspectives that can be used to inform organisational change decisions (Wright and McMahan, 1992). Chief executives in focus groups were aware of their political power and how fleeting that power could be if they failed to deliver on government agendas or to the expectations of the direct employer of Public Service chief executives, the State Services Commission. Political, economic and financial considerations were driving their perspectives. By contrast human resource managers tended to view restructuring through the people focused disciplines of psychology and sociology – the impact of structural change on individuals and teams. CEs' comments came from the 'hard' edged perspectives shown in the 7S diagram (Figure 1); i.e. strategy, structure and systems; HR perspectives from the 'soft' S factors of shared values, skills, staff and style. Such differing perspectives are part of the checks and balances of organisational performance.

This study opens a debate and highlights the diversity of perspectives rather than providing 'evidence' about the impact of restructuring. The debate does raise an important challenge about the extent to which the metaphor of 'machinery of government' still dominates in an era when governments are less like factories and more networks of professional services. The capabilities of those professionals are often in the nature of 'insurance policies' for the public, skills available in the event of emergencies, as demonstrated with the role of emergency services response to the Christchurch earthquake of February 2011. The lens of restructuring and the image of 'machinery of government' narrows the focus to the 'hard swords', restricting the debate to disciplines such as economics, accounting and strategy which specialize in those perspectives. When large scale restructuring of the New Zealand public sector first occurred in the mid-1980s, much of this was driven by the efficiency and effectiveness gains to be achieved by moving from paper-based and people intensive filing systems to computer storage and retrieval. Most, if not all of such opportunities to make major productivity gains through such restructuring have long since been achieved.

Instead the current challenge of productivity is captured in the observation of Schick (1996) that the focus on 'purchase', or the measurement around delivery of outputs, tends to dominate consideration of 'ownership' or the government's interest in the capability of its staff. Restructures fundamentally challenge the 'ownership' or 'soft' elements of organisational capability such as loyalty and commitment. Restructuring, however gently handled, sends a political message to staff that they are dispensable – hired hands rather than members of a community. The psychology of this message is well captured in the term 'fired', the hard edged and colloquial description of organisational exit. The term 'fired' is an echo of the tradition of villages in Medieval Europe to expel unwanted community members by setting fire to their thatched cottages. 'Restructured' is the more neutral current jargon for the equivalent expulsion from an organisational community. The risk for organisational performance is that restructuring can narrow the preoccupations of staff to personal economic survival. The most mobile staff may leave first and those with fewer options because of family and geographic reasons have little option but to feign loyalty to the new order, will hoard their knowledge as a way of safeguarding their job security.

The risks of restructuring are well captured in this quote which circulated widely in the New Zealand public sector during earlier periods of restructuring provided this perspective:

Every time we were beginning to form up into teams, we would be reorganised. I was to learn later in life that we tend to meet any new situation by reorganisation .... and a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency, and demoralisation. (attributed to Petronius Arbitor, 210 BC, in Downs and Larkey, 1986: 184).

Sadly, the reference cannot actually be traced to 210 BC, and is most likely an urban legend created in the 1970s, but the questions about the extent to which rhetoric lives up to reality are fundamental to the process of restructuring.

Restructures are just one possible response to external and internal pressure for organisational change. They are what Burns and Stalker (1961) categorise as a mechanistic response, one most associated with organisations working in stable environments, where change is infrequent. For environments near constant change, this classic management research identified a different, more flexible response they termed 'organic'. The 'responsible restructurers' in Cascio's (2002) study would use a wide variety of techniques to preserve employment security before resorting to restructuring.

## Conclusions

Available data shows restructuring in the New Zealand public sector is high by international standards and a product of the 'freedom to manage' approach adopted in the late 1980s. Compared with other jurisdictions, most restructuring is initiated by chief executives rather than driven by cabinet political considerations. The majority of new chief executives initiate restructuring in their first year in the role and an increasing number of outgoing chief executives initiate changes in their last year. Restructuring is a lever of control, which in the

authors view has been overused, to use the analogy we opened with, like a hammer which has redefined too many organisational performance challenges as nails.

It is not surprising that CEs use this technique. They perceive that their own careers are dependent on making changes that will be noticed by their arms-length employer, the State Services Commission or in the wider state sector, a board with a changing membership. Restructuring creates a perception of being decisive and in charge. It has an immediate benefit for a Chief Executive, of making it possible to assemble a management team compatible with that CE's working style. Restructuring offers a way of tackling performance issues that is faster and less subject to legal challenge than a formal process of performance management. Ultimately the initiation of restructuring is a declaration about power – in the New Zealand public sector, a CE has that power, at least for the term of a five year contract. The use of fixed terms almost means that any CE is now seen as unusual if he or she does not restructure within the first twelve months of appointment. Most CEs have been appointed from outside their organisations, meaning they have little or no existing loyalty to staff of the organisation, but are there to take a task focused approach to the expectations of Government and their employer. The dynamic is a predictable and inevitable result of the accountability system which has dominated the New Zealand public sector during the past 25 years. In terms of the McKinsey 7S model, New Zealand is using the 'hard S' approach, focusing on strategy, systems and structure. The soft S factors of organisational life, staff, shared values, style and skills are undervalued.

Restructuring has a simplicity as a metaphor – one that fits with a 'machinery of government' perspective in which the building blocks of government are like piece of meccano (a toy of an earlier era) or Lego; interchangeable parts to be moved around in pursuit of the perfect combination. Its limitations as a metaphor are well captured by the question of 'what is the difference between a frog and a bicycle?' (Mant, 1997: 40–51). Pull the bicycle apart and you can reassemble it. Pull the frog apart and it dies. The 'pull it apart' mechanics are increasingly harmful for an era in which most public service is dependent on in-depth know how and relationships. Restructuring prompts senior managers and staff to focus on generic, transferrable knowhow rather than in-depth expertise which in many functions of government has few potential employers other than the current one. It damages the relationships of trust which can speed cross organisational networking necessary to tackle economic and social issues which don't come neatly packaged for the boundaries of any one government agency.

The decisions of an individual CE to restructure can affect multiple agencies. The opening paper of this project , the Future State report (IPS working paper 10/08 and also Ryan in paper 11/01 in this working paper series), discusses how inter-agency working is going to be increasingly common but that working in this way takes sustained effort to build the shared commitment and responsibility required to work effectively across boundaries. Research on working across government agencies has identified frequent restructuring as one of the major systemic barriers to more effective interagency working (Eppel, Gill, Lips and Ryan, 2008).

In the view of the authors, restructuring should be subject to the same scrutiny as major investment decisions such as roads, information technology systems and buildings.

Managerial independence has been taken too far in New Zealand. In too many cases the result is the loss of institutional capacity, and the undermining of the ability of public organisations to work effectively on cross cutting issues. The CEs in our sample were those who might be termed 'responsible restructurers', reflecting on their practice, and using restructuring sparingly. The sample of HR specialists on the other hand came from a spectrum of organisations and experienced first-hand the negative consequences of overreliance of the hammer of restructuring as a change tool.

We conclude that the New Zealand public sector system needs an institutional safeguard which gives 'pause for thought' in the interests of the whole system, just as the Treasury forces a pause for thought before major capital expenditure is approved. Departmental Chief Executives need to act more like stewards of their organisations and less like owners. The burden of proof needs to be reversed so that rather than being rewarded for action, CEs are rewarded for stewarding and building the capability of the organisation. Just as any spending proposal for Cabinet is required to have a Treasury report, any restructuring proposal should be required to have an SSC report and should include the requirement for independent evaluation.



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## Annex One – Personal Reflections on Restructuring by Christopher Blake Chief Executive Department of Labour

It's true that I'm an inveterate practitioner of large restructuring, generally as the instigator, and have been so in each of the four Departments I've led to date.

At the Ministry of Cultural Affairs in the early 1990s it was a startup situation with an NPM or New Public Management system driver in this case creating an organisation with 'simple and clear purposes' focused on the cultural sector and acquiring related activities from other parts of government. This was a Cabinet mandated exercise.

At the National Library it was a reorganisation driven by a new strategy supported by new technology which couldn't be delivered by the existing frameworks because there were new functions and activities - it was literally a new era. The reasons here for reorganisation were around fundamental changes to the business and the mandate was the CE's.

Moving on to Internal Affairs, the focus was on performance - arresting a decline and putting resources together in a way that would enable the Department to lift its performance, again CE mandated but supported by a Cabinet seeking better results.

Today at the Department of Labour the reorganisations have had a CE mandate and been driven by a need to resolve performance problems, the better and more efficient application of scarce and declining resources and a clearer alignment of functions and responsibilities.

As a group of reorganisation stories they are fairly unremarkable and in fact, fairly typical. Whether they amount to the unnecessary or overuse of restructuring as a management tool is debatable.

Each is characterised by an imperative to properly organise work within a particular operating environment, and to make choices about how that's to be done by selecting the most optimal arrangements. The real issue about restructuring that emerges from these examples is that this is the only real tool for organising and re-organising work when there are large shifts in the operating environment to be addressed.

If I look at the results of these change examples, I would say that I was pleased with the outcomes. They broadly achieved their purposes in responding to the changes in the operating environment. The first three were durable for a reasonable period of time, until the next set of shifts in the environment required a larger response to be made.

So this is an argument that endorses the use of restructuring as a management tool and sanctions its use as a legitimate part of our management and leadership equipment. It also provides a different perspective on restructuring from the backgrounder to this session.

But all is not sweetness and light. Restructuring has a dark side. Its success ultimately depends on the validity of its drivers and sureness of execution.

There is a common pattern of top tier restructuring on appointment which bears some scrutiny. How many of us have done this and how many of us have paused to consider the possibility of an unconscious and deep seated motivation to build affiliation and allegiances through creating conditions that enable us to appoint our own team - a suggestion which you are welcome to contest!

To what extent does the configuration of the NZ Public Service context drive this behavior? Five year contracts can typically mean you need to establish credentials according to a particular timetable if you seek renewal or new posts. In years 1 & 2 you restructure and appoint. In years 3 & 4 you consolidate, display and exploit benefits. In year 5 you execute your reappointment strategy. If you factor in the three year election cycle and changes of

regime and Ministers the five year sequence I've outlined might in fact become a three year sequence. Again you are welcome to disagree.

That's a point about the validity of drivers. Sureness of execution is a critical issue. Big change done well can be a powerful builder of higher performance, a conducive and productive culture, excitement and commitment. If not done well then the damage is deep seated and lingering. In my experience any particular change also has a particular rhythm to it. If you do it fast, a la Roger Douglas, the productivity dip is deep and steep and the recovery is long and slow. Well managed change is characterised by minute attention to detail, a focus on the individual, tools and training to enable all parts of the organisation to play their part and a practical timeframe that invests time upfront to ensure a low productivity dip and a rapid approach to the desired end state. In any event fast or slow, the achievement of the end state cannot be hurried, but the measured approach is always the most likely to succeed and produce benefits earlier.

Do we follow mechanistic or organic strategies in the public service? I would argue that the dictates of the State Sector Act will generally require a responsible, organic approach. Is restructuring overused? Probably not, but it may well be misused from time to time.