Department of Employment, Workplace Relations and Small Business Leadership Development Program

# Notes on Leadership in a Changing Environment

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# Notes on Leadership in a Changing Environment

## <u>Introduction</u>

·      I appreciate that you will have extensive exposure to the principles and competencies of leadership over the three days of your course.  You may well have already exhaustively dealt with leadership at the conceptual, motivational and organisational levels.

·      I will not endeavour to repackage or anticipate those ideas or issues in detail here.  Rather, I hope to complement, and perhaps reinforce, some of the many useful perspectives on leadership from the extensive literature and from my, and others', experience.

·      I start with the increasingly common assertion that leadership occurs, or should occur, at all levels of an organisation.  In today's climate, it seems reasonable to ask what part does a person play in leadership and which interrelationships does he or she foster rather than whether a person is a leader per se.  It is not the <u>knowing</u> but the <u>doing</u> that is the real challenge.  Put another way, perhaps the extensive theories have not been all that effectively related to our practical world of work.      Taffinder Paul, *'The New Leaders'.*  Quoted by John Green 1999 *'Leadership - Small print'*,  Australian Company's Secretary, April, (page 115).

·      I will cover the topic of my address in two parts:

-      The first part deals with some perspectives on leadership (covering two important elements for sound leadership, that is, the personal traits or 'internal' aspects of leadership, as well as the organisational features or 'external' aspects of leadership).

-      The second part of my address deals with particular leadership issues and challenges for me as Auditor-General and for the Australian National Audit Office (ANAO), in a significantly changing public sector which is reflecting the greater involvement of the private sector, including as a service provider, in a more contestable environment.  I will use the ANAO as a case study and leave you to judge how well we have adhered to leadership principles and provided the kind of leadership discussed in the first part of the address.

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## PART 1 - Perspectives on 'leadership' and 'change'

· There are different models of leadership and, indeed, different attitudes to change ranging from resistance through to responsiveness and to treatment as an opportunity.

· You may be familiar with the following quote by the Chinese philosopher, Lao-Tzu, in the 5th Century BC:

- Where the master governs, the people are hardly aware he exists.

- Next best is a leader who is loved.

- Next, one who is feared.

- The worst is one who is despised.

· Times bring out the leaders. The circumstances 'select' certain leaders.

- times pass and leaders reach their 'use by' date

· Last month some Australian executives paid up to $5,000 to hear General Schwarzkopf (of the Iraq war fame) say that:

> *'Character is the single most important ingredient of leadership'.* MacDermott Kathy 1999, *"Norman's 'Mission: Educational'"*, Australian Financial Review, 24 May (page 5).

· Perhaps a more sobering thought is expressed by Steven Root:

> *'The character of the CEO is also reflected in the types of individuals that serve on his or her executive team'.* Root Steven J, 1998. *'Beyond COSO : Internal Control to Enhance Corporate Governance';.* John Wiley and Sons Inc. NY, (page 123).

· Times change and expectations of leaders change. The latter are reflected in many ways. A simple diagram by Peter Drucker Quoted in Lee Terry 1999, *'Leadership for the New Century'*. Address to PSMPC Senior Executives Breakfast Seminar, Canberra, 15 April. illustrates the move from a reactive problem-solving orientation by leaders to a more pro-active opportunity seeking focus as follows:

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Proactive

Peter Drucker

Problem solving ———————————————— Opportunity seeking

Reactive
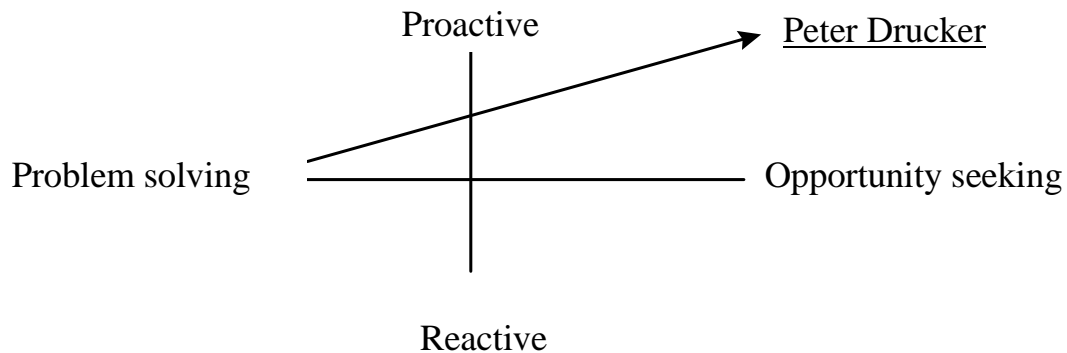
·       Expectations of leaders in the Australian Public Service (APS) have changed markedly in the last decade or so.  This is linked, for example, to the changed notions of accountability, the reformed financial management and audit legislation, the flexibilities being opened up in the workplace environment and devolution of employment responsibilities to agencies.  Such changes mean that by dint of legislation and/or practice the roles of agencies and their senior executives need to change as well.  For example, the Public Service and Merit Protection Commission (PSMPC), the Department of Employment, Workplace Relations and Small Business (DEWRSB), the Department of Finance and Administration (DoFA) and, indeed, the ANAO, are influencing heightened expectations that we will be facilitators of reform (in the workplace and in financial administration and control across government) rather than 'central regulators or enforcers'.

-       Under the *Financial Management and Accountability (FMA) Act*, for example, chief executives are given greater autonomy and responsibility for managing the agency than was given under the previous Audit Act and Finance Regulations and Directions.  The *Commonwealth Authorities and Companies (CAC) Act* establishes a standard set of core financial, accountability and corporate governance requirements in terms of planning, review and reporting for Commonwealth authorities and Commonwealth companies and standards of conduct for executive officers.  Many of the requirements are modelled on comparable areas of Corporations law.

-       The focus now, more than ever, is on broader issues of resource management, results, flexibility and responsiveness.  In part, this is a necessary response to the dynamism, interrelatedness, uncertainty and globalisation of our economic (including social) systems.

·       You are well aware of comments from frustrated colleagues lamenting the effects of constant change and the disruption it causes.  Contrasting with such views of change as a threat to management, there is a view that sustained change is an opportunity and indeed an operational imperative.

- For example, '*success today depends not just on orchestrating change, but on making it happen faster and making it last.*'   Hay Management Consultants 1997, *'People, Performance and Pay'*, Volume 1, No 1 (page 1).


- Your perspective on change perhaps depends on whether you perceive you are being buffeted by change or surfing on the crest of it.  To maintain the surfing analogy, I would suggest that as senior executive leaders we need to paddle vigorously, anticipate the waves and be ready to use their power.


· Dealing with the burden of change requires employees at every level throughout the organisation to share in it by taking a more active role in the business, and make committed, imaginative and innovative contributions to organisational success.  This point was made by Pascale and others
Pascale Richard, Millemann Mark and Gioja Linda, 1997.  *'Changing the Way We Change'*, Harvard Business Review, November-December (page 127). when they examined the means being taken to restore organisational vitality and agility in organisations such as Sears, Shell and the US Army. They found that the principles necessary to shift an organisation's culture were:


- incorporating employees fully into the process of dealing with business challenges;


- leading from a different place in order to maintain employee involvement (for example, for senior leaders to resist the habit to try to provide all the 'answers' and to allow the solutions and the commitment to deliver on them to come from the ranks); and


- instilling mental disciplines to help employees sustain their new behaviour (for example, by building an intricate understanding of the business, encouraging frank exchange, promoting the mindset of the future so that the organisation is challenged to stretch itself).     Ibid., (pages 131-139).


· A survey of 12,000 communication professionals world-wide plus a sample survey of senior executives and executives from U.S. Fortune 200 companies indicated that leadership and employee involvement are recognised as key drivers for change. Greenbaum Karen B., Jackson David H, McKeon Nancy I, 1998.  *'Communicating for Change'*.  The Marsh and McLennan Companies Quarterly, Vol. XXVII, No.1, Spring (page 8).


**Internal/ personal aspects of leadership**

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· 'Are leaders born, not bred?'

- The jury is still out but those of us not well endowed with leadership charisma should not give up. Andrew and Nada Kakabadse observe that:

> *'Whether through wisdom or charisma, finding pathways through the use of dialogue to reach settlement or resolution, is the ultimate hallmark of leadership.'* Kakabadse Andrew and Nada, 1999. *'Essence of Leadership'*. International Thomson Business Press, London (page 11).

- I am inclined to agree with the comment made by Bill McLennan, the Australian Statistician, that 'leadership cannot be taught but it can be learned' Quoted in *'Leadership from an ANAO Perspective'*, 1997. Presentation by the Auditor-General to the Australian Bureau of Statistics SES and Middle Management Group, 16 September.

- It is important, at the end of the day, that as a leader you should be true to yourself, that is, you should not try to be something you are not. If you 'pretend' and try an approach that is not your style (perhaps a 'can-do/razzamatazz/showmanship style of leadership) it will become readily apparent that you are not sincere and your credibility and influence will soon suffer. As Peter Drucker advises:

> *'Do not try to change yourself - you are unlikely to succeed. But work hard to improve the way you perform.'* Drucker Peter F, 1999. *'Managing Oneself'*. Harvard Business Review, march-April (page 69).

· There is not a template for leadership even in more common situations that face us.

· However it is possible to draw up a list of personal characteristics of leadership, traits and skills, which are generally considered to be essential in a good leader, include:

- accepting of responsibility;

- openly communicating, listening, valuing contributions;

-    treating fairly and without bias;

-    visibility and accessibility;

-    providing support, recognition, feedback;

-    capitalising on the diversity of staff;

-    making, communicating and implementing timely decisions;

-    setting clear, measurable goals;

-    supporting teamwork;

-    leading by example;

-    coaching, enabling, mentoring, inspiring and motivating;

-    recognising the value of innovation and creative decision making; and

-    focusing on clients and other stakeholders.

·    A recently published survey by Technical Focus indicated that the three top competencies sought when recruiting leaders are:

> *'strategic thinking, change orientation and customer focus.'*
> Parry Ken 1998.  *'Opinion - Thrust and Parry'*.
> Management Today, June (page 25).

·    Andrew and Nada Kakabadse identify seven areas of best practice discretionary (where more than 51 per cent of role is determined by the occupant) leadership:  conviction to craft the future;  strength to surface sentiments;  wisdom for pathways through paradox;  flair to engage through dialogue;  discipline to communicate;  passion for results;  and staying power.'    Op.cit., Kakabadse Andrew and Nada 1999. *'Essence of Leadership'*. (page 294 and 338).

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·      In the limited time available, I would like to comment on just one of these characteristics, namely, communication.  Communication is a key quality of leaders.  Leaders such as Sir Winston Churchill and Sir Robert Menzies were outstanding communicators.  Although their gifts of oratory are rare, effective communication is a more readily accessible skill to us all, but it does require dedication and practice.


·      John P Kotter, Professor Leadership, Harvard Business School has observed that:


> *'Leaders communicate obsessively'*.     Kotter   John   P.   1999.  *'What Effective General Managers Really Do'*.   Harvard Business Review, March-April (page 158).


·      From there, 'the circle of leaders widens as the vision is driven down through the organisation.  The four 'communications drivers' you need in order to accomplish this are informing, listening, leading and involving'.
       Op.cit., Greenbaum Karen B., Jackson David H, McDeon Nancy I, 1998. *'Communicating for Change'.* (page 11)


·      Although leadership occurs at all levels and personal styles differ, there are common components and elements which can be identified as follows:


-      staff want their leaders to set strategic direction.  Therefore good communication is essential;


-      good communication is important to impart clearly the vision and the direction throughout the organisation, including for individuals and teams;


-      good communication is necessary to generate trust and confidence among staff and to obtain the personal commitment of staff;  and


-      such communication in turn helps to get results through people.


·      Nevertheless communication is time demanding and the risk is that we underestimate the time that is necessary.


·      Communication facilitates many of the other dimensions of leadership.


-      Recent surveys of Chief Executive Officers (CEOs) identified 'people management', involving leadership, teamwork, and communication, as one of

their major issues.  For example, the CEOs responding to the now PricewaterhouseCoopers surveys in 1997 and 1998

PricewaterhouseCoopers 1998.  *'Winning in the Age of Volatility - the CEO Perspective'*, July.  (pages 4 and 13 to 17). identified 'people management' as one of their key issues affecting business outlook.  It was suggested that people management generally will provide CEOs with their biggest challenge and there is a need for them to place even greater focus and time on leadership and people development processes in their organisations.


- Leadership and communication consume the single largest part of their personal time - just over 20 per cent.  Ibid., PricewaterhouseCoopers (page 8).


- CEOs identified that making the teamwork happen is a real challenge; that communication and sharing of knowledge require fundamental improvement;  and that there is a major need to implement more focused performance measures which link the organisation strategy and the people who are responsible for implementing it.


- Leadership requires effective communication.  An example is provided by one of our current performance audits which examines the downsizing of staff numbers      ANAO Performance Audit Report 1999.  *'Staff Reductions in the Australian Public Service'*, Canberra, (to be tabled later in June)..  We found that the extent of active and visible leadership throughout the process markedly influenced the efficiency and administrative effectiveness of the staff reduction process.  The assignment of responsibilities to senior staff and effective communication strategies to meet the specific circumstances were particularly important.


· In a broader sense, Warren Bennis, as part of his 'Become Yourself theory' identifies four key leadership abilities:


1. creating a compelling vision;

2. communicating the vision to produce action;

3. the management of trust;  and

4. the management of self.    Bennis Warren 1993.  'An Invented Life : Reflections on Leadership and Change'.  Reading, MA. Addison-Wesley (pages 75 to 85) quoted by J Thomas Hennessy Jr (pages 527 and 528).


· J Thomas Hennessy Jr used the Bennis Four Leadership competencies to assess public sector management in relation to 're-inventing government' and concluded that:

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> *'First among the conclusions drawn from the research is that no single leadership competency appeared to be the most important in facilitating, supporting, or changing the organisation culture, or in an organisation's re-invention efforts. Rather, for each it was a <u>package</u> [my underlining] of capabilities or competencies applied by an individual leader.'*
> Hennessy Jr, J Thomas 1998*, 'Re-inventing Government : Does Leadership Make the Difference'*. Public Administration Review. Vol. 58, No. 6, Nov/Dec (

· The Attorney-General Department's leadership model highlights some of the features of how leaders will work in that agency:

- leaders will inspire and encourage us to show initiative in a supportive professional environment;

- empower us to achieve quality outcomes for clients and other stakeholders;

- demonstrate integrity, honesty, judgement, loyalty, commitment, decisiveness, enthusiasm, self-knowledge, expertise, courage, energy and professionalism; and

- engender client and stakeholder trust in us.

· These lists of traits and priority areas are instructive in that they can provide some insights into different ways of viewing and engaging with the 'outside' world. Nevertheless, it could be argued that the qualities approach, on its own, has some limitations analytically, not least because of the unavoidable imprecision of terms such as 'visibility', 'decisiveness', 'courage' and 'professionalism' - not that we should be unduly worried about making qualitative assessments.

- There is a very considerable risk that lists of leadership qualities quickly become rhetoric and platitudes. Discussions of leadership at this level easily become overwhelmed by jargon and fads.

- Indicating the imprecision of such a descriptive exercise, and the recognised difficulties this causes, I came across an admittedly dated study which looked at 20 experimental investigations into leadership traits. That study found that only 5 per cent of the traits appeared in three or more of the

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lists.        Bird C Professor 1940.  *'Social Psychology'*, Apelton Century. Cited in John Adair 1988, *'Effective Leadership'*, Pan Books, London.

- A further difficulty with this analytical approach is that of itself, it does not form a useful basis for leadership development.  Fortunately, there has been growing recognition of the need for leadership development in the APS.  A number of recent studies have highlighted issues associated with leadership and leadership development (such as the Karpin report     Commonwealth of Australia 1995.  Industry Taskforce on Leadership and Management Skills, *'Enterprising Nation Renewing Australia's Managers to Meet the Challenges of the Asia-Pacific Century'* (Karpin Report), Canberra. and the benchmarking study undertaken by the Cranfield School of Management at Cranfield University in Britain - the Korac-Kakbadse paper Korac-Kakabadse Andrew and Nada, 1998.  *'Leadership in Government : Study of the Australian Public Service'*, Ashgate, Aldershot.).  Reflecting the results, the Government undertook, in 1998, to revitalise leadership identification, development and training in the APS over two years, via the Public Service Commissioner in collaboration with agency heads   Kemp David The Hon, MP, Minister Assisting the Prime Minister for the Public Service 1998.  *'Building the Momentum of APS Reform'*, Address to PSMPC Seminar, Canberra, 3 August..

· The PSMPC's leadership project is part of the government's leadership development initiative.  It is valuable for identifying leadership attributes and behaviours.  One element of the PSMPC's leadership project is to formulate a senior executive leadership capability framework.  The framework collates and refines thoughts on what constitutes the behaviours of highly effective senior executive leaders to identify the behaviours and skills that leaders will need to guide their organisations to high performance.  This project has recently been finalised and launched.

· The five major elements of the PSMPC leader's capability framework cover the following behaviours:

- delivers outputs to achieve outcomes;

- shapes organisational and individual thinking;

- cultivates productive working relationships;

- exemplifies personal drive and integrity; and

- communicates with influence.

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·      It is significant that these behaviours are framed around the functions and tasks of the work group.  Leaders need to understand and contribute to work cultures if they are to align people with identified strategies and results.

·      I am particularly gratified to see that the rather 'peculiar' requirements of public sector senior executive leadership are also present in the framework - especially that of 'demonstrating public service professionalism and probity'.

·      Senior leaders need people who think independently - they do not need clones.

-      A dilemma in leadership is that although leaders need to be able to convey and obtain a 'shared vision' it is not healthy for the organisation to have the leaders' views and styles cloned throughout the organisation.

-      It is important that members of the leadership team and throughout the organisation be on the same wavelength but it is also necessary to ensure that people can think independently - no one has perfect vision and no one has all the answers.

-      The risk is that if there is little scope for people to ask penetrating questions and to probe the established practice, no one will be telling the leader when he or she is about to be found to be without clothes.  (An embarrassment for the public sector leader all the more keenly felt when the exposure is public.)

-      Avoiding cloning may not be as difficult for public sector leaders as it might initially seem.  By and large we often do not choose the people we work with.  While there may be some limited opportunity for 'specialised recruitment and head hunting' basically leaders have their staff as an endowment - the result of historical accident - or they have little to do with selection.

-      The challenge is leading the people you are responsible for.

### *'Results' and process*

·      An important, but often ignored, aspect of leadership is making the 'right' decisions.

-	It is <u>not</u> simply a matter of taking a decision or getting a result and living with the consequences.

-	It is important as leaders that we invest the time at the front end, thinking things through strategically (Remember the adage 'act in haste, repent at leisure.')  As Dr Allan Hawke, Secretary of the Department of Transport and Regional Services, said in a speech last year:

> *'…our role as public servants is to assist governments in thinking through and implementing their policies, plans and programs.  That is our primary role, but I believe there's more to it than this…It is up to us to work with our Ministers on longer term strategic aims - to light the necessary spark and inspiration for the common good - to marry political and organisational vision'.*	Hawke Allan Dr, 1998*.  'Reflections on Leadership and the Role of the Executive'.*  Paper to Public Sector Quality Network, Canberra, 21 October (page 9).

-	Allan also observed in that same speech that:

> *'…getting results through people is pretty simple really.  What's hard is doing it well, consistently and with integrity'*	Ibid., (page 24)

### External / Organisational aspects of leadership

·	Leadership behaviours such as the ones specifically mentioned require supporting organisational structures and processes to sustain them.  The required organisational structures and processes include structures for corporate governance, including statements of values and/or codes of conduct.

·	Organisational aspects of leadership interlock with one another and support leadership behaviours.

-	Governance structures within an agency generally assume that the governing body is responsible for stewardship, leadership and control.  Corporate Governance is more than policies, committees and reporting mechanisms.  It is about leadership and direction, stewardship and authority, accountability and control.  Good corporate governance requires clear definitions of responsibility (and accountability) and a clear understanding of relationships between the organisation's stakeholders and those entrusted to

manage resources and deliver its outcomes. Australian National Audit Office, 1997. *'Applying Principles and Practices of Corporate Governance in Budget Funded Agencies'.* Canberra (page iii).

- Effective control requires the involvement of people at the highest levels of the organisation. As Steven Root comments in *'Beyond COSO: Internal Control to Enhance Corporate Governance'*:

> *'the essence of the most effective internal control is attainable only when the key parties to internal control oversight at the highest levels of the organisation understand what internal control is, know the level of internal control operating in their organisation, and accept the risks inherent in such operation'.*
> Op.cit., Root Steven J 1998. *'Beyond COSO : Internal Control to Enhance Corporate Governance'.* (page ix).

· Leadership is guided by the code of ethics and/or code of conduct; it ensures that all people in an organisation have an understanding of what is expected of them as individuals, and what they can expect of the others they deal with.

- I recall the Canberra Times article by Barry O'Keefe (the Commissioner of the NSW Independent Commission Against Corruption) in February this year about accountability and ethics. O'Keefe Barry 1999. *'Good ethics are good business'*, Canberra Times, 26 February (page 9). He predicts that the NSW Premier's requirement that chief executive performance agreements specify 'effective, equitable, and ethical conduct and economic management of the functions of the organisation' will become the norm for Australia.

- Barry's advice about ethics in public sector management helping with good decision making is sound, observing that

> *'Organisations should make clear and firm commitments about their values. This should be a declaration to the world of those values that describe how the agency wishes to be seen. The statement should be short but also practical and capable of being acted on. Vision without action may be mere hallucination.'* Ibid., (page 9).

- He later comments that:

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*'Codes of conduct are valuable but alone will not prevent unethical behaviour. They need to be accompanied by clearly expressed sanctions and award systems.'* Ibid., (page 9).

·    Communication and knowledge sharing are assisted by appropriate administrative processes and organisational structures

-    CEOs need to set direction for an organisation and ensure that the strategic directions are clearly communicated to staff.  An organisation is required to achieve certain outcomes.  Leaders need to manage to achieve these results.  They cannot achieve positive results unless all members of the organisation are acting towards a common goal.  Similarly, organisations are more likely to get better results or possibly to get the results more quickly if staff throughout the organisation - and particularly senior leaders - are sharing knowledge.

-    The ANAO has a clear communication strategy.  An important element of that strategy is to undertake surveys of staff views and attitudes.  We recently did a pilot study in the performance audit side of the ANAO.  The results of that survey suggested that there was a significant challenge in ensuring communication across the financial and performance business lines.  It is heartening to see in that survey, though, that most of the respondents felt that they understood the business requirements of the ANAO.

-    The ANAO is spending millions of dollars on IT systems to improve internal/external communication and knowledge sharing (for example, about the agencies we audit and the tasks we undertake).  We are also more actively seeking to draw on, and to contribute to, business operations' benchmarking data that would be useful in our audit analyses and services to clients - so that we can develop, use and share our knowledge more easily and productively.

·    Consultation processes and systems help to encourage necessary change, inform and educate staff about change and help the 'learning' organisation concept we have implemented.

-    One example is the process and outputs of ANAO's 1998 workplace agreement.  Notable features are the very high sign-on rate, consultative features, and duration.  The agreement is an expression of the effectiveness of the formal and informal consultative and change systems in place.

-    Another example of ANAO consultations and change management is the management of the ANAO's downsizing exercise - involving the closure of

our Melbourne office and rationalisation of our Sydney office and in the Corporate management area, the outsourcing of IT services.  These changes involved a process to build confidence to develop a common understanding of the necessary changes and ways that they could be achieved as smoothly as possible.  The lesson was that it takes time to build or restore confidence. (In part the confidence building comes from people seeing that the structures and processes in place will be treated seriously and will be allowed to work. Needless to say, this takes time - especially if there is a negative perception to start with).  Confidence can be a fragile commodity because it often takes time and effort to rebuild it if it is undermined.  As well, lack of confidence corrodes organisational efficiency and morale.

-       Adopting 'reasonableness' and 'goodwill' as guiding principles are sound investments in trust for the future.  To establish loyalty, you need to behave as you say.  It is a worthwhile investment in mutual confidence.

·       Terry Lee, Head, Leadership Centre, Monash/Mt Eliza Business School, has pointed out that:

> *'Walking the talk is more important than ever.  The talk that must be walked represents the underlying values of the organisation.  The trend is for 'values-based' leadership in leadership models.'*Op.cit. Lee Terry 1999. *'Leadership for the New Century'* (page 1).

·       The development of staff, including leadership development, is very important for all organisations not least of all for the ANAO.

-       Lawrence A Bossidy, the CEO of the US firm Allied Signal told the Harvard Business Review in 1998 that:

> "*Nothing is more important than hiring and developing people. At the end of the day, you bet on people, not on strategies.*" Globe 1998. *'What Price Loyalty?'* The Optus Magazine (page 18).

-       Leadership is an issue which affects the entire organisation - not just the SES "leaders".  It clearly affects the individuals being guided by the organisation's leaders.  Many organisations are moving towards a team based, collegiate approach to achieve the required outputs and outcomes, where the team leader may not necessarily be the most senior member. Therefore, as noted earlier, sound leadership is a skill which needs to be developed and supported in staff at all levels.

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·     A number of agencies are taking initiatives to develop a higher leadership profile in their organisations.

-     For example, I mentioned the Attorney-General Department's leadership model earlier. Other examples are the Departments of Transport and Regional Services and the Department of the Environment and Heritage. Clearly, DEWRSB also has a comprehensive leadership development program. We should be able to learn from such programs without unnecessarily 'reinventing the wheel'.

-     We started the ANAO leadership program in 1997 as one element of our people management strategy. The program draws on best practice in leadership development and integrates training and development with other organisational strategies. It is designed to achieve excellence in leadership and greater business outcomes by assisting our managers at all levels to operate with flexibility and creativity in a business-driven environment and add value to public sector administration. The four streams of the program are concerned with the philosophical concepts and principles of leadership and the practical application of these in the ANAO. The streams cover all staff, recognising that people at all levels can demonstrate leadership qualities and are capable of leading others when given opportunities.

·     Courses such as those offered by the PSMPC and this program are a good starting point.

-     I am supportive of senior executive leadership programs conducted by the PSMPC, such as the Summit series for leaders (a joint Australian/ New Zealand initiative), the Strategic Leadership Program 'Leading Australia's Future in Asia', the Senior Executive Leadership Program, the Australian Government Executive Program and the Advanced Executive Program.

-     However, these are not sufficient by themselves. Sound leadership cannot be taught by course work. Agencies must encourage leadership, and lead by example. As the article 'Changing the Way We Change' that I mentioned earlier points out, an important focus in leadership needs to be on relationships with people, understanding of the organisation and the environment in which it operates.     Op.cit. Richard Pascale, Mark Millemann and Linda Gioja, *'Changing the Way We Change',* (page 127).

·     Having said that structures are important to support and reinforce leadership behaviours, it is also true that leadership and leadership development require concerted action.

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- Above all the conceptual notions, there is a need for the leaders to 'walk the talk' as I noted earlier. To encourage leadership at all levels, there is no substitute for good example.


- Poor example from the top spreads through the organisation like uncontrollable flames, inducing unhelpful behaviour and undermining morale internally and image externally. Op.cit., Andrew and Nada Kakabadse *'The Leadership Challenge for the Australian Public Service'*. (page 22).


· Leadership is not something undertaken for its own sake. It is not an end in itself. For me, leadership is a means to apply and uphold values.


- This point provides a bridge to the second part of my talk concerning leadership issues for the Auditor-General and the ANAO, because many of the leadership issues lie in the challenges to be able properly to discharge my statutory duties as Auditor-General, and in the ANAO aiming to achieve its vision and applying its values and code of conduct.


## PART 2 Leadership issues for the ANAO and the Auditor-General


## Background


· The ANAO vision is 'recognised excellence in public sector audit services'


· The ANAO's values of independence, professionalism and a client focus also embody the notions of:


- commitment;


- ethics and integrity;


- responsiveness;


- innovation; and


- objectivity.

· Ongoing staff surveys show strong commitment to these values and to the role and objectives of the ANAO.

· Fortunately, we have a strong overall culture of public purpose which drives our strategies. It is the underlying cultures that need strong leadership to ensure they are co-extensive and supportive of the overall culture.

· Our mission is to add value to public sector performance and accountability. We do this primarily by leveraging off our widespread and accumulated knowledge and understanding of the Australian Public Service (APS), our independence, our professionalism and client focus.

· The ANAO's principal client is the Parliament.

- The ANAO's performance audits provide information and assurance to the Parliament and the public about the economy, efficiency and administrative effectiveness of the performance of public sector agencies.

- The range of financial statement audit products contribute to improvements in financial administration and management and public accountability.

- We aim to assist entities to improve their performance and accountability through the delivery of an integrated audit service.

· The Auditor-General has a special relationship with the Parliament.

- highlighted by the Auditor-General's appointment as an officer of the Parliament - but without any compromise to the functional independence of the Office of Auditor-General;

- the requirements for all audits to be tabled in Parliament;

- the fact that much of the discussion of ANAO reports occurs in the Parliamentary context; and

- our reports provide a significant basis for the work of various committees, particularly the Joint Committee of Public Accounts and Audit (JCPAA).

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- The JCPAA provides a formal link from the Parliament to the ANAO. The JCPAA has specific responsibilities with regard to the ANAO and the Auditor-General. Among its duties, the JCPAA:

  - considers the operations of the ANAO; the resources of the ANAO, including funding, staff and information technology;

  - considers the draft budget estimates of the ANAO;

  - determines and advises the Auditor-General on the audit priorities of the Parliament; and

  - approves the proposed appointment of the Auditor-General.

- These provisions assist me as the Auditor-General to be informed of, and responsive to, the needs of the Parliament. They also strengthen the ANAO's accountability for the work it undertakes on the Parliament's behalf.

  - The considerable degree of potentially very detailed scrutiny by the audit committee of the JCPAA is a useful discipline. As it is still relatively new, it is a developing relationship.

  - I and the ANAO must be in a position to justify and explain strategic directions, audit activities, resource use and performance achieved.

## ANAO leadership issues

- The ANAO is a statutory body established to give effect to my responsibilities as Auditor-General. As well as the leadership issues for me as Auditor-General, which I will mention later, there are separate but connected leadership issues for the ANAO. These relate mainly to the role of both parties in democratic governance which includes our relationships with clients and stakeholders and the audit products and services we deliver.

  - We commonly think of the notion of leadership within our organisations as just leading colleagues, important as they are in fulfilling our role and the various expectations which generally go with it. However, it is also very important to be aware of leadership responsibilities in relation to clients and constituencies (be it Parliamentary stakeholders, agencies, the business sector or the broader community).

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- If we are not able to exercise our external responsibilities for leadership in relation to achievement of identified objectives, we are unlikely to satisfy our various stakeholders, which is our 'reason for being'. (For example, as leaders of organisations serving the public, we cannot just pull down the shutters on our clients and their stakeholders while we get our organisational and internal leadership frameworks in order).

- I note that in the Department of Employment, Small Business and Workplace Relations there would be particular challenges in providing leadership to a constituency such as the small business sector, a sector characterised by many small operators;  participants who typically value their independence and autonomy highly;  and participants who do not fit into the corporatised power blocs with considerable resources and influence.

- As in your Department, senior leaders in the ANAO must set strategic directions and objectives and the paths by which they will be achieved.  They must appreciate the stakeholder perspectives (for example, relating to the Parliament, the Executive, agencies and the public) and focus on performance and the results to be achieved.  In the ANAO we must adopt a client service focus and we must add value by being part of the system of governance - in both accountability and in program performance terms for the future.

- For the ANAO, one aspect of the client focus leadership challenge is to provide the kinds of reports that Parliament needs and wants (and the two may not be the same) knowing that, at any one time, the views of Parliament are not homogeneous.  There are diffuse opinions and divergent interests.  At the operational level, the diversity of Parliamentary interests and our independence must be managed.

· A leadership challenge for the ANAO in adopting a client focus with agencies is inherent in the ANAO's very functions and processes.

- The ANAO looks at current or past practice to identify matters that are significant now and that will also be significant for the future.  As well, it has to identify future directions, understand the driving factors and intentions and ascertain how best to complement decisions being taken by the various participants.

- To the maximum extent possible, it must address these in ways that influence future behaviour, not only future behaviour of that agency but also behaviour across agencies more broadly, so that its analysis and observations and recommendations can contribute to the desired or required systemic change.

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· The operational leadership challenge for the ANAO is to effectively manage an organisation producing a range of pervasive and diverse investigations, reports and services.

- To undertake these audit reports and other audit services in a businesslike fashion, but to produce them in ways so that the audits are not unduly dominated by process but reflect identified outcomes within transparent time, cost and quality standards.

- To have the ANAO teams doing the necessary analysis, but delivering insightful and helpful comments and recommendations in an accessible way to stakeholders and clients that add real value to agency outputs and outcomes.

- However, there are also particular challenges because often the ANAO is perceived to be in an adversarial relationship with agencies, particularly given the former's prime responsibility to the Parliament.

: in this situation, leaders must show that they not only understand and are prepared to manage such friction, and any perceived ambiguity, but also 'back' their staff and trust, or have confidence in, the thoroughness of their investigations and deliver useful recommendations without fear or favour.

- We seek to take a mature approach to such analysis and investigation by recognising the agency context and the related broader strategic and operational issues, particularly where they involve across-agency outputs and outcomes and whole-of-government concerns.

: working co-operatively with agencies on issues of major significance to them, for example, the performance audit report on *'The Use and Operation of Performance Information in Service Level Agreements in Selected Agencies'*, including the then Department of Education, Employment, Training and Youth Affairs (DEETYA) Auditor-General, Audit Report No 30 1998-99, *The Use and Operation of Performance Information in the Service Level Agreements*, Department of Social Security Department of Employment, Education, Training and Youth Affairs and Centrelink, AGPS, Canberra.;

: recognising good efforts and results; and

: sharing ideas on better practice and commitment to improvement.

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- At the end of the day, we have to recognise that there are necessarily tensions in auditing between encouraging improvement on one hand and pointing out non-compliance and sub-standard performance, on the other. The role of the Auditor-General is not one of policeman. But I am required to report to Parliament on a range of assurance and performance issues. The basic notion is one of accountability which is the essence of democracy.

· Another major leadership challenge for the ANAO is to be a 'learning' organisation, using its knowledge and skills to best effect in its audit activities;  and, very significantly, having open communication across the ANAO to provide effective integrated services;  and, in association with other agencies, to promote robust corporate governance practices to achieve required results reflecting concerns with the 'how' as well as the 'what' in terms of actual achievement.

## Auditor-General leadership issues

· As I mentioned earlier, the Auditor-General is a statutory office holder of Parliament. The Auditor-General has functions relating to probity and ethical assurance for the Australian Public Service (APS) as well as responsibilities for the ANAO as Chief Executive.

· In a changing world, my leadership task as Auditor-General is in part, to anticipate changes in the APS, so that the ANAO and the Office of Auditor-General are relevant to the needs of Parliament, agencies and the community generally.

- This involves looking to the future to try to anticipate future needs and setting a course for the APS and the ANAO to that we can respond positively and proactively to them.

- It also involves being aware of other jurisdictions - developments overseas and in the States regarding other audit and review approaches and mechanisms;  and the changing nature of the public sector and its boundaries with the private sector, for example, in terms of service delivery, performance and contestability.

· Global and national influences will have an impact on Australia's development and the APS. These will affect Australia's governance and affect policy advice, service delivery and accountability. I understand that the Department of Finance and Administration, the PSMPC and your Department of Employment Workplace Relations and Small Business are undertaking a project to analyse these issues of globalisation. I will be interested to see the results of this forward looking project.

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·      The significance of this joint project on globalisation identifies a particular challenge.  The challenge is that, as senior leaders, we need to be looking strategically across, and outside, the APS as well as from within our particular agencies.  We need to identify where leadership requires a joint effort and take the necessary steps to ensure that occurs and avoid any 'silo' mentality.

·      I will address a range of leadership issues relevant to the Auditor-General and the ANAO in a case study example which will comprise most of my remarks.  In short, they do not offer anything new to the points made earlier but emphasise the importance of leaders stressing high level values and codes of conduct;  setting strategic directions;  defining relationships with stakeholders including the outputs and outcomes to be achieved in consultation with staff for their commitment and ownership.  By far the most difficult task is to provide people leadership, particularly if one is not open, available and honest and does not generate trust, confidence and respect.  Some observations based on the case study are included in an attachment.

## CONCLUDING REMARKS

·      To pick up the analogy I used earlier, perhaps senior leadership is not a matter of being on a surfboard, as an individual.  A better image of senior leadership may be that of a surfboat crew:

-      we need to be working together;

-      the waves at time carry us, at times crash into us as we progress;

-      if that is the case, I leave it to you to contemplate over dinner who occupies the position of sweep on this surfboat (the rather burly person steering, who stands at the rear of the boat with the rudder blade, the only one facing the 'right' direction);  and

-      I note too, in passing, that the sweep seems to finish these surfboat races more dishevelled and exhausted than the crew, - having often, either early or late in the race, been flung out of the boat altogether by the force on the oar and/or the ferocity of the surf!.

·      Personally, I can relate to an observation by the 'legendary' Jack Welch, Chairman and CEO of General Electric, as follows:

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> *'Above all else, good leaders are open. They go up, down and around their organisation to reach people. They don't stick to the established channels. They're informal. They're straight with people. They make a religion out of being humble. And they never get bored telling their story.'*
> Unsourced. Frankly because I cannot relocate it.

· The people imperative is central to good leadership. In the current climate of downsizing and outsourcing the following observation seems timely:

> *'The question is not just what people cost, but what they do for the organisation. It is the job of leadership to build competence, capability, and commitment in people, not to do things that destroy organisational memory, wisdom, and loyalty.'* Pfeffer Jeffrey Dr 1998. *'Exerpt from the Human Equation : Building Profits by Putting People First'.* Stanford Business. Vol.66, No.3, March (page 18).

· Another useful observation has been made by Terry Lee:

> *'The ability of bodies to influence people and cultures will be the key [to build the strategic, structural and cultural agility their organisations will need for the future]. Central to this will be their own style and the way they communicate and model vision, values and purpose of the organisations in which they work.'* Op.cit. Lee Terry. *'Leadership for the New Century'* (page 6)

· Leadership is a major driver of culture which helps align people, strategy and results.

· But I will leave the final say to David Coleman on three of the biggest mistakes in leadership programs:

> *'... not tailoring learning plans to the individual's specific needs; not giving executors sustained support to go through the necessary three to six month on-the-job practice; and failing to create an organisational environment that values these capabilities.'* Coleman Daniel 1999. Response to Letters to the Editor, Harvard Business Review, March-April (page 174).

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## OBSERVATIONS BASED ON ANAO CASE STUDY

·      Leadership issues and requirements do vary according to situations, within organisations and at various points in time.  And so does organisational culture.

·      Leadership is critical throughout an organisation and must be fostered in a learning process.

·      The organisation should foster leadership and create an environment that both assists and recognises (rewards) those who take leadership responsibilities.

·      Leaders need to have knowledge and understanding of their environment and what impacts on their organisation's performance internally and externally.

·      Leadership must focus on people and culture as well as on strategy and direction in order to achieve the required results.

·      In the public service, strategy is largely implemented through people who are the key to the success of most agencies and bodies.

·      People have to be involved and informed, as well as being capable, if they are to be committed.

·      Communication has to be a priority of any leader.  But consistency and consensus (not the lowest common denominator) are essential.

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· People will contribute where there is trust and mutual confidence and generally react positively to rewards and recognition.

· Technology has to be an enabler. Shared data bases help align strategy with culture.

· The success of any organisation will depend on meeting the requirements of its various stakeholders. These requirements need to be clearly recognised, regularly reviewed (and discussed) and preferably measurable, or at least assessable, in an agreed format.

· Unless leaders are acting consistently and in concert with stated objectives, approaches and agreed outputs and outcomes there will be little trust or confidence, particularly from staff. The latter react adversely to ambiguity, inconsistency and injustice. Leaders have to 'walk the talk'.

· Performance and/or results ultimately count. That is how leaders and organisations are ultimately judged.

· In the public sector, there is also an issue as to <u>how</u> performance and results are achieved which rests on values, ethics and codes of conduct. Accountability for performance/results include assessments of the 'how' as well as of the 'what' in terms of achievement.

· A significant challenge for leaders in today's public service is to secure acceptance from staff of the need for, and commitment to, leadership <u>throughout</u> an organisation as well as in respect of performance management to achieve the required results.

· In short, leaders need to influence culture, determine strategy, engage staff and achieve results for stakeholders.

· Clearly, I could not have made the changes and secured the outcomes of recent years without the support of staff generally, and leaders in particular, reinforced by a strong overall culture of high public purpose. We were fortunate to have some change agents who stood up and were counted at crucial times. We also owe a debt to our continuous improvement groups.

· ANAO staff are committed to the high level values and codes of conduct of the Office and the APS. They relate positively to the role and objectives of the ANAO. In short, culture is supporting strategy.

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· At the end of the day, the iterative nature of the changes in contrast to a 'big bang' approach was accepted and supported by most staff. Some changes probably took too long to implement but they were achieved without forced redundancies and undue pressure on staff. This was largely appreciated both by those directly affected and those who were not. In general, reasonable staff morale has been maintained although staff surveys are not as positive as I would like. We are just about to embark on another staff survey which will give us a further report card on our performance in creating a better Office 'climate' as opposed to culture.

· The Public Service Union representatives were very helpful on the latest regional closure which was our Melbourne Office. They were also positive in the discussions and settlement of our certified agreement. They, too, took a leadership role which was much appreciated.

· The Senior Executive Officer team is better focussed, more supportive, more client/stakeholder oriented and more strategic in their approach.

· Senior officers generally have accepted more operational responsibilities and the disciplines of time, cost and quality for audit products and services.

· Junior staff have been enthusiastic, willing to contribute and focussed in a more team oriented environment. They are our future.

· Particularly in the current environment, we need to be proactive in our recruitment and staff retention programs if we are to ensure the necessary ongoing capacity for leadership in the Office.

· Our stakeholders seem reasonably, if not highly, satisfied with our performance and the results being achieved on the basis of survey data and other individual responses.

· We need to show leadership in establishing, and building on, strategic alliances with accounting and auditing groups in both the public and private sectors, including with Professional bodies.

· We all accept we cannot rest on our laurels. Whether we could have done better is problematical. But I am confident we have done well despite some very difficult hurdles. But we will need real leadership throughout the ANAO if we are to achieve the required outputs and outcomes and be contestable in a far more demanding public sector environment. There is no doubt in my mind that this will depend very much on people who <u>want</u> to work

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in the ANAO.  And that, in turn, depends on the culture and environment being created both internally and externally.

*'The speed of the leader determines the rate of the pack.'*     anon

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**NOTES AND REFERENCES**