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Strategic Agility in Nations (A):

The Scottish Example

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“The challenge is to help people understand that this is not learning from failure in the same sense as is recognisable practice in a number of successfully adaptive organisations, but a different and much more challenging form of focus on long term strategic underperformance.”

Sir John Elvidge

In early 2007, Sir John Elvidge, Permanent Secretary to the Scottish Government, looked back at the greatest achievement of his long career with the UK civil service. In less than four years, Scotland's public administration had been transformed in response to the nation's new constitutional arrangements and increased legislative activity. With the creation of the Scottish Parliament in 1999, a dynamic era of policy-making had opened up, as well as new types of governing arrangements. Successive coalitions had changed the face of Scottish politics via a burgeoning legislative programme, increasing the pressure on the civil service to deliver.

But despite significant successes, the organisational changes had not produced the expected benefits. With elections looming, Sir John had now to decide how to take the organisation forward to support the next government. He and his team had their work cut out.

Background

An Englishman in Scotland

It was at the racecourse where he was taken as a young boy that Elvidge learned many of the lessons that would help him carve out a longstanding career in the civil service:

“I was born and brought up in North and East London, and my paternal grandfather was, in his holidays, an on-course bookmaker [...]. Pretty much as soon as I could walk, I was brought up around the concept of money, financial calculations and risk. It often seems to me that many of the fundamentals of financial and risk management are things I can draw on from that period.”

With a degree in English Language and Literature from St Catherine's College, Oxford, he joined the UK civil service in 1973, working in the Scottish Office. After 11 years in various postings that took him through education, housing, transport, prisons and energy policy, he was promoted to the senior civil service, working for two departments which covered the main areas in which his expertise would develop over the subsequent 15 years: economic development, energy, housing, urban regeneration and transport.

In the course of these jobs Elvidge was involved in major organisational change. He handled the legislative work to create the new Scottish National Housing Agency, as well as to set up an economic development and skills agency for Scotland. Promoted to head of a group dealing with transport, energy and EU structural funds, he was involved in the privatisation of Scottish Nuclear as part of British Energy. In 1999, after a short spell in the Cabinet Office in Whitehall as Deputy Head of the Economic and Domestic Affairs secretariat, Elvidge returned to Scotland to participate in the organisational changes following the creation of the Scottish Parliament.

As a senior member of the management team, he was appointed head of the Education Department within the Scottish Executive¹ to help reshape the civil service in the wake of devolution.² In 2002, he became more closely involved in the issue as head of the Finance and Central Services Department. Combined with championing the development of e-government across the Executive, he influenced the drive for public service reform. In advance of national elections in 2003, he was named Permanent Secretary to accelerate the pace of reform within the Executive and took up that post shortly after the elections.

Since devolution, the civil service had had to cope with a significant increase in policy making and a greater volume of routine business. For example, some 33,500 parliamentary questions had been answered since 1999 (four times the number before the Scottish Parliament was set up), the volume of ministerial correspondence had doubled, and 62 bills had been passed, compared with an average of four or five bills per year pre-devolution. Elvidge was in charge of an organisation that clearly needed to adapt to new ways of working and meet public expectations for more open and accessible government.

The Scottish Executive in Context

The Scottish Executive was a direct descendant of the Scottish Office, which had existed since 1885 as an administrative department of the UK Government, initially in Whitehall. Before 1999, the Scottish Office had had a federal structure composed of departments which exercised administrative responsibility in most domestic policy areas, with the exception of macroeconomic policy, company law and consumer policy, taxation, transport and social security. These were the responsibility of departments with UK-wide remits, headquartered in London. While a high degree of administrative control was given to Scottish departments, legislative power remained with Westminster³ in accordance with a constitutional arrangement inherited from Scotland's parliamentary union with England in the 18th century. There was also inherent pressure for policy consistency across the UK arising from shared Cabinet responsibility.

The post of Secretary for Scotland was created in 1885 with responsibility for looking after Scottish interests. It was upgraded to Secretary of State in the late 1920s. As the Scottish Office gradually expanded in scope and responsibility, it moved from London to Edinburgh in the late 1940s and took over powers exercised by various semi-independent boards that administered Scotland, eventually splitting into several departments dealing with specific matters including agriculture, education, home and health. But despite a relatively high degree of autonomy, its decisions had to conform broadly to UK government policy.

As support for the Conservative Party declined in Scotland from the 1960s onwards, UK government policy was supported by a minority of Members of Parliament for Scottish constituencies during periods when the Conservatives were in power, thus creating a democratic imbalance. The decline in the perceived legitimacy of the UK Parliament to legislate over Scotland's domestic affairs contributed to a growing desire for Scottish self-government. The discovery of North Sea oil off the coast of Scotland in the early 1970s

1 Officially referred to as the Scottish Government since August 2007

2 Devolution is a process of decentralisation, and puts power closer to the citizen so that local factors are better recognised in decision-making [Source: UK Cabinet Office]

3 Westminster (The Palace of Westminster) is home of the UK Parliament

fuelled resentment at Westminster's exploitation of a 'Scottish' asset and the perception of unequal distribution of resources.

In the 1980s and 1990s, when the Thatcher⁴ governments were increasingly at odds with the dominant political consensus in Scotland, there was a resurgence of Scottish nationalism fuelled by popular discontent with central government policies. During this period, high unemployment in Scotland coincided with a turning away from the regional development assistance hitherto provided by the state, which, along with macro-economic policies that were perceived to be geared towards the needs of Southeast England to the detriment of Scotland, sharpened economic grievances.

Between 1981 and 1998, the UK government raised approximately £255 billion⁵ (€297 billion) in direct tax revenue from North Sea oil production.⁶ The estimated geographical share of oil tax revenues that Scotland could legitimately claim fluctuated from as high as 98% to as low as 66%, depending on the revenues that came from oil fields located in Scottish waters.⁷ These varied depending on the price of crude oil and the investment required to exploit the oil fields. Oil companies made smaller profits from the newer Scottish oil fields because they were in deep and distant waters, which were much more difficult to exploit than those in English waters. These investments squeezed the oil tax revenues raised.

However, the perceived imbalance of resource allocation had to be balanced against the gap between the taxes paid by the Scots (other than oil revenues) and UK government expenditure for Scotland. Leaving oil aside, they amounted in 1998 to £6.4 billion⁸ (€7.4 billion) in Scotland's favour, or about 7% of Scottish GDP.⁹

Discontent with central government policies, along with the opposition parties' insistence that alternative economic policies would be more advantageous for Scotland, created significant differences in voting behaviour from the rest of the UK, and a challenge to the established form of Scotland's representation within central government. As voting patterns diverged, the Secretary of State for Scotland lost his mediating influence over Cabinet meetings and was increasingly perceived by the Scots as the voice of central government rather than a staunch defender of their interests.

The Scottish Office, created to adapt Westminster's legislation to the Scottish context, could no longer fulfil its original role. By the late 1990s, Scottish political demands ignited a protest movement calling for constitutional reform and a more accountable and participative government. In 1997, the Labour Party was elected having promised to hold a referendum on devolution within its first year in power. Post-referendum, the Scotland Act of 1998 established the Scottish Parliament and a new Scottish Executive was created.

4 Margaret Thatcher was Prime Minister of the United-Kingdom between May 1979 and November 1990

5 Adjusted at 2010/11 prices using the GDP deflator series of the UK Economics and Finance Ministry (HM Treasury) available at: http://www.hm-treasury.gov.uk/data_gdp_fig.htm

6 Report on Government Expenditure & Revenue in Scotland 2010-2011, page 30

7 Energy in Scotland: A compendium of Scottish Energy Statistics and Information, page 10

8 Adjusted at 2010/11 prices using the GDP deflator series of the UK Economics and Finance Ministry (HM Treasury) available at: http://www.hm-treasury.gov.uk/data_gdp_fig.htm

9 Report on Government Expenditure & Revenue in Scotland 1998-1999, page 40

With the transition to the newly-formed Scottish Executive, efforts to link departments more closely together and provide more centralised, forward-looking leadership were made. However, before Elvidge took over as Permanent Secretary in 2003 they had had limited effect – it was still a federal system with departmental autonomy and a relatively weak centre. The limited policy-making capacity inherited from the pre-devolution period continued to undermine the Scottish Executive's ability to operate in an environment of rapid change and mounting political pressure.

The election of a renewed coalition government in the 2003 elections saw an unprecedented rise in the number of manifesto pledges adopted as formal coalition commitments: 450 policy commitments compared with 327 in 1999 were set out in the partnership agreement to be delivered by the Scottish Executive. Assuming his new functions, Elvidge was confronted with the task of providing the government with the capacity to back up ministers in delivering on this ambitious agenda, as well as improved co-ordination to support collective decision-making between the coalition parties.

The Working of Government

The role of the Scottish Executive is to fund and oversee those public services devolved in the Scotland Act 1998 and to bring forward legislation to the Scottish Parliament. Following the enactment of the Scotland Act 1998, which transferred responsibilities from Westminster to Scotland for all issues other than a list of core responsibilities reserved to the UK Government,¹⁰ the executive branch of the Scottish Parliament was formed. The 'First Minister' is appointed by the Queen, appoints ministers with the approval of the Scottish Parliament, and is responsible for the development, implementation and presentation of policy, relationships with the rest of the UK, and the administration of the civil service.

Since devolution, power has been exercised by a Cabinet comprising the First Minister, Deputy First Minister, the Lord Advocate, the Solicitor General, and nine ministers, each responsible for areas such as health or education (see Exhibit 1). As a Westminster-style Cabinet,¹¹ it had collective responsibility to the Scottish Parliament, meeting on a weekly basis under the chairmanship of the First Minister to discuss issues and actions to achieve the government's objectives. As head of their respective departments, ministers formulated policies in accordance with the pledges made in their election manifestos, which formed the basis of the government's legislative programme. During the period 1999-2007, a coalition government was in power, whose programme was agreed by negotiations between the parties following the election.

The making of policy was one of the most important aspects of the work of a minister. In order to fulfil the government's legislative agenda, ministers made policy proposals, which in

10 The powers devolved by Westminster to the Scottish Parliament include : Health; Education; Training policy; Local government; Social work; Housing; Planning; Economic development; Financial assistance to industry; Tourism; Some aspects of transport; Criminal and civil law; Civil and criminal courts; Police and fire services; Environment; National heritage; Agriculture, forestry and fisheries; Food standards; Arts

11 A Westminster-style Cabinet is defined by adherence to the principles of collective responsibility and Cabinet solidarity. These principles are the binding devices that ensure the unity of purpose of the Government. They underpin the formulation of consistent policy advice and the exercise of collective accountability [source: Cabinet Handbook, Department of the Prime Minister and the Cabinet, Australian Government, page 9]

many cases required laws to be made, amended or repealed. In practice, it meant that a minister, aided by civil servants, formed a policy on a specific issue and then often introduced a bill to the Scottish Parliament, whose assent was required to become law (see Exhibit 2 for a description of the phases in the Scottish legislative process). Despite the development of a core executive, ministers were heavily dependent on the senior civil servants who ran their departments in order to implement their policies.

Departments in Scotland were staffed by UK civil servants, many of whom had been transferred from the old Scottish Office at the time of the creation of the Scottish Executive. Unlike ministers, civil servants held permanent positions and were expected to be apolitical (i.e., to act in a way that was non-partisan and serve whatever government was elected). Although they were accountable to their respective ministers, ultimately their loyalty lay with the Crown. A majority were native Scots, schooled and university-educated in Scotland. A smaller proportion of them (14%) had been educated at Oxford or Cambridge¹² than in Whitehall (26%) as of 2004.¹³ The difference was more pronounced at senior management level where only a third of the Scottish heads of department were Oxbridge graduates (compared with over 70% in Whitehall).¹⁴

While in Scotland the civil service was an integral part of a UK-wide system and committed to inter-administration mobility between departments, there was a tendency for civil servants to spend their entire career there, interrupted sometimes in the case of high-flyers by a short spell in Whitehall to acquire contacts and know-how. In 2004, the proportion of senior civil servants that had never worked in a Whitehall department was 70%.¹⁵ This was higher for heads of department (78%) and lower for heads of group (66%),¹⁶ which may have reflected the fact that a significant number (20%) of heads of group had transferred from Whitehall departments, perhaps because of the greater potential for policy-influencing work at a lower rank within the senior civil service in Scotland.

Since devolution, many senior civil service positions had been filled by recruitment from outside the Scottish Executive in an effort to encourage public-private sector mobility, the private sector accounting for 15% by 2004,¹⁷ although many came from other parts of the public sector, including local government. External appointments were highest in the health department, reflecting the tradition of recruiting chief medical, nursing and other positions from the National Health Service (NHS).

For career civil servants, mobility across departments was encouraged to develop functional skills in different policy areas. As in Whitehall, senior civil servants tended to be rotated through jobs every three to four years according to skill-set and career path. Elvidge, who came with 30 years of experience in the Scottish civil service, having moved through the ranks to the upper echelons of the Scottish Executive, was in this respect an archetypal civil servant. He had worked in virtually every department and thus had a sound knowledge in

12 Referred to collectively as Oxbridge

13 Keating M., Cairney P., (2006) "A New Elite? Politicians and Civil Servants in Scotland after Devolution", Parliamentary Affairs, Vol. 59, No. 1, 2006, 43-59

14 *Ibid.*

15 *Ibid.*

16 *Ibid.*

17 Keating, M., *The Government of Scotland, Public Policy Making after Devolution*, Second Edition, Edinburgh University Press (2010)

almost all policy areas. He was also genuinely committed to the public sector and the public good:

“Civil servants [in Scotland] have a direct relationship with the citizen; an underlying moral responsibility – it’s to enhance the good of the citizen, whereas in the traditional UK model, the civil service exists solely to obey the instructions of the politicians.”¹⁸

When he took over in 2003, he sought to reinforce the ethos of public service and the values associated with the notion of the public interest, such as enabling economic and social welfare. Two days after his appointment as Permanent Secretary, he gathered his entire staff together in Edinburgh to show a series of video clips featuring citizens expressing their gratitude for the way that the government had affected their lives. They ranged from farmers whose activities were financially supported by state aid to single parents who benefited from childcare policies. Said Elvidge:

“My point was to remind [staff] that what they did touched directly on the lives of people and they were capable of making significant changes for the good in lives of people. That emphasis on the good we were capable of doing was always at the heart of the emotional appeal that I tried to instil.”¹⁹

Similarly, he sought to strengthen the public sector ethos by promoting greater solidarity across the civil service. To this end, he reviewed the reward system, including the elements of pay, promotion mechanisms and other financial incentives to make it much clearer to civil servants what was expected from them. Commented Elvidge:

“My first principle is make sure your reward system does not contradict your value system [...] The first thing to do is to get them aligned and then gradually they begin to work because there is a signal that the organisation is serious about the values.”²⁰

In doing so, he wanted to break with the civil service’s traditional values of promoting staff on the basis of individual intellectual excellence, notwithstanding their ability to lead or the values they believed in – a process bound to meet resistance from the ‘old guard’ in the senior civil service.

Coalition Politics

Devolution not only introduced a new electoral and political process but the desire for a more consensual style of politics, in contrast with the two-party system at Westminster, where debate was shaped by partisan politics. Unlike the Westminster model, Scotland had a mixed proportional electoral system. Electors were asked to cast two votes: one for a candidate to represent a particular constituency, the other for a political party. There were 73 constituency seats elected on the first-past-the-post system and 56 additional member seats elected from party lists in eight regional constituencies.

18 Interview with Sir John Elvidge, Edinburgh, Scotland, 3 December 2012

19 *Ibid.*

20 *Ibid.*

The electoral system was designed to make it almost impossible for a single party to assume control of the Scottish Parliament, thus requiring the formation of a coalition. It was intended to break with the Westminster model, which since 1979 had tended to give one party an absolute majority, and had weakened parliament's control over government. It was also in response to Scottish aspirations for a more participative type of policy making; a new relationship between governors and governed, as called for in the run-up to devolution in the 1980s and 1990s.

The 2003 elections led to the formation of the second coalition government since 1999 – once again between the Scottish Labour Party and Liberal Democrats respectively the largest and fourth-largest parties (see Exhibit 3 for election results). Given its size advantage over the other parties, the Scottish Labour Party played a pivotal role in coalition building and had long dominated Scottish politics, having won the largest share of the Scottish vote at every UK general election since the 1960s.

Like the Liberal Democrats, Labour was left of centre, advocating a stronger role for the state in economic management and redistribution, while continuing the constitutional union with the UK. Also on the centre-left was the Scottish National Party (SNP), a social-democrat party which campaigned for independence from the UK and had come second to Labour at every election since 1997. Alone on the centre-right, the Scottish Conservative Party, like its UK counterpart, promoted economic and social conservatism and also supported the constitutional union. There was no extreme-right or even right-wing party, but on the far-left were the Scottish Socialists and a Green party, both in favour of Scottish independence. This tended to push the political debate towards the left, with an emphasis on social justice and inclusion.

From 1999, in its first term of devolved government, the Labour-Liberal Democrat coalition concentrated on creating a stable executive and incremental improvements to public services, with some radical departures from the policies pursued by the Labour Government in England. But four years in power had not delivered improvements to match popular expectations, particularly in health and education. In his victory speech following the 2003 elections, the Labour Party leader, Jack McConnell, who was re-elected First Minister of Scotland, promised that his government would work in a “smarter, quicker and sharper way”.²¹

Elvidge's appointment coincided with McConnell's impetus to make the administration operate more effectively. McConnell favoured the development of a stronger centre within the federal structure so that the different departments worked as one. The underlying objective was to develop a degree of central control over the civil service to ensure the coalition arrangements remained workable. Unlike single-party governments, coalitions were prone to tensions between the Cabinet and ministerial agendas, mainly because each minister's agenda was set not by the coalition but his or her own party. Commented Elvidge:

21 “Scotland's new politics”, The Herald, 2 May 2003

“One of the consequences of coalition was to strengthen the desire of individual ministers to maximise their own degree of autonomy [within the system of Cabinet government] and, consequently, that of their department.”²²

Coalition governments placed a greater emphasis on operational cohesion between departments to ensure policies had bipartisan support and that the two sides were given equal opportunity to contribute to the decision-making process. This was particularly important when the ministerial team within a department was drawn exclusively from one or other of the coalition parties. Achieving such horizontal integration required both coherence and agility from the administration (coalitions being vulnerable to the appearance of disunity) and avoiding actions – either deliberate or inadvertent – that could erode trust between the two.

In getting to grips with the post, Elvidge sought to build a closer working relationship with ministers as well as a more tangible sense of strategic direction and leadership with staff. Increasing the flexibility of the administration to operationalise the coalition’s agreed programme remained a key challenge. As the most senior civil servant, he called for the Executive’s organisational capacity to be enhanced to provide better back-up in policy making.

The Creation of a Policy Powerhouse

Strengthening the Core

As Permanent Secretary, Elvidge headed up the civil service supporting Scottish ministers, a post he likened to “being the chief executive of any large organisation that employs 15,000 members of staff and undertakes a variety of complex tasks”.²³ In 2003, the executive core comprised 4,270 staff, 259 of whom were senior civil servants, organised into eight departments²⁴ located primarily in Edinburgh and Glasgow, headed by senior civil servants.

Three months after his appointment, Elvidge established the Office of the Permanent Secretary (OPS), creating the basis for the stronger centre McConnell desired. This aimed at improving the capacity to advise and aid ministers in the formulation of policy. It brought together the Office of the First Minister, the Ministerial Support Group, which contained the Policy Unit (PU), and three specialised support units – Analytical Services Group, Changing to Deliver, Performance and Innovation – whose functions were to provide a service to government departments that would make them more effective in delivering on ministerial priorities (see Exhibit 4 for the OPS managerial structure).

One of the functions of the OPS was to help him strengthen the Management Group (MG), consisting of heads of departments and external non-executive directors drawn from the private sector, to enable it to act more like a corporate board. The objective was to overcome the federal approach and move towards a unitary form of leadership in order to allow the Executive to operate in a more joined-up way. Within the MG, he formed ‘Horizon Scanning’

22 “Lessons from Scotland on streamlining government”, Guardian Professional, 23 September 2011

23 “Interview with Sir John Elvidge”, Holyrood Magazine, 28 August 2009

24 Include the following : Development; Education; Environment & Rural Affairs; Health; Justice; Enterprise, Transport & Lifelong Learning; Finance & Central Services ; Legal & Parliamentary Services

and 'Delivery' sub-groups to deal with cross-cutting issues related to strategy and programme delivery.

Following Whitehall's example, the MG had two non-executive directors whose role was to give independent advice on internal management issues and ensure that systems, processes and resources were fit for purpose to formulate and deliver policy. External members were appointed by the Executive for two years, and were chosen for their business background, thus bringing a fresh perspective.

This new approach aimed at developing a sense of collective responsibility for the Scottish Executive as a whole. By extending the range of shared work undertaken by departmental leaders, Elvidge sought to build a common purpose that would cascade down to all staff. He sought also to develop a shared understanding of each other's priorities in order to encourage horizontal cooperation between departments.

These changes were perceived by many from the inside as revolutionary. They marked a shift in culture whereby the administration was seen as an organisation capable of process management and centralisation. They reflected a move from the politics of managerialism (that had dominated the old structure) to the politics of leadership called for by McConnell, who wanted sources of advice on hand to provide the strategic vision and creative thinking needed to develop innovative policies.

Developing a Strategic Capability

Until the 2003 elections, the Scottish Executive had focused on managing devolved affairs; having won a new mandate, McConnell set about improving strategic thinking at the centre. Previous administrations had concentrated on adapting Whitehall initiatives rather than creating a distinctive vision for Scotland. McConnell wanted to develop a long-term strategic view to link policy-making with an overarching narrative – the country's future.

This emphasis on 'future scanning' provided a strong focus for the Policy Unit and the type of work carried out by its staff. Elvidge divided the PU into the Strategy Unit (SU) and the Delivery Unit (DU) which remained under one head to ensure a degree of cross-fertilisation. This division was intended to signal a change in priorities and put more focus on long-term strategic thinking, as well as to enhance the ability of staff to work with other departments. As a resource dedicated to forward-looking strategy issues, the SU could build links and avoid being perceived as a control centre monitoring delivery targets.

As it began to undertake 'strategic future' work rather than detailed reviews of specific policy areas, interest from across the civil service increased. Interactions with departments improved, which helped foster a constructive dialogue and address cross-cutting issues in areas such as young-people-not-in-education-employment-or-training. Increasingly, the SU sought outside help to develop new ideas and obtain feedback on policy outcomes that it would then use to inform future policy development. To this end, in 2005 Elvidge established the Scottish Public Leadership Forum, bringing together the leaders of public sector organisations in Scotland including universities, health authorities, the police, etc., to launch an ongoing dialogue. In the wider policy network, the SU became a member of the UK government's Foresight Programme, which sought new insights, creative views and strategies for the future.

While keen on involving a wide range of contributors including politicians, civil servants and the policy community in the strategic development process, Elvidge was aware of the need to manage their diverse contributions and address policy priorities as they arose, calling for a flexible and dynamic approach to resource allocation.

When the SU and the DU were established, they had a total of 11 members of staff, including five policy advisers, three project officers, two support staff and the Head of Division – Sarah Smith – a senior manager who had previously been in charge of the Children and Families Division and had spent most of her career in Whitehall working in the departments of international development, the environment, and transport. Policy advisers were generally ‘bright young things’ who were expected to take back to their departments elements of strategic thinking after three years in the job. The SU and the DU used staff from various groups of the OPS, including the Analytical Services Group and the Central Statisticians Group to provide supporting research and analysis.

As strategic future work grew in importance, Elvidge appointed Lesley Fraser as Head of the SU in 2006. An experienced manager who had overseen various projects across the Executive, her appointment exemplified his drive to encourage mobility by promoting middle managers with cross-functional experience to senior-level positions. In most cases, SU staff acted as project managers or team members working closely with other departments to coordinate the work. For certain projects, the SU brought together people from other parts of the Executive who acted as ‘virtual’ teams to deliver on specific tasks.

Sir John wanted to reclaim the ground for the civil service to be seen as strategists while working with other sources of strategy development such as McConnell’s special advisers.

Improving Leadership Capacity

In its early phase, the development of the OPS was influenced by McConnell’s objective of governing from the centre and maintaining strong control while also attempting to deal with issues of co-ordination and joining-up. Strong leadership was essential to develop a more tangible sense of corporate direction and align the priorities adopted by the MG with the issues of most concern to ministers and staff.

Under the governance of Elvidge’s predecessor, the Scottish Executive had embarked on a cultural change programme – *Changing to Deliver* – designed to ensure that the Executive could deliver the targets contained in the Labour-Liberal Democrat coalition’s partnership agreement. Its main themes were leadership, outward focus and working with stakeholders, delivering outcomes, and developing corporate processes and procedures. Within each of these, a number of initiatives had been launched, centred around providing training and sharing good practice. For example, a training programme on policy making had been introduced to train staff in a more open and engaged style of policy making, with better use of the evidence base and more effective evaluation. This had been reinforced by a programme of more structured and focused engagement with stakeholders, and ensuring that policy making was joined-up across departmental boundaries.

Promotion of good practice in working more effectively with ministers, stakeholders and colleagues had been a central feature of the cultural change programme. The introduction of an annual Excellence Awards scheme, which sought to celebrate and reward examples of

good practice, was perhaps the most visible aspect, providing a platform in gaining support for change throughout the Executive. Other internal communication initiatives included the creation of a 'Change Forum' – discussion groups to give staff an opportunity to engage in the change agenda, encouraging local ownership of change and improvement.

Other aspects of the programme related to corporate processes and the way information was managed internally, notably the implementation of an electronic records and document-management system. Performance improvement had also been an area of focus with the introduction of a 'Balanced Scorecard'²⁵ to support the strategic management of the organisation. This was completed by work to develop a 'Best Value' approach²⁶ across departments.

Soon after his appointment, Elvidge launched a progress review of the Scottish Executive in relation to the elements of the change programme. Despite improvements in stakeholder engagement and a greater focus on customer in policy-making, it was felt there was room for improvement in leadership across the senior civil service. Indeed, a staff survey conducted in 2004 revealed that the departmental heads had not been as effective as hoped in translating the MG vision into practice. Underpinning these concerns was an issue of organisational communication with staff about how corporate initiatives impacted at a local level and how these translated into tangible actions.

As the change programme progressed, Elvidge incorporated the leadership element into a comprehensive leadership development programme targeted at senior civil servants. The focus was on the themes of 'adaptive leadership' and 'public value' to develop their ability to adjust to the rapidly changing environment and mobilize teams around goals to improve service delivery to citizens. Both concepts had emerged from the work of Harvard scholars back in the mid-1990s. The concept of adaptive leadership was coined by Ron Heifetz with reference to the practice of mobilizing people to tackle tough challenges and creating the organisational ability to adapt to changing circumstances. He distinguished between *technical problems*²⁷ whose causes were well understood and for which solutions were already known, and *adaptive problems*²⁸ where a cause-and-effect relationship was difficult to identify, as were off-the-shelf solutions.

25 The Balanced Scorecard approach was introduced in 1995 by Robert S. Kaplan (Professor at Harvard Business School) and David P. Norton (co-founder of strategy consulting firm Nolan, Norton & Company) as a strategic planning tool which translates an organisation's strategic objectives into a set of performance measures around four 'balanced' perspectives namely financial, customer, internal business process, learning and growth

26 The Best Value concept was introduced in the UK in 1999 by the Labour Government as a means of improving the quality of public services. The approach requires to make arrangements to secure continuous improvement in terms of both cost (i.e. providing services at a lower cost) and quality (i.e. services are working to improve upon current levels of achievement)

27 One example of a technical problem in the health service is the spread of infections within hospitals. The most basic prevention measure known is to keep hands clean through proper hand washing. Staff in hospitals know the hand hygiene procedure to follow before and after patient care

28 An example of an adaptive problem is childhood obesity, a chronic disease resulting from complex interactions of factors such as genetic, behaviour or psychology. It requires collaboration between health professionals such as doctors, nutritionists, psychologists, etc. and the school community including social workers and educators to adopt a holistic approach towards the development of effective interventions

The reality of public services in Scotland was that they were increasingly confronted with problems for which there was no agreement about either the causes or the solutions. They were often deeply complex social problems – such as drug abuse or violence – that straddled different institutions and levels of government.

There was a growing recognition from public sector leaders that policy approaches could not function in isolation or be disconnected from what they were trying to achieve in terms of outcomes. This thinking was particularly prevalent in Whitehall, where the concept of public value had received increasing attention from the Cabinet Office Strategy Unit in its reflection on the UK public service reform.

Public value was first described by Mark Moore, who linked leadership to the creation of value for society. The concept placed emphasis on thinking of goals beyond meeting immediate service delivery targets, with a particular focus on improving outcomes for the public. For example, public value perspectives in the health service would focus on improvements in public health, not just meeting ‘hard’ targets such as a reduction in hospital waiting lists.

In his drive for public service reform, Elvidge had followed with interest the work undertaken by his Whitehall colleagues in the Cabinet Office. He advocated stronger ties between the senior civil service and public sector leaders across Scotland to deliver improved outcomes, particularly in health, to reduce inequalities.

The Case for a New Approach

A Loss of Momentum

When the coalition government was formed after the 2003 elections, the two parties produced a much more detailed programme than four years earlier. Although it provided a clear sense of what the new government would seek to achieve, it was subsequently felt to stifle innovation given the level of policy detail agreed on up front. Developing new policies outside of the Partnership Agreement would be difficult, partly because the programme was more than enough to fill the time of civil servants, and partly because it had required negotiation between the two parties to reach a common position.

Halfway through the term, the coalition partners discussed the possibility of revising the document as the government began to ‘run out of freshness’, to focus on the nation’s future priorities. Strategy in Scotland had followed the objectives set out in the Partnership Agreement, itself dictated by the parties’ manifestos. The large number of policy commitments which had to be accommodated resulted in a wide range of detailed targets and a lack of strategic coherence. Ultimately, there was no formal revision of the document, in part due to a change of leadership on the Liberal Democrat side.

From 2005 to 2007, Elvidge and his team devoted increasing efforts to strategic analysis to inform future policies. The SU developed a ‘Futures Project’, which aimed to examine Scotland’s strengths and weaknesses, and the future opportunities and challenges that the country might face over the next 20 years. As part of this, Elvidge set up a programme of work to assess the nature of long-term policy challenges facing the nation. This Strategic

Policy Review, which involved around 40 of his most senior colleagues in the Executive²⁹, did not review existing policies but focused on horizon-scanning and trend analysis work, to build consensus on big cross-cutting issues.

Over the years, Elvidge was increasingly concerned about problems with major social and economic impacts: persistent inequalities in educational achievement and health, high levels of poverty, particularly in Glasgow, and the performance of the Scottish economy relative to the UK average and comparable countries. He observed that despite the sustained focus of policy interventions spanning several decades (often accompanied by substantial public expenditure) the situation remained unchanged or had deteriorated (see Exhibits 5 to 8 for education and health indicators).

Scottish ministers tended to pay attention to the issue for which they were responsible, at the expense of a more integrated approach between policy areas and creative dialogue with the wider public sphere. For example, issues such as social exclusion and reducing crime overlapped and required a collective response, not isolated measures. Quarterly gatherings involving the most senior officials revealed an unexpected finding: from their collective reflection of Scotland's future challenges, a consensus emerged on the inadequacy of current policy approaches.

Elvidge concluded that Scotland's existing structures and approaches were not on track to deliver the necessary outcomes to secure the desired benefits for society and the economy – it was a sudden collective awareness that fundamentally changed his perspective on how government should function, “a defining moment” as he called it.³⁰ In the absence of an approach which looked across the entire range of government functions, the capacity of the civil service to develop policy and operational solutions would remain limited.

By March 2007, Elvidge was convinced that, despite the modernisation of the Scottish Executive, a more radical departure in the organisation and functioning of the public administration was needed: a systemic change that would create a shift in values and behaviours and transcend the Executive's existing organisational and cultural boundaries.

The Unity Challenge

Unlike majority governments, parties in a coalition are prone to tension between needing unity to govern effectively and preserving policy distinctiveness to satisfy internal factions as well as the electorate. Since devolution, Scotland had enjoyed relatively stable government by two parties bound by a common agenda and a collective commitment to policy positions. Unity within the Executive had been accomplished by way of centralisation of policy and strategic capacity, as well as use of formal mechanisms for inter-party co-operation.

Elvidge and the senior leadership team³¹ assumed the difficult task of acting as brokers between party ministers to ensure that policies received bipartisan support. This proved particularly challenging when the ministerial team within a department was drawn exclusively

29 Refers to heads of department and heads of group. Note: the immediate level below heads of group is heads of division

30 Interview with Sir John Elvidge, Edinburgh, Scotland, 22 June 2012

31 Refers to heads of department and heads of group. Note: the immediate level below heads of group is heads of division

from one party, prompting civil servants to anticipate the likely views of the coalition partner, even if it had no ministerial representation in the department concerned. From his short spell in the Cabinet Office in Whitehall, Elvidge had learned tried-and-tested arrangements for facilitating the collective decision-making process, ensuring that coalition partners had sight of, and a good opportunity to comment on, all policy proposals.

The formation of coalition governments in Scotland had been accompanied by the adoption of mechanisms drawn from the decision-making machinery of Cabinet government within the UK, and a system of Cabinet sub-committees and ministerial groups designed to focus on specific tasks assigned by the Scottish Cabinet. In terms of the internal workings of the government, Elvidge built substantially on adapting processes that had proved effective in supporting Cabinet government in Whitehall. For example, he provided ministers with a more structured approach to the opportunity for informal communication prior to weekly Cabinet meetings than was offered in the UK Prime Minister's Office.

One area where Elvidge and his team innovated was related to the transparency in the provision of information. To ensure that coalition partners had equal access to civil service support, a formal paper – SCANCE (Scottish Cabinet Analysis of News and Current Events) – produced by the Cabinet secretariat and containing the key information to be shared about activities across government, was sent to Cabinet ministers prior to their weekly meetings. The SCANCE paper was divided into several sections including a series of one-paragraph contributions on ‘current issues’ to ensure the full focus of the First Minister and Deputy First Minister on a wide range of government business.

As the premier civil servant, his role was to ensure information sharing within the Scottish Cabinet and maintain an effective and politically impartial civil service in line with the ethics of the Westminster model – two areas that could seriously undermine the operational cohesion of government if not managed properly. The creation of a two-party Cabinet system with ministers responsible for a department’s portfolio had strengthened the connection between the civil service heads of department and individual ministers; in practice, the line between the two could become blurred.

On other occasions, the need to assist the dynamics of the coalition could take a rather different form. Departments were staffed by civil servants who developed a knowledge of certain aspects of policy in which they were involved, sometimes over long periods. Their expertise, coupled with the inside knowledge of how their department was run, could lead to the development of departmental ‘fiefdoms’ with considerable influence on policy-making of their minister. An area that came under close scrutiny by Elvidge was when an external review of the Executive in 2006 revealed that some senior colleagues were not always working as a proper team and that they had been on occasion too focused on their individual departments.

In order to exert more collective leadership, Elvidge split the MG into a Strategic Board, consisting of the heads of department and non-executive directors, meeting monthly to provide leadership and strategic direction for the organisation, and a Heads of Department Group, meeting weekly to implement the government objectives and trouble-shoot. By spring 2007, more than 90% of the policy commitments contained in the partnership agreement had been delivered. In the last three months preceding the May elections, it became clear,

however, that no new major policies would be agreed upon, as the coalition partners had openly stated their differences.

From discussions with both party leaders, Elvidge understood that the next government might not be formed by the Labour and the Liberal Democrats. Both parties had expressed doubt over the value of a third coalition due to different stances on law-and-order issues and environmental policies. Opinion polls were also suggesting a degree of support for the SNP's policies on these and other issues, with the possibility that the outcome of the elections might mean the formation of the next government would be contested.

The Scottish Executive at a Crossroads

The approach of the Labour-led coalition had been driven by the delivery of the partnership agreement and prevailing policy agenda. It achieved often incremental performance improvements and intermediate outputs such as shorter waiting times for hospital treatment, rather than delivering public value outcomes such as improved health for all. In this context, much of the work of the civil service had consisted of translating the commitments into policies and monitoring their implementation, with a preponderance of small-scale, project-level evaluation and limited use of impact assessment.

This command-and-control approach had undermined the capability of departments to assess the effectiveness of implemented policies in addressing broader economic and societal issues such as health inequalities, youth offending and increasing life expectancy. The response of the civil service had been to strengthen the use of bottom-line evidence in policy making. Over 2003-2007, Elvidge had developed the analytical capacity of the Executive with the creation of Analytical Services Divisions in the main departments, grouping together statisticians, social researchers and economists in multi-disciplinary teams to provide cross-functional advice direct to policy makers and Ministers on the basis of statistics, research and economic analysis.

These structural changes had not, however, been conducive to greater flexibility in the design of operational interventions. Research evidence had been primarily used to support the delivery of over 450 separate targets, but less to inform the prioritization and resources allocation processes. This had resulted in a lack of unity in direction and constituted an impediment for the government to function as a single organisation. The situation had been exacerbated by the lack of an overarching statement of strategic purpose and a shared set of objectives across the Executive. But the greatest obstacle to a more coherent and effective government had been the ability of staff to perceive the realities that challenged the realization of fundamental economic and societal benefits. The civil service culture had made collective awareness difficult because its practices could be inward-looking, siloed, target-driven and short-term. Perhaps the most obvious block to awareness was the belief by staff that what had been done was the right thing to do, as manifested by the Executive's operational success with the delivery of more than 90% of policy commitments.

Changing mind-sets and behaviours as well as the way people thought and acted was a major challenge. Civil servants tended to have fixed ideas about the nature of policy problems and rarely challenged or rejected the established knowledge that underpinned existing policies. The notion of inviting the most senior officials to discussions on strategic issues had emphasized the limits of such knowledge and shone a new light on policy analysis. The 'silo'

structure of the Executive had hindered the identification of a cause-effect relationship between policy issues that cut across various departments, thus resulting in an incomplete analysis.

In reflecting on this strategic failure and ways to pursue government objectives more effectively, Elvidge had progressively adopted a more radical stance on how the Executive should operate. Modernisation of the civil service had delivered incremental improvements in terms of strategic capacity, but had failed to create a sense of a single coherent organisation. Regular discussions with the most senior colleagues had, in this respect, proved valuable in pointing out the limits of the Scottish government model. A profound change in the Executive's cultural and value system, and organisational structure was called for.

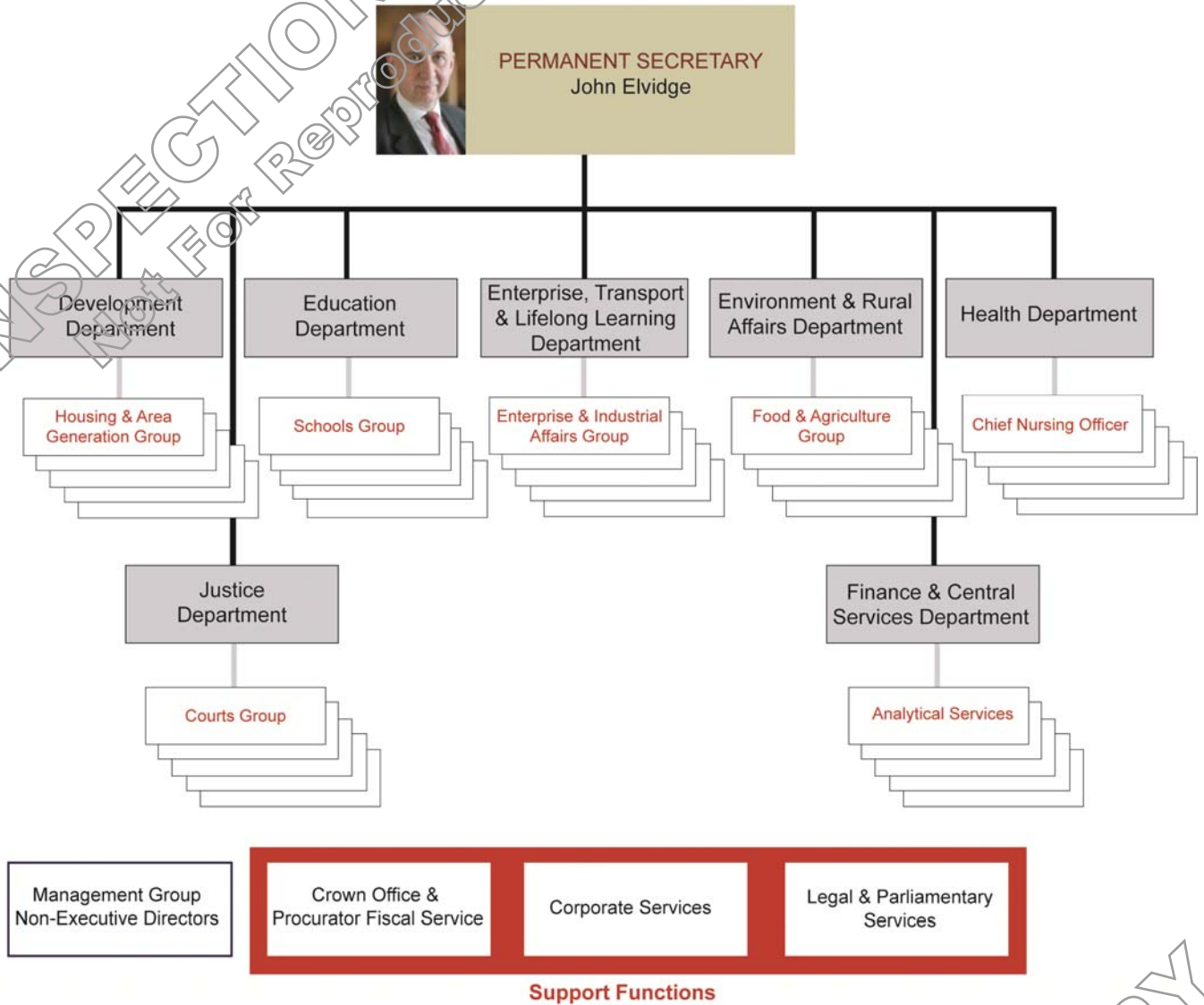
Time for Change

The Scottish Executive had delivered significant successes since devolution and was on track to meet the vast majority of its 450 policy commitments by the next elections. Since 2002 the civil service had engaged in a 'whole organisation' change programme aimed at reforming the public administration for improved service delivery to citizens. Yet several challenges remained, in particular those related to culture and behaviour, and to internal processes and structures.

Restructuring the Executive core had failed to produce a culture of efficiency among staff, nor had it yielded the full benefits of centralisation. Insufficient collaboration between departments had created excess bureaucracy in the form of multiple reporting arrangements, which made it difficult to deliver on government objectives. The dual structure which combined federal and corporate elements had proved an obstacle to further efficiency gains. Government remained a collection of individual departments with sometimes distinct policies and priorities.

In his approach to modernising the Scottish Executive, Sir John had tested the limitations of the existing organisational structure moulded around the portfolios of individual Cabinet ministers. As the next elections approached, he wondered how to improve the organisation and functioning of the civil service to best support the future government. What approach should he choose? And what actions could he take to make the public administration more agile?

Exhibit 1
Structure of Scottish Civil Service 2003-2007



Source: Scottish Government

Exhibit 2***Phases in the Scottish Legislative Process******The pre-legislative phase***

1. The process begins when Ministers, aided by civil servants, have formed policy on a specific issue. It is then that a decision is taken as to whether legislation is required, to achieve the policy goals. A bill team, made up of civil servants and solicitors, then prepare a draft Bill.
2. The Executive then write to groups who have an interest, or concern, about the proposed legislation, asking for written responses. A draft of the Bill may be published at this time.
3. The appropriate committee then consults, taking evidence from interested groups. MSPs* may use this pre-legislative scrutiny as a way of familiarising themselves with the issue at an early stage.
4. The text of the Bill is finalised and officials have three weeks to ensure that certain checks have been made prior to formal introduction:
 - whether the Bill conforms to the Presiding Officer's recommendations regarding, for example, content
 - that the scope and purpose of the Bill is correct – also that the types of amendments included will be relevant to the Bill
 - whether Crown Consent may be required. Will any provisions of the Bill affect the private interests or hereditary revenues of the Monarch?
 - if the Bill may affect any individuals or groups differently from others. Those affected may wish to make representations to Parliament
 - whether the provisions of the Bill would have financial implications. How much would it cost?
 - confirmation from the Parliaments Legal Adviser that the Bill has legislative competence. Is it properly formulated? Is a financial resolution required? Is the proposed date for introduction to Parliament able to be met?
5. The Bill is published at the same time as:
 - the Policy Memorandum which explains the objectives of the Bill, alternative approaches considered, and effect on, for example: equal opportunities and human rights
 - the Financial Memorandum, which provides information on the likely costs to the Executive
 - statements on legislative competence: stating that the relevant Minister regards the Bill to be within the Parliament's legislative competence.

The Parliamentary phase

The Presiding Officer formally introduces a Bill to Parliament. He makes a statement in which he confirms that the Bill has legislative competence, and that the additional pre-introductory steps are complete. The Bill has to be signed by the MSP introducing it and by those supporters whose names will appear on the published version. The process is as follows:

Stage 1: The Bill is initially referred to the **lead committee**. At this stage the committee takes evidence from interested parties. It considers the general principles of the Bill. Other committees with an interest in the Bill, for example Finance, may also become involved. The outcome of these committees' deliberations is given to the lead committee – for inclusion in the report on the Bill. The committee then reports on the Bill to the Parliament. In the meantime Parliament will also have been considering the general principles of the Bill. Parliament is then ready to decide whether the principles of the Bill are agreed to. The debate takes place in the parliamentary chamber. A motion is put forward by the MSP in charge of the Bill. The motion will be as follows: 'That the Parliament agrees to the general principles of the (short title of) the Bill.' It has three options:

1. To refer it back to the lead committee in order that a further report can be produced. The committee would be asked to consider the principles of all, or parts, of the Bill. It may take additional evidence at this time.
2. Not to agree to the Bill progressing any further; the Bill falls.
3. To agree to the general principles and allow the Bill to proceed to Stage 2.

Stage 2: This is the stage at which the details of the Bill are examined, and a committee works through each part line by line. The lead committee can do this. The whole parliament can also act as a committee at this stage. Other committees may also be involved. Each section of the Bill is examined and amendments can be made.

Stage 3: This takes place at a meeting of the Parliament. The amended Bill is considered and new amendments can also be made. The Bill is then debated and the MSPs must decide whether to vote: for, against or abstain. Even at this stage, parts of a Bill can be sent back to Stage 2 for further consideration. When the Bill is returned, Parliament can make amendments, but only to the referred-back parts. Parliament then decides whether to approve the Bill.

The Legal phase

The Scottish and UK Parliaments' Legal Officers and the Secretary of State for Scotland then scrutinise the Bill. They are required to check:

- legislative competence
- relationship to reserved powers
- implications relating to the UK's international obligations.

Finally the Bill becomes law, having gained Royal Assent. It is now an Act of the Scottish Parliament.

* Member of the Scottish Parliament

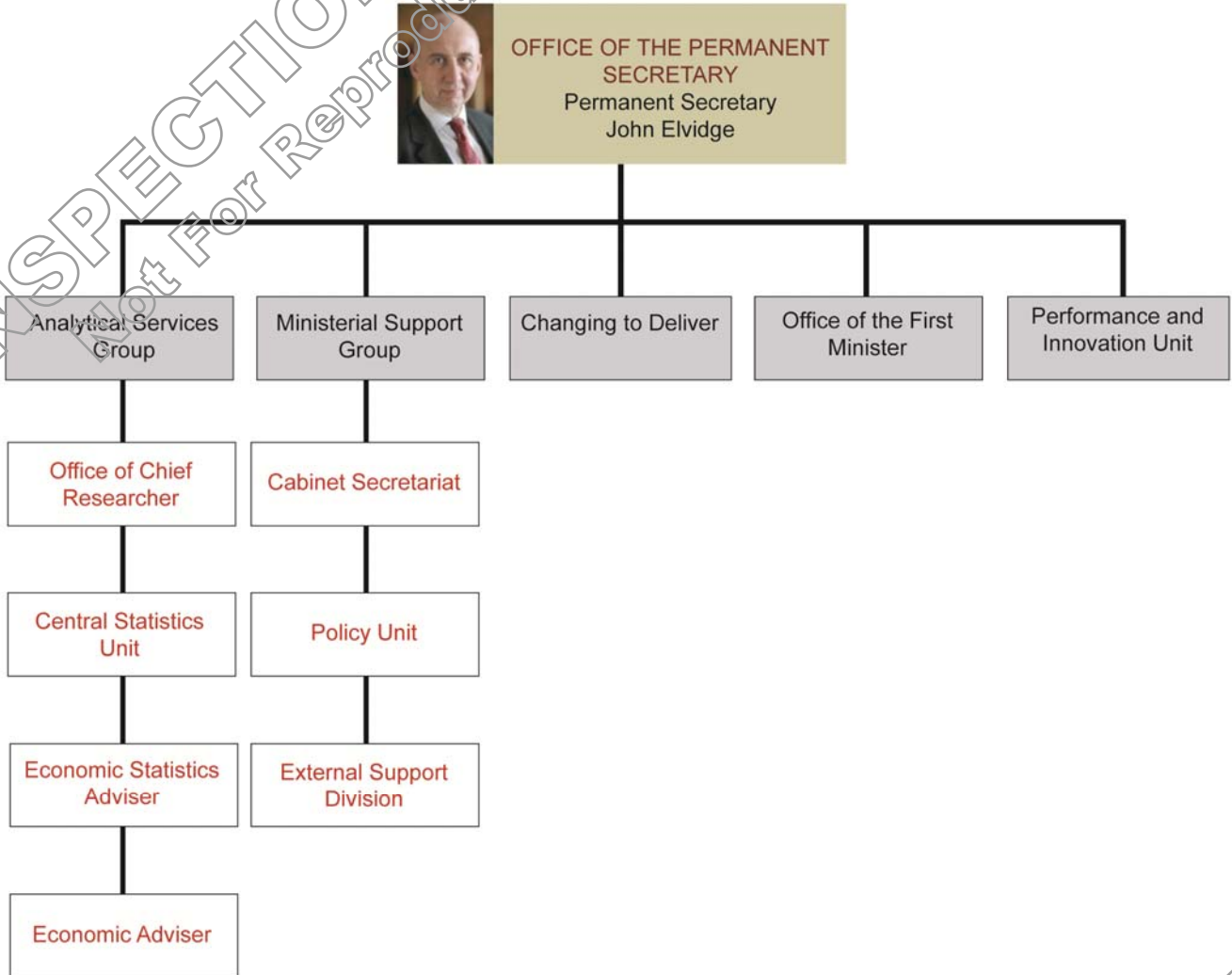
Source: Scottish Further Education Unit

Exhibit 3
Scottish Election Results, 1999-2003

	Year	Constituency	Regional	Total MSPs	% of seats	% constituency votes	% list votes
Labour	2003	46	4	50	38.8	34.6	29.3
	1999	53	3	56	43.4	38.7	33.6
SNP	2003	9	18	27	20.9	23.8	20.9
	1999	7	28	35	27.1	28.7	27.3
Liberal-Democrat	2003	13	4	17	13.2	15.4	11.8
	1999	12	5	17	13.2	14.2	12.4
Conservative	2003	3	15	18	14	16.6	15.5
	1999	0	18	18	14	15.5	15.4
Green	2003	0	7	7	5.4	0	6.9
	1999	0	1	1	0.8	0	3.6
Scottish Socialist Party/Solidarity	2003	0	6	6	4.7	6.2	6.7
	1999	0	1	1	0.8	1	2
Others	2003	2	2	4	3.1	3.4	8.9
	1999	0	1	1	0.8	1.9	5.7

Source: Keating, M., *The Government of Scotland, Public Policy Making after Devolution*, Second Edition, Edinburgh University Press (2010)

Exhibit 4
Managerial Structure of the Office of the Permanent Secretary 2003



Note:

Analytical Services Group: provides analytical support to Ministers and Departments on policy related issues

Ministerial Support Group: provides the First Minister and Deputy First Minister with pieces on advice on strategic direction for the Scottish Executive as a whole

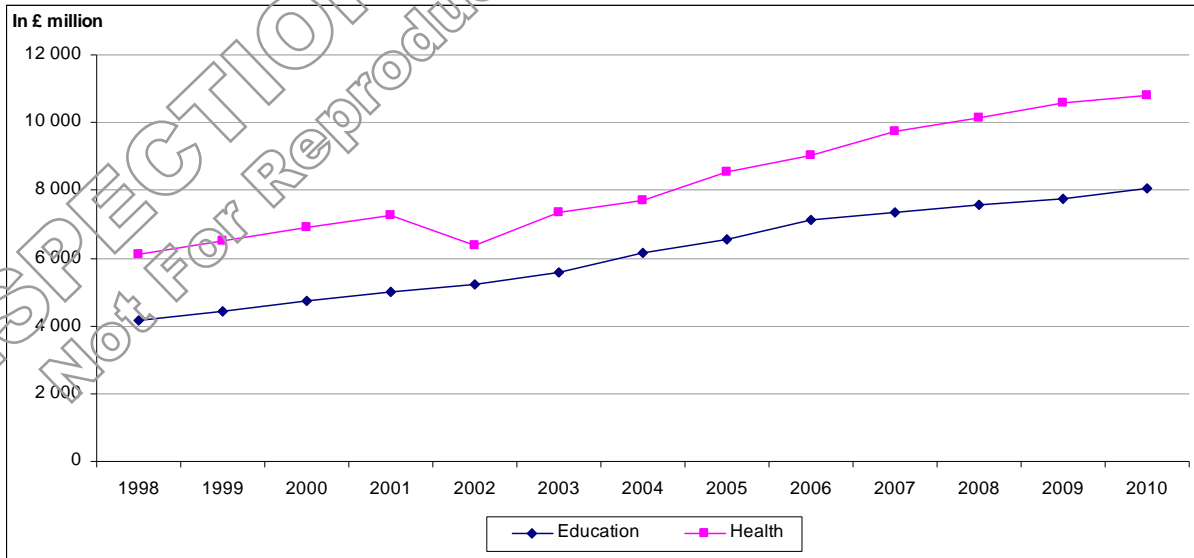
Changing to Deliver: provides an overall programme management function for a number of projects and supporting culture change activities within the Scottish Executive departments

Office of the First Minister: is the executive arm of the Scottish government and is responsible for the running of the government

Performance and Innovation Unit: provides Ministers with a space for the testing of innovative ideas and projects around the theme of public service reform

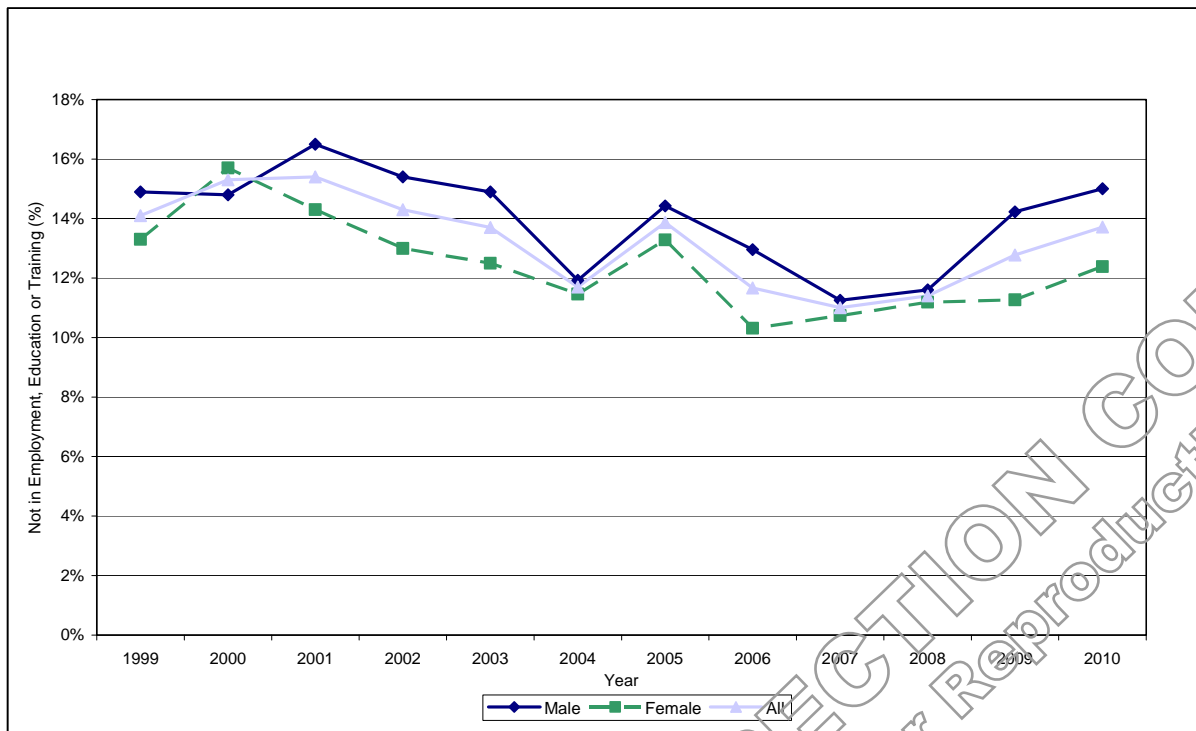
Source: Scottish Government

Exhibit 5
Scottish Government Expenditures in Education and Health, 1998-2010



Source: Scottish Government Expenditure & Revenue Reports 1998-2010, INSEAD Analysis

Exhibit 6
Proportion of 16-19 Year Olds Not in Employment, Education or Training (NEET), 1999-2010



Source: Scottish Government, Annual Population Survey (APS)

Exhibit 7

Healthy Life Expectancy at Birth in SIMD 15% Most Deprived Areas, 1999-2008*

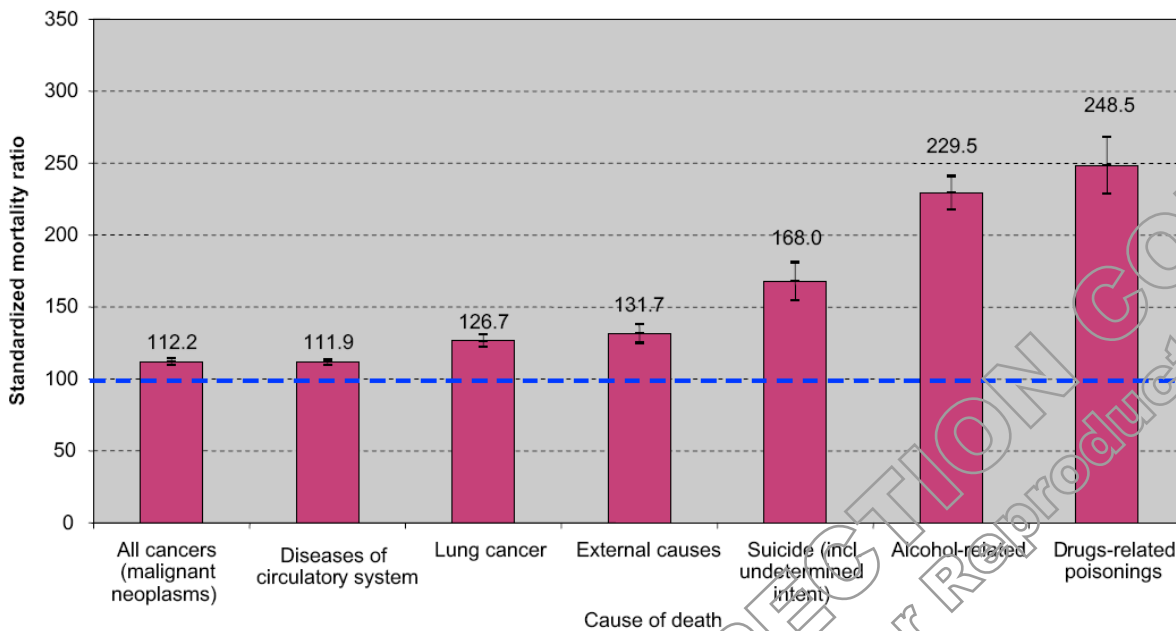


Source: Scottish Government, Health and Community Care Statistics

* Scottish Index of Multiple Deprivation (SIMD) identifies small area concentrations of multiple deprivations across all of Scotland. The SIMD 15% focuses on the 15% most deprived areas in Scotland

Exhibit 8

Cause-Specific Mortality Ratios Standardized by Age, Gender and Income Deprivation Decile for Glasgow Relative to Liverpool and Manchester (combined), 2003-2007



Source: Walsh D, Bendel N., Jones R, Hanlon P. "It's not 'just deprivation': why do equally deprived UK cities experience different health outcomes?" Public Health, 2010