



Trimming the FAT: change at the Ministry of Foreign Affairs and Trade – TEACHING NOTES

When New Zealand Post CEO John Allen was made head of the Ministry of Foreign Affairs and Trade (MFAT) in mid-2009, it was celebrated as an inspired move. As the first business person appointed to lead the Ministry, Allen was expected to draw on this expertise to transform MFAT so that it better projected New Zealand's economic interests offshore, an agenda close to the heart of Foreign Affairs Minister Murray McCully. On paper and by reputation, Allen seemed to have the credentials for the job – with the exception of course of one previously considered key qualification: experience in Foreign Affairs itself. Three years later Allen had become a leader under siege. Outraged diplomats and their families threatened a mass exodus. Allen's response was to explain that change was necessary, a consultation process was underway, and that he welcomed the feedback from staff. McCully meanwhile took the unusual step of releasing publicly a "Dear John" letter to Allen, in which he criticised Allen's proposals and called for a rethink. The letter undermined Allen's leadership and made public the breakdown in his relationship with the Minister.

Course audience

- Middle and senior managers on Public Management and Business Administration programmes at Masters level
- Postgraduate students in public policy, government, management and related fields.
- Advanced undergraduate students in these fields.

Teaching objectives

- To examine the relationship between a Minister and Chief Executive, in the context of a controversial change programme
- To illustrate the challenges of leading transformational change in a government agency
- To highlight the capacity of recipients of change to resist and undermine the leadership of a government agency

Theoretical resources

The following resources are recommended pre-class reading:

This teaching note was written by Dr Todd Bridgman, Senior Lecturer, Victoria Management School, Victoria University of Wellington, and Master of Public Management (MPPM) student Ruth Berry. It has been prepared to support class discussion of the case 142.1. The use of teaching notes is restricted to authorised persons.

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Kotter, J. P. (2007). 'Leading change: Why transformation efforts fail'. *Harvard Business Review*, January: 96-103.

In this change management "classic", John Kotter outlines his 8 steps to transform organisations. This provides students with a framework for assessing the success of Allen and McCully in leading the change programme.

Khurana, R. (2002). 'The curse of the superstar CEO'. *Harvard Business Review*, September, 60-66.

Hero (or transformational) leadership tends to be seen in the mainstream leadership literature as highly desirable, but Khurana (2002) has written about the curse of the hero leader. He argues that a quasi-religious faith in the powers of charismatic leadership exaggerates the impact of CEOs and can destabilise organisations, with heroes easily becoming villains. This article can inform discussions about the strengths and weaknesses of Allen's leadership.

Schein, E. "Organisational Culture and Leadership." Jossey-Bass. 2004

Schein's consideration of organisational cultures provides a useful lens for considering why MFAT staff had such a strong and distinct identity which they felt was threatened by the change programme.

Suggested student assignments

It is important to remember that there are no 'right' or 'wrong' answers to the following questions. The case works best when students are encouraged to construct arguments to these questions, using details from the case to support their analysis. They should also be encouraged to draw on other cases and from their own experience.

What were the pros and cons of appointing Allen to be head of MFAT, given his background and experience?

Pros

- He was coming from a highly successful tenure as CEO of New Zealand Post.
- He was seen as charismatic and inspirational and would therefore bring key elements of transformational leadership into the role, which required leading a transformational change.
- He would bring an external perspective to MFAT, which would be valuable for the upcoming change programme. He had good entrepreneurial skills and business experience, which were to be given greater emphasis in the transformed Ministry.

Cons

- He had no foreign service or core public service leadership experience. As a result, he
 - might not be respected/seen as legitimate by MFAT staff
 - would lack understanding of MFAT cultural values
 - would have no established coalitions/networks within MFAT to offer him political support through the change programme
 - lacked experience in managing ministerial relationships
- His charisma could work against him. Some MFAT staff might interpret his confidence as arrogance and a lack of humility, or see him as reflecting "style over substance".

What were the indicators that MFAT staff and their families were likely to strongly resist the proposed changes?

- The change involved budget, allowances and staff cuts – there were going to be plenty of losers, and few, if any winners from within MFAT’s ranks. The traditional and well-established career structure of MFAT was being threatened, thereby undermining job security.
- The incomes and families of employees would also be affected, further increasing the stakes.
- MFAT employees had “expert power” given the highly skilled nature of the work and the traditionally high barriers to entry to the profession. The difficulty of replacing staff gave them significant power to undermine the proposed changes.
- The SSC had already highlighted a change-adverse culture within MFAT and little recent experience of change.

The SSC report noted that while change was needed, change management capability at MFAT was weak. What could Allen have done to prepare the ground for the 20/20 change programme?

- He could have engaged in greater consultation with MFAT staff about the new strategic direction desired by Government, prior to developing the operational plan. This would have enabled him to gauge the nature and intensity of the resistance, which could have led him to lessen the scale and scope of the change to something more achievable. Allen tried to do this in retrospect by recalling senior diplomats from overseas posts, but by then it was too late – the issue was playing itself out in the media and it was widely seen as an admission of failure.
- He could have taken a more proactive public stance explaining why the proposed changes were necessary, drawing on the SSC report and other evidence to explain why the changes were justified.

What forms of resistance, both overt and covert, did those opposing the change programme engage in?

- There was significant leaking by Ministry insiders of internal documents to Phil Goff, Labour’s Foreign Affairs spokesman. This was picked up by media and left Allen and McCully in the difficult position of having to react to negative headlines.
- The FSA, one of two unions representing Ministry staff, conducted and released a survey revealing staff’s unhappiness with the proposals and their threats to resign.
- The partners of overseas diplomats released an open letter criticising the change proposals and expressing their unhappiness at the lack of consultation with them.
- All but four overseas diplomats petitioned Allen to reverse his plans.
- Former senior diplomat Terence O’Brien made public comment criticising the changes as McCully’s idea and contrary to international best practice.

What can we learn from this case about the nature of resistance in organisations such as MFAT?

- Whilst Allen and McCully held formal authority and therefore had decision-making authority over the scope and scale of the changes, the resistance undermined their power and in the end, scaling back was the only practicable option.
- Allen was charismatic and accrued significant referent power at New Zealand Post, but this dissipated on his arrival at MFAT. Diplomats were powerful because of their expertise and experience, and the threat of mass resignations undermined the change programme.
- The letter from the partners of diplomats shows that it is not just employees who have the capacity to resist and undermine change efforts. The partners and their families were shown to be vital ingredients to the successful operation of overseas posts.
- When resistance attracts the attention of the media, and includes former employees, it becomes very difficult for senior leadership to control.

What leadership lessons could John Allen take from this experience?

- The scale and the scope of the change were too large, given the strength of the prevailing culture and the SSC's questioning of the readiness of MFAT for change.
- This was exacerbated by Allen being a recent and external appointment. He did not have sufficient time to absorb an understanding of MFAT's culture. This partially explains why he failed to anticipate such fierce resistance.
- Being a successful public service head is not just about running a successful organisation that delivers results. Managing the political environment, especially the relationship with Ministers, is vital. For whatever reason, Allen was not able to maintain McCully's full support. As chief executive, responsibility for the smooth implementation of the change programme lay with Allen, but the buck ultimately stopped with the Minister, who could have triggered Allen's dismissal by expressing his lack of confidence in his performance. When the matter spiralled out of control, McCully's public letter to Allen was a reminder of that. This highlights the need for public sector chief executives to manage the political context.

How would you assess the actions of Murray McCully throughout this case?

- It could be argued that McCully betrayed Allen, by using him to implement his own agenda for the transformation of MFAT and then publically blaming and humiliating Allen when it went bad. The counter-argument would state that Allen was naive to take on such a large-scale change given his lack of experience and that as Chief Executive he was ultimately responsible for the change programme. McCully's letter states that he raised concerns with Allen about key aspects of the consultation plan before it was released. Questions could be asked about why McCully didn't take a firmer stance then or why the chief executive didn't appear to take the Minister's warnings on board.

Allen maintained that he anticipated feedback from MFAT staff and their families as part of the consultation process. How do you assess his retreat from the most controversial aspects of the change programme?

- It could be argued that this case demonstrates “best-practice” consultation, given that Allen requested feedback from staff and modified his proposal based on the feedback. Popular conceptions of change consultation see it as a cynical effort to seek input by those affected after decisions have already been taken. The counter-argument is that had this consultation been undertaken earlier, the bitter dispute could have been avoided, or at least been less severe, and could more likely have proceeded without attracting the attention of the media, who reported that senior ministers were effectively managing the retreat.
- Allen’s retreat could be viewed as a humiliating back-down which undermined his leadership, as a sign that it was McCully “calling the shots”, as a sensible decision given the circumstances, as a valuable sign of his respect for the views of MFAT staff, or any combination of the above.

Additional resources

New Zealand’s Cabinet Manual gives guidance on the roles and responsibilities of ministers and chief executives. It could be used to stimulate discussion on the relationship between Allen and McCully <http://www.cabinetmanual.cabinetoffice.govt.nz/3>

Teaching aids

There is a range of audio-visual material to supplement the teaching of the case. These can be used as an introduction for students who might not already be aware of the issues.

A news report which provides an overview of the proposed changes, as well as resistance from MFAT staff. It also discusses the relationship between Allen and McCully (TV3, 2 min 26s)

<http://www.3news.co.nz/Protest-over-92m-spent-on-MFAT-changes/tabid/370/articleID/248414/Default.aspx>

This 12-minute news segment provides useful background on the dispute and features an interview with McCully. (TV3, 12 mins, 34s)

<http://www.3news.co.nz/Murray-McCully-plans-his-next-move-in-MFAT-cuts/tabid/1356/articleID/248772/Default.aspx>

A news report announcing the scaled-back job cuts in March 2012. It includes comments from Allen on the consultation process. (TVNZ, 1 min 54s)

<http://tvnz.co.nz/national-news/reduction-in-expected-mfat-job-cuts-video-4892740>

A news report on the advice by change management consultants for MFAT staff to ‘get a pet’ to help them cope with change (TVNZ, 1 min 49s)

<http://tvnz.co.nz/politics-news/mfat-staff-told-pray-get-pet-cope-job-losses-4764459/video>

An interview with former senior diplomat Terence O’Brien, who was highly critical of the Minister and the change programme.

<http://tvnz.co.nz/breakfast-news/former-diplomat-mfat-budget-cuts-video-4740894>