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**Subcommittee to Study the Proposed Accountability System
for Principal Officials and Related Issues**

Mckinsey Report

In early 1972, the McKinsey & Company, Inc. was requested by Governor MacLehose to conduct a brief examination of the machinery of government in Hong Kong. A number of problems that impaired the effectiveness of the machinery were identified. It also identified the underlying problem as "the Hong Kong Government's fundamental difficulty of trying to expand services in the face of a continuing decline in numbers of skilled and experienced staff, and the resulting dilution of their efforts."

2. Consequently, a substantive study was undertaken to identify and recommend ways of improving the machinery of Government so as to increase its capacity to expand with the limitations on the supply of skilled staff. Two reports were published in November 1972 and May 1973.

3. In brief, the McKinsey Reports recommended the following ways to address the problems identified -

- (a) Strengthening existing machinery -- standardising departmental submissions, delegating authority to departments, and expanding the applications of computers;
- (b) Introducing new machinery to ensure departmental activities would be conceived more in terms of results -- the establishment of long-term programme plans, annual operating plans and resource plans;
- (c) Improving personnel management to recruit more skilled staff and to develop the potential of those already in the service -- opening senior

positions to all grades and promotions should be based on merit rather than on length of service; and

- (d) Changing the organisational structure of government -- dividing the government into branches, which would be responsible for policy formulation, and departments, which would be concerned with implementation.

4. The McKinsey Summary Report (in English only) is attached for members' easy reference. Members who are interested to peruse the two full Reports may contact the Clerk to the Subcommittee.

Council Business Division 2
Legislative Council Secretariat
6 May 2002

Strengthening the Machinery of Government

Summary

November 1972

STRENGTHENING THE MACHINERY

OF GOVERNMENT

SUMMARY

Measured in terms either of its population or of its economy, Hong Kong has one of the highest growth rates in the world - a situation that imposes heavy pressure on Government to expand the scale and scope of the services it provides. It must respond to the demand to increase the volume of existing services. It must satisfy the rising expectations of the population by improving the quality of these services and by introducing new ones. And because the services are becoming increasingly complex in themselves, Government may require increasingly sophisticated methods of providing them.

In addition to meeting the requirements of growth Government must continue to satisfy the normal criteria of public sector activities, both legislative and executive. In its legislative or policy-making role, for example, it must provide Hong Kong with a stable legal environment, it must ensure that all the implications of proposed Government action are considered and that all interests receive an equitable hearing, it must be seen to be fair and honest. In its executive role - for example, in building roads, educating children or running hospitals - it must satisfy in addition criteria that are more akin to those of a commercial undertaking, namely to respond rapidly to changing needs, to provide goods and services to the required standard at minimum cost, and to achieve increasing standards of efficiency and effectiveness.

Whether or not the Government satisfies the legislative criteria to a sufficient degree involves a qualitative judgement that is beyond our competence to make. However, on the question of whether or not the Government meets the criteria for its executive role, we were able to apply more factual measures.

We found a variety of problems, all of them symptoms of one underlying problem - the Hong Kong Government's fundamental difficulty of trying to expand services in the face of a continuing decline in numbers of skilled and experienced staff, and the resulting dilution of their efforts. Our task, therefore, was to identify and recommend ways of improving the machinery of Government so as to increase its capacity to expand with the present limitations on the supply of skilled staff. We were asked to advise on how these improvements could be achieved without, in the first instance, significantly changing the system - that is, without significantly changing organisational relationships, main areas of responsibility or constitutional requirements.

We believe that, within these limits, improvements can be achieved by adopting the three approaches described in the full report. Some further opportunities for improvement undoubtedly exist beyond the limits, and those that merit early attention are outlined at the end of the report. However, the issues they raise will require considerable study before changes can be demonstrated as being both desirable and feasible; it is intended that the more important of them shall be the subject of a further report.

The three approaches that can be adopted now are as follows:

1. Strengthen the existing machinery without making radical changes. This could give significant but limited improvements
2. Introduce new machinery so that executive activities, which are performed mainly by the decentralised Government departments, could be managed more in terms of the results they produce than, as at present, in terms of the resources they use. This change would allow greater central control to be exercised while substantially reducing the administrative load, and would give the Government a greater capability to deal with continuing growth
3. Improve personnel management so that more skilled staff are made available and the potential of those already in service is more fully developed.

Summary descriptions of these recommended approaches, and of the further opportunities for improvement, are given in the four sections that follow. The detailed findings and conclusions on which they are based are set out in full in the main report.

The three approaches are largely independent of each other, and could be tackled separately or together. Similarly, within each approach the individual recommendations are also largely independent and therefore leave Government considerable freedom to tackle them one at a time or all at once. Moreover, the activities of Government are so important to so many people that any fundamental change in its machinery should be introduced with caution. The more radical elements of the proposed new machinery should therefore be tested thoroughly in a limited area before any widespread implementation is contemplated. On the other hand, with Government activities expanding at their present rate, delay now would make change even more difficult later. For these reasons the plans to implement the recommendations will need continuing high-level involvement to ensure the adoption of the best options for change, and the most suitable balance of speed and risk.

Before we examine the proposals it is worth putting them into perspective. As advisers to Government on how to improve its machinery, we have had to focus our efforts on those areas where the potential for improvement is greatest; we cannot give corresponding weight to areas that are working well. Thus, we must dispel at the outset any impression the report may give that the Hong Kong Government is open to censure. This is not the case. The need for change in Government machinery stems primarily from growth. In the main we have found staff to be hard-working and dedicated administrators one has only to look out of the window at Hong Kong's prosperity and vitality to recognise their contribution - but they need to adopt some new attitudes and develop more managerial skills to cope with the expanding activities. Most have been open minded and have given us every cooperation in identifying the problems and in seeking new ways to overcome them.

1. STRENGTHENING EXISTING MACHINERY

By any standards the Hong Kong Government is a large and complex operation. The rapid growth rate of the Colony also means that a new dimension is added to the problem.

In a situation of this kind, the demands made on the machinery of Government - i. e., the day-to-day processes and procedures - are continually developing and changing, and, not surprisingly, improvements are possible at any point in time.

When we looked first for ways to strengthen Government machinery without making fundamental changes, five opportunities stood out as offering the most worthwhile benefits. However, to gain the full benefits, and to create an atmosphere where staff will be continuously looking for further improvements, some changes in the working environment will also be necessary.

Changes in Machinery

The five recommended changes are:

1. Standardise submissions. When departments wish to change Government policy, or when they need more resources, they send a submission to the Secretariat describing and justifying the proposal. At present, for a variety of reasons, the submissions are frequently incomplete. Excessive delays occur and effort is wasted while Secretariat and department staff resolve the difficulties. For the bulk of submissions a checklist can be provided - some are already being tested - that should largely resolve the problem.

2. Clarify the roles of departments and branches. Our experience in working with staff in the Secretariat and departments suggests that many of them are unclear about the scope and responsibilities of their own and others' jobs. As a result important tasks can be left undone; on other tasks staff overlap and duplicate each others' efforts, causing frustration and demoralisation,

We therefore recommend that the roles and responsibilities of branches and departments should be defined in terms of the end results required rather than purely in terms of broad areas of responsibility, as at present. The specific actions required can be completed fairly rapidly, but continuing long-term pressure from the top is required to ensure that staff observe the requirements,

3. Delegate authority even further. In theory the resolutions of Legislative Council and its committees require all decision-making powers to remain highly centralised. In practice, however, substantial decision making powers are delegated. The papers forwarded to committees for approval give only an outline of the proposal and, by implication, say that the Secretariat have investigated the case and believe it to be justified. The committees probe and cross-question, but they rarely reject a proposal. Rather than actually take the decisions they maintain a valuable pressure on Secretariat staff to get the decisions right. Further, the Secretariat staff have large negative decision powers in that they decide which proposals are put forward for committee approval.

In practice, therefore, the person who issues the papers to the committee takes the decision. As volume increases this responsibility is delegated down the organisation.

Further such de facto delegation will be inevitable as the volume and scale of Government activity increases. We believe that rather than be overtaken by events, Government should anticipate this requirement now so that senior staff can be relieved of some of their administrative load and can give higher priority than at present to more critical tasks.

The degree of further delegation must be left to the judgement of senior staff because the present machinery does not provide a means of controlling overall end results without examining individual items. To help these judgements, the decision levels of senior posts and committees should be analysed regularly and systematically. First trial attempts have revealed a lot of scope for delegation.

4. Control the progress of files. Many of the decisions taken by Government are extremely complex and require files of papers to be passed through large numbers of departments and branches. When top-level staff perceive a matter as urgent, the machinery of Government can respond with great rapidity and impressive effect. But top-level pressure

cannot be applied to every individual file and therefore for various reasons some substantial delays can occur on more routine matters.

To avoid such delays two steps are necessary. First there should be a systematic and routine measurement of the paperwork flow and, second the measure should be used by top-level staff to apply pressure or identify remedial action. Such steps are taken already in some instances.

We recommend that simple control systems should be introduced across the whole Secretariat and extended later to the departments.

5. Route in parallel rather than in series. In many cases files and papers are routed serially from person to person because at each stage the individual needs the total picture. At times, however, parallel routing and the consequent speeding up of processes become practical.

Many of these changes can be achieved only through 'managerial' observation and pressure, but for the more important processes some more systematic O. & M. analyses should be undertaken.

Changes in Environment

None of the ideas underlying the above recommendations are new many of them are already being applied in some areas; none of them require other than general skills to identify and implement - skills of an order that already exists within Government. The five changes described above will bring the best immediate benefits but other opportunities abound. An environment is therefore needed that actively encourages staff not merely to operate the machinery but also to improve it.

Specifically, the Government should:

1. Make available 20-30 per cent of D. C S. 's time for direct management of the Secretariat. We believe major benefits could be gained by freeing sufficient of the D C. S. 's time to spend about one day a week regularly visiting all parts of the central Secretariat, and ultimately other areas of Government, observing what is actually happening, identifying problem areas, training more junior staff and understanding their difficulties, and generally keeping the place on its toes. We believe that such action would highlight many minor but cumulatively important improvements.

The more immediate reason for needing an active top-level presence is to gain tangible benefits from the improvements recommended in this section and the others that will follow.

1. Given the present responsibilities of the D.C.S., freeing even one day a week would be extremely difficult. There seem to be two possible solutions: heavy delegation to branch heads, or the creation of a second post at D, C. S. level. Neither solution is perfect, and the choice must depend on a judgement of their relative merits.

2. Upgrade the A. C. S. (S. D.) post to P. A. C. S. level. To provide the D. C. S. with the necessary direct support to make the management role effective, the present A. C. S. (S. D.) post should be upgraded to P. A. C. S. level. In the short term the main task would be to oversee the implementation of the agreed recommendations in this report. Longer term, the emphasis would be on identifying and implementing further improvement opportunities. These responsibilities would be difficult to discharge unless the incumbent of the post is at least of equivalent status to most branch heads in the Secretariat.

2. INTRODUCING NEW MACHINERY

The end result of Government's complex processes is the implementation of a large number of programmes* ranging across diverse fields such as crime prevention, housing, education. Achieving the objectives of these programmes requires departments to carry out a mix of activities** and in turn each of these activities requires a mix of resources.

The interrelationships between the programmes, activities and resources are also complex, and for this reason issues and decisions have to be examined from several viewpoints. Thus planning, decision making and control in Government need to be conducted in several dimensions.

In addition to taking account of this complexity, the approach used to manage these activities must meet three basic criteria. First - and most important - it must allow the centre to hold the ultimate decision powers and to retain strong overall control of all facets of Government business. Second, the approach must enable top-level Secretariat staff to devote the full attention merited to the major issues facing Government. And finally, it must be operable by the numbers and skills of staff currently available.

* - A continuing service to the public, direct or indirect - e.g., Medical and Health Service

** - The tangible action taken to achieve programme objectives - e.g., keeping shops and offices under surveillance.

To meet these criteria Government needs to delegate to departments, in a controlled manner, responsibility for the operational or executive types of decision that represent the bulk of Government activity. The generally more difficult and more important policy-making or matter-of-judgement types of decision should be retained as a central responsibility.

The present machinery does not permit the departments actually to take many decisions, since it provides few means of ensuring that any delegated decision powers are properly exercised without individually checking each decision. As a consequence, large numbers of relatively unimportant decisions have to be taken centrally - for example, whether to buy a calculating machine, whether a new filing cabinet is warranted.

When the Government machine is small and most applications can be examined in depth by the few top-level staff, this approach can work well and be highly efficient. But as the size of operation grows, this approach can be maintained only by further fragmentation of responsibility for individual resources. It then becomes increasingly difficult to:

- Maintain or improve value for resources
- Allocate resources in a balanced manner
- Obtain good value from scarce experienced staff
- Achieve a rapid response for decisions and implementation
- Focus on problems as a whole.

What is needed, therefore, is a new approach for managing departmental activities that will permit the desired delegation. We believe that an approach that concentrates on planning and controlling departmental activities in terms of their end results or their output of goods and services rather than, as at present, in terms of the input or the individual resources used, will meet this requirement.

Although this recommended approach is very different from the one used at present, there is nothing novel about it. It is the kind of approach used by most large businesses with diverse operations; it is also being adopted progressively by central and local government, notably in Sweden, the United Kingdom and the United States.

To adopt this new approach the Government needs to make four changes in its machinery.

1. Introduce annual operating plans. These plans relate the use of resources to the required end results of an activity, and provide the basis for

- Ensuring that resources are allocated in a balanced manner
- Obtaining increasing value for resources
- Delegating executive decisions in a controlled manner so that the load on top-level staff is reduced.

This type of plan is often generated in Hong Kong when resources are required for implementing new policies, but typically not for the bulk of expenditure that relates to existing policies.

2. Formalise the process and extend the coverage of long-term programme plans. This type of plan relates activities to overall programmes. It provides an aid to top-level staff, first in determining and setting overall programme objectives, and second in identifying and then setting appropriate objectives for each departmental activity that contributes to the programme

Long-term programme plans have been drawn up for some areas, but typically efforts are sporadic and plans are not kept up to date on a rolling basis.

3. Formalise the process and extend the coverage of resource plans. This type of plan identifies total requirements, across the whole Government Service, for particular resources such as money, categories of staff, land, etc. It thus helps to identify potential shortfalls in time to take corrective action and to ensure that scarce resources are diverted to priority areas with minimum disturbance.

Again examples of these plans do exist, but they are insufficiently complete or up to date to achieve their full potential. The need to introduce such plans for key grades of staff is covered more fully in the next section.

4. Introduce processes for monitoring performance against plans. To gain the full benefits of any planning process it is necessary to monitor performance against plan to detect shortfalls while there is still time to take corrective action. The recommended new processes provide a reference against which performance can be monitored. At present, such controls as do exist are exercised in the form of limits. The main form of control is financial and is maintained by requiring formal application to be made before the approved vote on any category or sub-category of expenditure can be exceeded. This necessary control prevents

overspending, but it does little to ensure that money is well spent and nothing to prevent what may be equally damaging, namely under spending.

* * *

While we believe the new approach would be more effective than the present method of managing departments' activities, the difficulty of reeducating large numbers of senior staff to think in a new way, while they have to keep the Government machine operating, should not be underestimated. Further, given the size of Government, the change could not be achieved overnight; a practical period for full implementation would certainly be measured in years rather than months.

Although we believe from our limited assessment that the staff are capable of adapting to this new approach while dealing with current issues, at this point of time it is not certain whether all the difficulties of implementation can be overcome. Moreover Government should not embark on such radical change without a thorough evaluation and test. We have therefore recommended a cautious trial in one or two sample areas before embarking on full scale implementation. Such trials have the further invaluable advantage of allowing detailed development of the new processes in practical surroundings,

When the initial tests are completed around the end of March, 1973, Government should decide the priority for extending the implementation of the new processes,

3. IMPROVING PERSONNEL MANAGEMENT

To achieve the objective of personnel management - i.e., to meet the manpower requirements of each grade - four basic tasks must be carried out: recruiting people to fill vacancies; retaining people by providing a satisfying career package; developing people to fill more senior posts; deploying people to positions where they are most useful.

Measures of effectiveness applied to the present performance of these tasks suggest a number of problems. The overriding problem is the serious shortage of manpower in Government, overall and in key grades such as the Administrative Class or the Police. There is also evidence of problems in general morale; in the speed and effectiveness of response to changing personnel needs; and in the way resources are used in achieving personnel objectives.

These problems arise largely from the lack of coordination of the four tasks. Responsibility for their execution is spread both within the departments themselves, and between the various Establishment Branch divisions, P. S. C., etc. This distribution results from a number of factors, including statutory requirements, and the need for centralising certain functional activities and skills, and we recognise that it must remain largely the same. What is needed, we believe, is an approach to coordinating the various tasks of each class or grade that will ensure they are carried out effectively, and a clear assignment of responsibility for this coordination.

The recommended approach consists of the systematic development and regular revision of a Personnel Resource Plan. Application of the approach to the few sample grades we have examined suggests there may be many opportunities to improve performance of the four tasks, for example:

- Recruiting might be improved by (a) setting up a U.K. recruiting office; (b) exploring alternative recruiting sources; (c) transferring existing staff from professional grades to the Administrative Class.
- Retaining staff might be improved by (a) developing a compensation package that suitably balances the various elements - e. g., pay, pensions, housing; (b) changing the personnel management approach to a more sympathetic, positive style.
- Developing staff might be improved by applying more specific performance criteria so that individual development needs are identified more clearly.
- Deploying staff might be made more effective by wider use of formal job descriptions and increased tenure in postings.

Once agreed, the Personnel Resource Plan would provide clear guidelines within which to design short-term personnel activities and develop Annual Staff Estimates

4. CONSIDERING LONGER TERM CHANGES

We were asked in the first instance to recommend ways of improving Government machinery without fundamentally altering the present system. However, some further worthwhile improvements can undoubtedly be achieved if these limits are extended. This chapter outlines seven opportunities that we believe merit further consideration.

The changes implied by these opportunities would be fairly radical, and the issues they raise warrant a considerably wider and deeper analysis than we have given them in our study so far. We therefore only outline the problems here and suggest the form the solutions might take. On the more immediate of these problems we will be working with Government to reach more specific recommendations.

Reallocate Department Responsibilities

If Government is to get full benefit from the new approach recommended in Section 2 - to manage departments in terms of their results rather than the resources they use - responsibilities for each required result must be clearly identified. Some organisational adjustments will therefore be necessary,

The reorganisation could take a number of forms:

- Creating new departments as is being currently contemplated for Housing
- Merging department responsibilities, as has been done under the new Information Secretary
- Reorganising departments internally so that responsibilities reflect tasks more closely - for example, the recent reorganisation of U. S. D. on geographic rather than functional lines.

Group Departments Into Managerial Units

In the present organisation structure, the heads of some 40 or 50 departments and of the majority of Secretariat branches report directly to the C, S, or D. C. S., creating a span of control that makes effective management difficult. The span could be reduced by one of several alternatives - e, g., grouping departments under "super directors" as in P,W.D.; changing the role of Secretariat branch heads so that they become middle managers between department heads and D. C. S.; creating additional posts above Staff Grade A level to share the D. C. S. responsibilities,

Change Secretariat Policy Branch Responsibilities

The need to extend and formalise programme plans was discussed earlier. One of the difficulties associated with their development and effective implementation at present is that responsibility for a programme may span several branches and departments, and for many programmes no

single person, except at C. S. or F. S. level, is responsible for coordination.

We believe the problem could be solved by relating Secretariat policy branch responsibilities to groups of programmes rather than to groups of departments as at present.

Reorganise Secretariat Branches

The Secretariat branches divide into four main categories: policy branches, which advise on the type and standard of services Government should provide; resource branches, which advise on the overall allocation and control of a particular resource; adviser branches, whose special expertise is available to assist throughout Government; and support branches, which provide essential central services for other branches and departments. At present most Secretariat branches play more than one of these roles, which results in two main problems: a lack of clarity among staff as to what they are supposed to produce by way of results, and a possible misuse of scarce skills.

We believe improvements might be achieved by:

- Segregating the four categories of role so that each branch focuses on one type only
- Reorganising the branches so that similar managerial activities are grouped together. F. S. might take charge of all resource branches, while D C S. takes charge of policy and support branches.

Rationalise and Change the Roles of Advisory Committees

The number of advisory bodies is large and is growing. Clearly these bodies perform a valuable and essential function, but frequently the benefits they produce hardly seem to merit the demands they make on the time of top-level staff and busy private citizens. We believe that more benefits could be obtained, first by rationalising the roles of these committees and reducing their numbers; second by adapting the existing machinery and the proposed new machinery to give committees a more positive and more clearly defined role in policy formulation.

Hive Off Some Departments

Many Governments reduce the central administrative load by hiving off sections of activity to form separate agencies or nationalised industries. Government's role in the activity is then limited to setting overall standards and determining key factors such as prices; in all other respects the agencies are managed independently by their own Board and staff. In Hong Kong potential candidates for hiving off would include the airport, the railway, the Waterworks and the Post Office.

Increase Delegation From Finance Committee

The present machinery requires most decisions on the use of funds to go to Finance Committee or one of its sub-committees. The increase in scale of Government activity results in a corresponding increase in the numbers of committee items, and although steps are taken periodically to delegate authority to individuals the volume is still monumental.

The situation could be improved by greater statutory and other delegation, or by:

- Reducing supplementary papers by using operating plans as a basis for Annual Estimates
- Making greater use of block votes
- Reducing the number of heads and sub-heads in the Annual Estimates.

* * *

The introduction across the whole of Government of the recommended changes will entail a sizable additional work load, much of which will inevitably fall on senior staff who are already hard pressed with day-to-day administration. It may therefore prove to be necessary to tackle implementation over a period of years,

Tests to determine the desirability and feasibility of the recommended changes are now being carried out in pilot areas. When they are completed, Government will be able to decide more precisely on the timing of full implementation.

Whatever timing is decided, we have no doubt of the ultimate value of full implementation. Eventually, it should result in substantial savings in manpower and other resources. And it should considerably strengthen the Hong Kong Government's capability to meet the requirements of growth in the future.