



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

On 21 March 2012, John Allen, Chief Executive of the New Zealand Ministry of Foreign Affairs and Trade (MFAT) received an unusual letter.¹ It came from Foreign Affairs Minister Murray McCully and it set out, over four pages, the Minister's significant concerns with Allen's proposals to radically reform the Ministry, which had first been outlined in an internal consultation document, and subsequently explained at a press conference. The proposal would see 305 of the 1340 staff lose their jobs and a further 600 needing to reapply for theirs. Major changes to the employment conditions of diplomats – including entitlement reductions and loss of security of tenure – and closures of posts were also proposed.² The change proposal had sparked not only political controversy, but a furious and very public revolt from the diplomatic community itself, including an unprecedented series of leaks from within the Ministry.

McCully took the unusual step of releasing his letter to Allen to the media. The public nature of the criticism and the very detailed exposition of the Minister's concerns about both Allen's proposals and his handling of the change process itself were uncommon. The media speculated McCully had lost confidence in Allen and wanted him sacked. McCully denied this, but he left no doubt that he held Allen to blame for the turmoil. It wasn't the first time McCully had so publicly clashed with those reporting to him, having resigned as Tourism Minister in 1999 after a major fall-out with the Tourism Board.³

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¹ Young, A. "McCully expresses confidence in John Allen." *New Zealand Herald*, 23 March 2012.

² Cheng, D. "Ministry to lose fifth of staff in radical cuts." *New Zealand Herald*, 24 February 2012.

³ http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=5832.

A leader to break the mould

When Allen, the former New Zealand Post Chief Executive was made head of MFAT in 2009, it was celebrated as an “inspired move” in the local *Dominion Post*’s editorial.

“Foreign Affairs in this country has mostly been the preserve of diplomats and cast-out politicians. The Ministry has never been led by a businessman, or anyone who has not earned his spurs by patiently crafting elegant papers on arcane aspects of foreign policy...[John Allen] has instead been a successful commercial operator, who straddles easily the white line between the public service and private sector sides of his SOE operations.”⁴

Tipping the announcement several weeks earlier the *New Zealand Herald*’s foreign affairs commentator Fran O’Sullivan said Allen would:

“not only break the mould as the first business person appointed to lead the Ministry...he will also be a key driver in a huge transformational programme designed to leverage ‘New Zealand Inc’, so New Zealand’s vital economic and business interests are better projected offshore.”⁵

There is little to be found on the public record about what the MFAT community thought of the appointment, but it was evident that McCully, adept at off-the-record media briefings, had successfully billed Allen’s arrival. As the Opposition’s spokesman for the portfolio for nine years prior to becoming the minister, McCully had, for some time, set his sights on a Foreign Affairs shake-up. He evidently believed the appointment of an “outsider” with no MFAT “baggage” would be a key component of the transformation. O’Sullivan’s “scoop” knowingly asserted that the State Services Commission (SSC), the central government agency which employs public service chief executives, had been “encouraged to look at the top job in an ‘expansive way.’”⁶

Allen had an impressive CV, good entrepreneurial skills and plenty of charisma. When announcing his appointment as head of New Zealand Post, then NZ Post Board chairman and former Prime Minister Jim Bolger said Allen had successfully grown the profitability of NZ Post’s core business and “had a tremendous ability to inspire those around him.”⁷ O’Sullivan labelled him an “accomplished after-dinner speaker and exceptional dinner party host who works the Wellington scene well.” A lawyer by profession, he was a partner at a local law firm before being recruited to New Zealand Post on secondment in 1994. He enjoyed a rapid rise up the ranks before beating international competitors to become its CEO in 2003. On paper and by reputation, Allen seemed to possess many of the credentials needed for the MFAT job. McCully wanted to transform the ministry and Allen displayed all the characteristics of a transformational leader. What he didn’t have, and which marked him apart from all his predecessors, was experience, not just in Foreign Affairs, but in the core public service.

Change afoot at MFAT

Allen arrived at MFAT less than a year after the National Party won enough seats in the 2008 election to become the new Government, and as the impacts of the global financial crisis

⁴ Editorial. *Dominion Post*. 19 May, 2009.

⁵ O’Sullivan, F. “Allen appointment a new direction.” *New Zealand Herald*, 9 May, 2009.

⁶ O’Sullivan, F. “Allen appointment a new direction.” *New Zealand Herald*, 9 May, 2009.

⁷ Bolger, J. Media statement. *NZ Post*. 8 May, 2003.

were starting to bite. The Government embarked on a determined belt-tightening campaign, drawing flak from public service unions and the Opposition who argued the financial crisis was being used to divert attention from an ideological agenda to reduce the size of the public sector. A cap on staffing numbers was imposed in December 2008 requiring all agencies to reduce staff as well as the size of their operating budgets.⁸ Sector-wide reform, with a focus on value-for-money and better public services was a clear Government imperative, although the scale of change sought by the Government within individual agencies differed. In 2010 the SSC published an independent review of MFAT,⁹ around the same time as the Ministry's own Statement of Intent 2010-2013 was published.¹⁰ Both documents identified the need for considerable reform of the Ministry and pointed to the MFAT 20/20 change programme, which was already underway. The SSC report on MFAT was one of the first four Performance Improvement Framework (PIF) reviews – an initiative spearheaded by central agencies to drive performance improvements across government.¹¹ The review rated MFAT's management as needing development in vision, strategy and purpose, leadership and governance, culture and values and engagement with ministers. Its financial and resource management rated poorly, and the review identified the need for a more “proactive and strategic” Ministry that was able to make “hard resource allocation decisions”.

The PIF review listed a range of factors challenging the Ministry, including cost pressures and the emergence of new international strategic priorities. It observed that MFAT had experienced little change of late, which meant that its change management capacity was under-developed. Therefore, the need for rapid change to reduce uncertainty, demonstrate direction and generate results would have to be balanced against the organisation's capacity to change, the PIF review warned. It noted that MFAT had a strong culture of professionalism, which encouraged high standards and valued on-the-job development through its practice of rotating generalist diplomats between postings overseas (*Exhibit A*) and in Wellington. However, while this process was competitive, it had created a culture that was “relatively closed, individualistic, hierarchical and risk averse.” The review recommended MFAT's management be strengthened, with more attention to be given to addressing under-performance of staff. Career progression and talent management appeared under-developed and senior staff were not leaving the organisation, thereby impeding succession processes.

A diplomatic crisis

While Allen and his senior leadership team had been busy, as had the PIF review team and no doubt the Minister, little of this activity was subject to the public gaze until April 2011, when McCully first outlined the scale of reform envisaged in a speech and admitted it was already ruffling diplomatic feathers.¹² McCully emphasised the Government's fiscal pressures and the new strategic trading priorities for the Ministry, which required “dramatically changing” the way MFAT did business, including “changing the size and configuration of our

⁸ Coleman, J. Media statement. “Core public service numbers continue to shrink.” 30 August, 2012.

⁹ Performance Improvement Framework: Formal Review of the Ministry of Foreign Affairs and Trade – September 2010. www.ssc.govt.nz The reviewers were the international consultant, former head of Treasury and of the ANZ Bank, Dr Murray Horn; PriceWaterhouseCoopers organisational change expert Debbie Francis, and recently retired former ambassador John Wood.

¹⁰ MFAT Statement of Intent 2010-2013. www.mfat.govt.nz

¹¹ https://www.ssc.govt.nz/sites/all/files/CAB-PAPER-The-Performance-Improvement-Framework_2.PDF

¹² Watkins, T. “Feathers ruffled in diplomatic shake-up”. *Dominion Post*. 6 April, 2011.

posts”.¹³ There would need to be “significant economies in back office services in Wellington, and the elimination of many seconded administrative positions in overseas posts.” Changes would have “profound implications for Ministry staff” and would include opening up more heads of mission roles to non-ministry staff. McCully described the changes as “opening some doors and windows” at MFAT. He said:

“The Ministry has a track record of losing too many talented younger people because they have been forced to wait far too long for their opportunities. We need to acknowledge that experience in the private sector, or another relevant government agency, can bring significant benefits for our diplomats. We should not just facilitate but reward this type of career development.”¹⁴

By late 2011, the MFAT *Briefing for the Incoming Minister* (BIM) was describing the 20/20 change programme as “the most profound structural, cultural and technological reform in the Ministry’s history.”¹⁵ Significant operating savings were identified, and job losses were inevitable. The BIM wasn’t immediately released and when it was, the \$40 million total for savings – subsequently leaked – was blacked out.¹⁶ In February 2012, John Allen held a press conference to explain the internal release of a consultation document outlining the proposed job losses and other substantial employment changes. It was then that the matter became the subject of public debate. Allen explained the proposal to cut 305 jobs, with a further 600 staff to reapply for jobs in new specialist roles. There would be significant reductions in offshore allowances paid to diplomats with families¹⁷ and no guarantee of jobs once they returned to New Zealand. Outsourcing of some services was planned and further diplomatic posts would be closed and replaced by regional hubs.¹⁸

Within a week the Foreign Service Association (FSA), one of two unions representing diplomatic staff, released the details of an internal survey which found that nearly three-quarters of staff working overseas were either considering ending their posting early or resigning as a consequence of the proposed changes. Association president and MFAT staff member Warren Fraser said that two-thirds of Wellington-based staff said they would be less likely to consider an overseas posting abroad and a further quarter said they were considering resignation.¹⁹

“The Ministry is proposing to offer peanuts to work long hours in often unglamorous locations where staff partners often can’t or aren’t allowed to work. If it proceeds ... staff will desert the Ministry in droves.”

The following day Allen was grilled by opposition parties at a parliamentary committee reviewing MFAT’s financial performance. The attack was led by Labour’s Phil Goff, a former Foreign Affairs Minister, whose on-going relationships with Ministry insiders had already resulted in him being leaked documents.

¹³ “while 80 percent of New Zealand’s exports go to Asia and Australia, and only 20 percent to Europe and the United States, ... more than half our overseas diplomats are in the UK, Europe and the US.” “Ruckus self-inflicted”, *The Press*, 9-04-2012, pA14.

¹⁴ McCully, M. “Speech to the NZ Institute of International Affairs.” 5 April, 2011.

¹⁵ Briefing to the Incoming Minister of Foreign Affairs. September 2011 www.mfat.govt.nz.

¹⁶ Trevett, C. “\$15m more fat likely to be stripped from MFAT” *New Zealand Herald*. 2 March 2012.

¹⁷ Leaked figures cited “as much as \$440,000 a year for rental accommodation”, schooling costs of up to “\$213,000 a family” and allowances “totalling well over \$100,000.” Watkins, T, “Diplomats’ hefty perks revealed”, <http://www.stuff.co.nz/national/politics/6629834/Diplomats-heft-perks-revealed>

¹⁸ <http://www.stuff.co.nz/national/politics/6466526/Foreign-Affairs-Ministry-confirms-305-jobs-to-go>

¹⁹ <http://www.scoop.co.nz/stories/PO1202/S00316/mfat-faces-diplomat-crisis-says-survey.htm>

Allen described the FSA survey as an “interesting early snapshot...undertaken almost immediately after the release of the material.”

“My view is that we will get, as I said to you, a great deal of constructive and useful feedback from people as we move forward. The intention of us all is to build a ministry which can have pride in its past, but is not so linked to the past that it can’t reinvent itself to be similarly successful in the future.”²⁰

Allen also referenced the PIF report and the “significant weaknesses” it identified. He noted that the proposed changes reflected “not only the insight of that report but the insight of decades of other reports which have been prepared for the ministry and simply not implemented.” He explained that the Ministry could not afford to continue to pay overseas allowances which compensated for the loss of a partner’s income.

In ensuing weeks, the Labour opposition leader David Shearer revealed that a contracted change management advisor had, as part of a workshop on “getting yourself through change”, recommended MFAT staff take a hot bath, pray or meditate to reduce stress, or to get a pet, since their love was unconditional.²¹ There were further leaks of information to Goff, including confidential cables from top diplomats to Allen criticising the change plans.²² In March 2012 the partners of overseas diplomats released an open letter²³ (*Exhibit B*) urging Allen to “reconsider this proposed dismantling of the foreign service” and expressing their dismay at the lack of consultation with them. The letter described a Ministry at “tipping point” and warned that if the changes were implemented “partners will no longer be able to support our spouses continuing their careers with MFAT.”

The Government steps in

By 21 March, the *New Zealand Herald* was reporting the imminent release of McCully’s letter, surmising Allen had “cocked up” with the “cookie cutter” approach taken to the restructuring.²⁴ The Minister, the paper reported, “reckons that as the purchaser of the ministry’s services he is entitled to get deeply engaged with the scope of the restructuring. But he can’t run the operational side.” McCully’s letter, subsequently released, expressed exactly this line of reasoning, while also explaining his need to have regard for the “management of political risk, given the highly politicised commentary that this process has attracted.”²⁵

McCully also attempted to distance himself from the flak the proposal had generated.

“At the time the document was released to staff I stated publicly that the change proposals were a genuine attempt to modernise the Ministry...as we both know, change is overdue... Prior to the release of the consultation documents to staff I was forthright in my views about some aspects of the reform proposals. It would be fair to say that the consultation process has seen strong criticism directed at many of those same features of the change process. Now that

²⁰ Uncorrected transcript of Foreign Affairs, Defence and Trade Committee’s Financial Review of the Ministry of Foreign Affairs and Trade. 1 March 2012. (Released by committee clerk on request).

²¹ Small, V. Stressed MFAT staff told to ‘get a pet’, *Dominion Post*, 7 March, 2012.

²² Young, A. “MFAT staff cable leaks continue.” *New Zealand Herald*. March 9, 2012

²³ <http://pacific.scoop.co.nz/2012/03/mfat-partners-letter-to-ceo-on-proposed-restructuring/>

²⁴ O’Sullivan, F. “No diplomatic immunity from McCully.” *New Zealand Herald*. 21 March 2012.

²⁵ Young, A. “McCully expresses confidence in John Allen.” *New Zealand Herald*, 23 March 2012. (Letter posted online in story).

the obligatory consultation process is coming to an end it is important that key decisions are made quickly, to adopt changes where they will provide long term benefits and suspend change debate where they will not.”

The *Trans Tasman* political newsletter, a well-read weekly summary of goings-on at the Beehive,²⁶ immediately speculated a humiliated Allen might be considering resigning²⁷ but there was no sign of that. Days after McCully’s letter, Goff released a leaked letter in Parliament, in which all but four overseas diplomats petitioned Allen to reverse his plans.²⁸ Former senior diplomat and foreign affairs commentator Terence O’Brien published an uncharacteristically savage commentary in the *Dominion Post*, claiming the culture of MFAT was being threatened by the personal beliefs of the Minister, which ran counter to what was regarded as international “best practice”. O’Brien believed there had been “a seeming collapse of mutual trust and respect which may now only be repaired by change among the main actors involved.”²⁹

In early May three Cabinet papers detailing the proposed revised changes were leaked to the opposition’s Phil Goff, sparking Government fury and the launch of an SSC inquiry into the leaks, promptly labelled a witch-hunt by opponents. The matter had now escalated to Prime Ministerial level, with John Key and his officials reported to be taking a “hands-on role”³⁰ in the restructuring, which included giving Allen a “top-level grilling”. Key told reporters the Cabinet had “not fully sighted” the initial change proposals and wanted to ensure the final changes were “appropriate.” He was also extremely critical of the leaks, noting that only about 20 people had access to the material and he was “deeply disappointed because at the end of the day these are people charged with diplomacy and . . . upholding the highest standards by virtue of the job and they completely failed the test.”³¹

Allen changes course

In May 2012, the final change proposals were announced. A scaled back restructure was reported,³² with the job cuts reduced from 305 to 79 and many of the proposed entitlement cuts reversed. The FSA described the process as shambolic, with Fraser noting “the saving grace of late is that John and his team have remembered they can talk to staff.”³³ Allen believed “the process has gone very well”, with the scaling back of the proposals a demonstration that the consultation process had been genuine. Prime Minister John Key was not so positive. Asked if the restructuring had been botched, he said many changes his Government had made had gone smoothly “and whatever way you define this, this hasn’t and we need to learn some lessons from this.”³⁴

Had the appointment of Allen been a mistake, given his lack of relevant experience? Did he and his senior leadership team take sufficient heed of the PIF review’s warnings about the need for caution around the speed and size of change? Was the Minister to blame for

²⁶ New Zealand Government ministers’ offices are primarily located in a building designed in the shape of a Beehive. The Beehive has become the colloquial term for the seat of political power.

²⁷ Young, A. “McCully expresses confidence in John Allen.” *New Zealand Herald*. 23 March 2012.

²⁸ Young, A. “All but four diplomats condemn cuts to MFAT.” *New Zealand Herald*. 29 March 2012.

²⁹ O’Brien, T. “Culture of MFAT under Threat”. *Dominion Post*. 2 April, 2012.

³⁰ Watkins, T. “Key hands-on in MFAT restructuring”. *Dominion Post*. 8 May 2012.

³¹ Watkins, T. “Key hands-on in MFAT restructuring”. *Dominion Post*. 8 May 2012.

³² “MFAT cutbacks ‘shambolic’ - Foreign Service Association.” *TVNZ*. 17 May, 2012.

³³ “MFAT cutbacks ‘shambolic’ - Foreign Service Association.” *TVNZ*. 17 May, 2012.

³⁵ <http://pacific.scoop.co.nz/2012/03/mfat-partners-letter-to-ceo-on-proposed-restructuring/>

interfering in the change programme? Should MFAT staff have been more open to seeing the benefits of the change? Or was the change programme itself the problem?

Exhibit A: Countries where New Zealand has Embassies and High Commissions (as at March 2012)

Australia	Hong Kong	Papua New Guinea	Thailand
Austria	India	Philippines	Timor-Leste
Belgium	Indonesia	Poland	Tonga
Brazil	Iran	Russia	Turkey
Canada	Italy	Samoa	United Arab Emirates
Chile	Japan	Saudi Arabia	United Kingdom
China	Kiribati	Singapore	United Nations - Geneva
Cook Islands	Korea	Solomon Islands	United Nations - New York
Egypt	Malaysia	South Africa	United Nations - Vienna
European Union	Mexico	Spain	United States of America
Fiji	Netherlands	Sweden	Vanuatu
France	New Caledonia	Switzerland	Viet Nam
Germany	Niue	Taiwan	World Trade Organisation

Exhibit B: Excerpt from MFAT partners' letter of 12 March 2012 to John Allen³⁵

Dear John

MFAT spouses and partners have a unique perspective on the likely impacts of the Ministry's proposed restructuring on the careers of our partners and the effectiveness of New Zealand's diplomacy.

MFAT partners have been explicitly excluded from the consultation process but we are determined to be heard on issues that will directly influence our willingness to continue to make the sacrifices and contributions that being the partner of an MFAT officer demands. More than 180 partners have come together using social media to share our grave concerns about the proposed restructuring.

Given the lack of any formal avenue to convey our views, we have chosen to present them in this open letter. Consistent with the past practice of constructive dialogue and consultation with partners, we ask that MFAT:

- ♣ *Reconsider the path on which it is setting the organisation with this proposed dismantling of the professional foreign service,*
- ♣ *Recognise MFAT partners as key stakeholders in the future of MFAT,*
- ♣ *Initiate a consultation process with MFAT partners on the impacts and implications of the proposed restructuring,*
- ♣ *Allow the Family Liaison Coordinator to communicate and liaise with MFAT partners freely throughout the consultation on the restructuring.*

What value can partners add to this consultation?

As MFAT partners we have a thorough understanding of the demands of a diplomatic career, and a legitimate voice in commenting on the likelihood that the restructuring will succeed in its aim of retaining good staff.

All MFAT partners and families have felt and absorbed the consequences of accompanying MFAT staff overseas. We have:

- travelled and served in inhospitable and insecure environments;
- accepted disruption to careers and schooling;
- absorbed loss of income and pension; and
- suffered the impacts of long absences from family and friends.

In doing so we have committed ourselves to supporting the career of our MFAT partner and sharing in their responsibility to represent New Zealand in the manner that Government Ministers, government agencies, businesses and citizens in trouble expect. We have done this with pride, buoyed by the knowledge that we were contributing to the Ministry's work to help New Zealand get ahead and to secure New Zealand's future in a rapidly changing world. We have done this confident that the Ministry acknowledged and valued our contributions. But a tipping point has now been reached.

³⁵ <http://pacific.scoop.co.nz/2012/03/mfat-partners-letter-to-ceo-on-proposed-restructuring/>