

## What's in the theory of advising and how does it help?

### As analysts, theory has a place in our work

This is the first of a new series of Masterclasses for 2017, following the ten we produced last year. The broad structure for the next ten is to start with some theoretical discussion on advising and then move swiftly into pieces covering practical hints and tips. These will draw on best practice we have seen and respond to issues you have raise.

As we said in an earlier Masterclass (No 1) there's not a lot of useful practical literature about the process of getting policy across to politicians. This note pulls together a range of ideas that collectively provide some of the elements of a more general theory of advising.

The material selected comes largely from academic economics, though it includes several theoretical insights from a wider background we have drawn on over the years we have been assessing policy papers at NZIER.

The situation we are focused on is that of conventional 'expert' advising. The Minister (or other principal) is being advised by a professional expert<sup>1</sup> about a matter that is sufficiently important to the Minister to justify resources being spent.

The general literature on advising (which is spread across various disciplines) is typical of academic publishing in having its own priorities and thus streams of published work. These are not reflective of the practical interests of working advisors. One dominant theme, for instance, chases through a series of different settings and models the consequences of, and possible cures for, 'bias' among advisors – especially in the case when it is impossible to discern this in advance.

While it is obviously important, we think it is easy to make too much of this, but refer to it in one example below.

### Experts whose work is hard to check

This strand of literature (see Wolinski (1993) and later work) sheds light on the interaction between people with high degrees of specialist knowledge and those who need to understand situations to make decisions.

This type of transaction is not uncommon as it occurs when citizens seek advice about medical, legal or financial matters, or even about vehicle and appliance repairs. The results that emerge are based on the client's inability to tell whether the expert is giving accurate advice (as they may have a stake in skewing the decision – perhaps to create extra income or wield power). It seems the best course of action is to seek a second opinion on a random basis.

To us this result seems to hinge on being a limited game, where irritating customers are taken into account, but balanced against other factors. Public service advising is a polar case: it is not only a repeated game, but there are a very restricted set of potential clients: typically, one or two key Ministers. And they are not robots; they recall what happened 'last time' and will factor it into the way advice is received. Reputations matter.

Reflecting this logic, the game plays out in a formal organisational setting. Normally, the seniors are judged on their role of building the shop's reputation by keeping control of the quality of advice proffered.

So, the takeaway is that one of the roles of agencies (particularly seniors) is to use managerial structures to counter tendencies of experts to move from their best advice. Various strategies can be employed by Ministers to check.<sup>2</sup> Examples we know include seeking parallel or competing advice from other agencies, discussing ideas with trusted stakeholders, and even positioning independent advisors in their office.

<sup>1</sup> Someone whose knowledge of the specifics of the topic is much greater than the Minister's, and is very hard to test on the spot. Typically, this person will be an analyst working for the agency serving the Minister.

<sup>2</sup> Aspects of this issue are discussed in a stimulating way (at a high level) in Horn (1995).

Both the threat of such actions and the ongoing competition between advice shops will translate into pre-emptive management actions to ensure top quality work is sought inside agencies.

### Advisors play their own games

Otaviani (Otaviani and Sorensen (2006)) and other papers) has work where advisors seek to build up their own reputations. This 'private' aim cuts down the quality of advice provided to the principal from what 'truth-telling' would supply.

In other words, as the experts (financial advisors) are looking to build up their (private) own market worth – they are not optimising the flow of information.

Again, this analysis does not capture the essence of the public service situation here. The employment arrangements and especially future prospects are different for public service advisors than for private experts, and this reduces the likelihood of advisors mixing their signals for a wider audience.

But it shows that advisory managers must be alert to the possibility of experts seeking to build private reputations.

### Demonstrating alignment

Most new governments take time to adjust to the role of being advised by people who were previously giving their best to the enemy (the opposition.) While this feature of the Westminster system (permanent staff despite changing governments) is long standing, it still affects Ministers (or whole governments).

So, advisors need to seek ways to show Ministers that their interests are now aligned with the new government's. A piece by Morris (Morris (2001)) looks at aspects of this. The simplest solution is to seek situations where the Minister's preferences conflict with what would make the advisor's life easy. Then by supporting the Minister's preferred position the advisor is showing loyal support at a personal cost.

A small example is to change the language of policy discourse to that favoured by the new decision-maker. This is an effort (cost) from the advisors but is what the Minister would wish.

Thinking about such issues matter most, of course, in the design work for a Briefing for an Incoming Minister (BIM), where it is usually unclear exactly who the audience will be.

Nevertheless, a good BIM will find ways of showing the strengths of current policy settings while pointing to the potential for new thinking.

### How to think about the task?

Many years ago, we heard Nobel prize winner Kenneth J Arrow discussing agent principal issues and particularly, the role of expert advisors (the context was medical advice.) As he was wont to, Arrow summed up the task in a thoughtful sentence:

"Experts need to use the preferences of the patient with their own expertise."

He went on to specifically caution against formulations frequently used in such contexts, such as, "if I were you, I'd..." as these crossed his line by slipping into using the expert's preferences instead of the patient's.

We find this simple formulation compelling. It captures one of the hard parts of the advisor's role clearly and concisely – whose interests are at stake?

In normal policy advice, the Minister's preferences are broadly available to the analysts and the agency. (Indeed, they are often public, for instance in manifesto or other public statements.) When they are not to hand, part of the job of the advisor is to find them out, or to organise the advice in a manner that permits informed decisions based on different Ministerial views.

Frequently this entails surfacing the 'trade-offs' that lie inside every policy decision. Such a presentation would be along the lines: "if you favour cost cutting over service, option a looks the best, while if the reverse go with b."

### Standards for briefing

Other advisory tasks have broadly similar logical requirements. Their lessons are helpful in suggesting how to convey complicated issues to Ministers.

#### Investment requirements

The regulations on financial markets recognise that investors are often "prudent but non-expert" (a similar position to the Minister on many topics) and thus need information 'made to measure'. The instrument prescribed is a Product Disclosure Statement (PDS). It includes providing information in a specified simple way on risk, critical for investors' decisions.

But the idea of a simple indicator (a score on a scale of 1-7) has not worked. Requests from investment promoters, mean the FMA (regulator) has provided pages of complicated rules and guidance<sup>3</sup> to underpin the scale. So interpreting the simple indicator is not going to be simple.

The lesson is that oversimplifying is not an answer. The real trick is to find a common language with the audience, so that they know what the terms (and indicators) used mean.

#### Medical advice – informed consent

Medical law and practice is now clear about the need for obtaining *informed consent* from those about to undergo treatment.

“Informed consent may be defined as the process whereby someone who has the capacity/competence to consent, having been given sufficient information, arrives at a reasoned decision as to whether or not to agree to a proposed therapy or procedure. [...]

Informed Consent is not the act of filling out forms, but rather a process of exchange of information so that an informed decision can be made by that person.” [CDHB (2015) *Informed consent*, Clinical Note.]

This is also a sound guide for the task of providing advice to Ministers as the basis of action.

The aim is to have given the decision-maker sufficient information and understanding to “arrive at a reasoned decision...”

We see this test as an appropriate target for advisors. It doesn’t mean every facet of the issue must be canvassed; but sufficient must be covered to allow the decision-maker to be “informed.”

Or in other words, “An informed consent can be said to have been given based upon a clear appreciation and understanding of the facts, implications, and consequences of an action.” [Wikipedia]

This way of looking at the process of advising implies inverting the normal approach, as it sets a standard around the state reached by the paper’s reader rather than by the paper.

#### References

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<sup>3</sup> See *Guidance note on risk indicators and description of managed funds* November 2015 downloaded from [fma.govt.nz](http://fma.govt.nz)