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New Public Management Reform in New Zealand: The Collective Strategy Phase

ABSTRACT: This paper examines the New Public Management movement in New Zealand. Specifically the focus is on the financial management of central government departments and the shift in emphasis from management *in* the public sector to management *of* the public sector, that is, from defining management in terms of where it takes place to defining it in terms of the nature and outcome of the task.

In a perceptive series of analyses Hood (1991; 1995) identifies the main characteristics of "New Public Management." Dominant features are, firstly, the lessening or removal of differences between the public and private sectors and, secondly, a shift in emphasis from process accountability to accountability in terms of results. Accounting has been a key element in the introduction of the new emphasis and new conception of accountability "since it reflected high trust in the market and private business methods ... and low trust in public servants and professionals...whose activities therefore need to be more closely costed and evaluated by accounting techniques" (Hood, 1995:4-5). Supporting the removal of public/private sector distinctions and the imposition of explicit standards and rules are a number of specific practices:

1. greater disaggregation of public sector organizations into separate "product" centres;

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2. a shift towards competition between the separate units offering the services;
3. the use of management practices (e.g. accrual accounting, organizational design, career structure and remuneration practices) broadly drawn from the private sector;
4. an emphasis on efficiency and cost reduction;
5. the rise of a new managerial elite;
6. more explicit and measurable standards of performance; and
7. attempts to control public sector organizational units through pre-set output measures.

Ironically, many of these practices—in particular, the emphasis on products rather than processes, quantifiable measures, and "hard" technologies—have been introduced into the public sector at the very time that the shift in the private sector seems to be in the other direction. Research (e.g. Quinn, 1978, 1980; Mintzberg and Waters, 1982) had revealed that conventional planning-and-control models bore little resemblance to what successful organizations actually did in practice. Strategies in successful organizations appeared to follow a pattern of "logical incrementalism" and be emergent (resulting from a myriad of decisions and evolving through a process of organizational learning) rather than deliberate (Mintzberg, 1987). Recent management journals, consultants' advice and actual practice in the most competitive private sector organizations reveal a concern with such ideas as quality (and its associated emphasis on processes as much as products), organizational learning, democratization of workplaces and the combination of strategic vision with employee "know-how." Decentralized multi-divisional structures have been argued to limit organizational learning and the potential impact of employee know-how, unlike horizontal strategies where:

> Organizational learning of unique attributes which make up the synergies, resources and capabilities comes to be valued across the firm ... Instead of isolating each component unit of the firm in order to find its precise contribution to profits and growth (or loss and decline), horizontal strategies emphasize intangibles, learning and skill transfer and the reduction in transaction costs (Purcell, 1989:83-84).

In light of the more recent thinking, McKevitt (1992:47) argues that debates on the difference between the public and private sectors obscure a good deal of common ground and are often predicated on an outdated policy-implementation dichotomy and an outdated view of the private sector strategic literature.

This paper traces the emergence and subsequent development of NPM in the New Zealand public sector.[1] While many countries have embarked upon major public sector reforms in the last decade, New Zealand is considered to have "gone the farthest along the entrepeneurial path" (Osborne and Gaebler 1993:30) and it has been the subject of various studies by international organizations and governmental bodies. In order to limit the scope and length of this paper, and in recognition of the major role that accounting has played in the introduction of NPM, the main focus here will be on accounting and financial management changes. It is extremely important, however, to appreciate that accounting was always seen as an integral part of overall management reform in New Zealand (McCulloch and Ball, 1992) and it is impossible to discuss accounting matters in isolation from the more general public sector changes as described and analyzed by Boston, Martin, Pallot and Walsh (1996).

Looking back over the last twenty years it is possible to identify four phases of public management in New Zealand (Pallot, 1996). These are:

1. a traditional phase, prior to 1978, characterized by cash accounting and controls over inputs;
2. a managerialist phase, 1978-1985, characterized by largely ad hoc attempts to introduce private sector management techniques and accrual accounting into public sector organizations;
3. a marketization phase, 1986-1991, characterized by the combination of managerialist ideas with economic theories emphasizing individualistic self-interest, competitive markets and contracts.[2] Unlike the previous phase, financial management reforms become an integral part of comprehensive changes to the machinery of government.
4. a strategic phase, from 1992 to the present, characterized by an emphasis on whole-of-government strategizing in an effort to focus on the longer term and to overcome the fragmentation created during the marketization phase.

The following sections examine the shift from phase 3 to phase 4; that is, from a predominantly financial management and performance measurement framework to one in which financial management issues are subsumed within an overall strategic management framework. The shift to collective strategizing should not be seen, however, as a repudiation of the ideas and practices of the marketization phase. Rather, it was necessary to change to a more innovative culture and to produce more useful information at the departmental and output level before it was possible to make significant changes at the whole of government level. Previous attempts by government to introduce whole of government systems (e.g. Planning Programming Budgeting Systems) without the necessary managerial changes have been spectacularly unsuccessful—in New Zealand as elsewhere. New Zealand's renewed interest in collective strategizing can be viewed as a combination of a desire to restore the more traditional concerns for the public interest and unified public service with ideas from the more recent private sector management literature.

FROM "TRADITIONAL" TO "NEW" PUBLIC MANAGEMENT

The traditional system of financial management in New Zealand government, as in many other countries, was one of cash accounting and controls over the cash cost of inputs under standard expenditure groups such as personnel, travel, materials, capital expenditure or transfers. A complex system of centralized control with detailed specifications as to delegated authorities operated. In 1978 a report by the Controller and Auditor-General (C&AG) drew attention to the fact that concentration on the cash cost of inputs and failure to develop meaningful performance measures meant that managers focused on budget and legal compliance rather than managing resources effectively and efficiently. The C&AG's report advocated an accruals-based accounting system to ensure cost responsibility, encourage ongoing monitoring of assets and enable systematic costing and charging for services (Audit Office, 1978).

In the wake of the C&AG's report, New Zealand experimented with a variety of managerialist, but largely piecemeal, reforms in central government departments. Under slogans such as "Let the Managers Manage" and "Managing for Results," private sector practices, such as corporate planning, increased budget flexibility, and new management information systems, together with progressive dismantling of Treasury regulations and ad hoc attempts at non-financial performance measurement, were tried with varying success (Pallot, 1991).

Radical reform of the core public sector began in 1986 with the corporatization of a number of state trading activities (McKinlay, 1987; Mascarenhas, 1991; Duncan and Bollard, 1992; Kelsey, 1993). Drawing its theoretical foundations from public choice, agency theory and transactions cost analysis (Scott, Bushnell and Sallee, 1990), the new model for state enterprises had several key components including a clear identification and separation of the roles of ministers and boards/managers and reporting actual performance against prior specification of objectives. Furthermore, while the government's interest in state enterprises was primarily as an owner seeking the highest possible return on investment, it was also acknowledged that the government would frequently also have a role as regulator, and could, in some circumstances, have a different interest as purchaser of non-commercial goods and services. If the government wished an SOE to undertake unprofitable activities for social reasons, it was to make specific payments to the SOE for these.

The principles underlying the State-owned Enterprises Act had a significant influence on the subsequent redesign of the core public sector, including changes to the machinery of government, human resource management, and financial management. Two mutually reinforcing pieces of legislation—the State Sector Act 1988 and the Public Finance Act 1989—underpinned the reforms. The State Sector Act—which was designed to promote more efficient, responsible and accountable management of public agencies—brought significant changes to the process of appointing departmental chief executives and ushered in a new era of devolved human resource management (Walsh, 1991). To strengthen the rewards and sanctions available to ministers, chief executives ceased to have permanent employment but were placed instead on renewable performance-based contracts of terms not exceeding five years. Chief executives gained unprecedented flexibility in their powers to hire and fire staff and to determine their remuneration. The Public Finance Act (PFA) redefined the appropriation process, shifting the emphasis from inputs to outputs, and established departmental and whole of government ("Crown") reporting requirements. It also removed many centralized controls over day-to-day administration, gave departments their own bank accounts to manage and made chief executives responsible for departmental financial management.

Central to the redesign of the appropriations and reporting requirements under the PFA was a new framework for thinking about performance, linked to the performance agreements between ministers and chief executives established under the State Sector Act. Building on the notion of distinct ownership and purchase interests of government, the nature of the purchase interest was fleshed out in more detail (see Pallot, 1991; McCulloch and Ball, 1992). Briefly, the government's purchase interest was described in terms of the quality, quantity and cost of outputs; that is, the goods and services (e.g. policy advice, administration of regulations, payment of welfare benefits, police patrolling) produced by governmental and non-governmental bodies. While the ultimate objectives of the government (and the public at large) are outcomes (the impact of the government's activities on the community), it was not considered feasible to hold departmental chief executives accountable for them since they were affected by many factors beyond their control. Instead, they would be held accountable for the delivering the specified quantity, quality and cost of outputs, but be subject to incentives designed to encourage them to produce outputs of value to ministers in achieving their outcome objectives. The public would hold the government as a whole accountable for outcomes and the selection of outputs to achieve those outcomes. While the terminology of outputs and outcomes has been used elsewhere (e.g. Ramanathan, 1985; Governmental Accounting Standards Board, 1994), the way these notions were linked to the newly defined roles and performance expectations of the Government and departments is distinctive to New Zealand.

Under the PFA, appropriations were redesigned as a series of purchases, investments or transfers. It is in light of the purchase and ownership interests involved in the assessment of chief executive performance and in the appropriation process that the significance of accrual-based information is to be appreciated. Such information is needed if parliament and ministers are to know the full costs of outputs to be purchased and if relevant comparisons are to be made with private sector suppliers. Information on assets and liabilities, which accrual accounting provides, is needed to monitor aspects of the ownership interest such as financial viability, return on investment, and maintenance of capital.

The PFA also introduced a new set of reporting requirements for departments, offices of Parliament, Crown entities and the Crown as a whole. These entities must now prepare audited annual financial statements in accordance with generally accepted accounting practice (GAAP).[3] In addition to the statement of financial position, operating statement, statement of cash flows and statement of accounting policies normally required of reporting entities in the private sector, the PFA requires information on commitments, contingent liabilities and unappropriated expenditure or costs. Audited non-financial information is required in the form of a statement of objectives, specifying outputs to be produced and financial performance to be achieved, and a statement of service performance, reporting on outputs actually produced. The chief executive and chief financial officer of each reporting entity must sign a statement taking responsibility for the integrity of the financial statements. The financial statements must be forwarded to the Audit Office (or, in the case of offices of Parliament, an auditor appointed by the House) within two months and the audit must be completed within a month after that. The financial statements, together with the management report and the Audit report, must be tabled in Parliament.

By June 30, 1991, all departments were budgeting and reporting on a full accruals basis. Given the improved information about the asset base now available, it was possible for the Treasury to introduce a capital charging regime across all departments with the aims of: first, ensuring comparability of costs between departmental and external producers of goods and services and; second, assisting departmental managers in making decisions about tradeoffs between alternative types of resources or the disposal of surplus assets (McCulloch, 1992). (For an evaluation of the capital charge regime see Price Waterhouse, 1993; Pallot, 1994a; Boston et al, 1996:273-4).

The public sector reforms had a significant impact on the work of the legislative auditor, the Audit Office. Large, novel and complex tasks had to be accomplished within a few short months amidst changes in the structure, personnel and systems of more than 3,500 entities. The adoption of accrual accounting and the requirement for non-financial performance information to be audited increased the range of audit activities while commercialization meant that the Audit Office had to acquire skills to audit commercial, profit-oriented and tax-paying enterprises. New risks for the Office arose; for example, from the audit of financial statements of SOEs being sold and involvement in the associated due diligence processes. More generally, questions were raised about the scope and mandate of the Audit Office; in particular whether its statutory "monopoly" was out of place with the new philosophy of contestable markets. As a result, the Office came under pressure to demonstrate efficiency and effectiveness.

A new Auditor-General in December 1992 responded immediately to these pressures by adopting some of the features of NPM. First, he significantly restructured the Office, separating it (administratively although not in a formal legal sense) into two units which mirrored the purchaser-provider and policy-operations splits now common across the New Zealand public sector. The new units were (1) The Office of the Auditor-General (OAG), responsible for standards setting and oversight of the provision of audit services and for parliamentary reporting, liaison and advice (2) Audit New Zealand, responsible for carrying out regular audits on a similar basis to private sector auditors. Second, he introduced a new contracting philosophy and processes. By 1994 approximately one third of the total annual audit workload was being undertaken by audit service providers other than Audit New Zealand (Audit Office, 1994b:26). The OAG has developed standards to cover the audit of non-financial information, legislative compliance audit and appropriation audits as well as relationships between contractors and the Auditor-General. Further work is being carried out on the feasibility of giving opinions on the appropriateness of non-financial performance information (Audit Office, 1995:16). The current thinking is that more appropriate performance information will enable parliament and its select committees to ask more meaningful and better targeted questions thereby reducing the need for "Value for Money" audits.

CHALLENGES TO THE "NEW" PUBLIC MANAGEMENT

Most of New Zealand's state sector reforms have been regarded as highly successful, particularly in terms of improved efficiency (Duncan and Bollard, 1992; Scott et al., 1990). By the early 1990s, however, it was evident that the shift to a much more decentralized system of public sector management, together with the heightened emphasis on vertical accountabilities (e.g. between chief executives and ministers), was intensifying the problems of horizontal coordination between government agencies (see Boston, 1992; Logan, 1991). Some departments did not seem to be giving sufficient attention to the collective interests of the government and there appeared to be scope for improved coordination amongst the central agencies (the Treasury, the State Services Commission and the Department of the Prime Minister and Cabinet) and the Audit Office. Some ministers considered that the reforms had adversely affected elements of the collective interest such as the coordination of policy advice, support for collective decisionmaking and efficient resource management. Greater collegiality among chief executives was advocated as a means of redressing this.

In 1991 the government appointed a review team, headed by IBM chief executive Basil Logan, to review the state sector reforms. In the course of interviews, chief executives emphasised the constitutional responsibilities of Cabinet and ministers to provide leadership and strategy (Logan, 1991:46). The reforms had presumed that the government would have an agreed set of priorities in the form of policy goals or outcomes which would guide collective action on output purchases. Many public servants, however, felt that Cabinet had not developed, or had not articulated, an integrated view of ultimate policy goals (Logan:47). In the absence of a clear statement of the government's policy strategy, it was difficult for individual ministers and their departments to specify intended outcomes. Furthermore, many departments were dissatisfied with the emphasis on outputs and the relative lack of attention to outcomes. Some felt that their role had been reduced to one of mechanistic delivery of outputs (even policy advice was now viewed as an output). They argued that they had previously given considerable thought to why they were doing things and regarded the attention being given to outputs as a step backwards (Bushnell, 1992). As a participant in one of our university courses on public management put it, "if you're making bricks, it helps to know they'll be used to build a cathedral."

The review team pointed out that the budget process was a comprehensive look at the government's priorities and a central expression of Cabinet's collective responsibility. However, they acknowledged that the budget–and, in particular, fiscal considerations–tended to drive the government's policy strategy, rather than the budget being driven by a previously enunciated strategic vision. Because the budget process was carried out in conditions of secrecy and haste, genuinely strategic thinking and good decisionmaking were placed under pressure (Logan, 1991:47-50). To move the budget from centre stage ministers would have to debate and identify their strategic objectives in advance of each budget round. In part, then, the question was how to ensure, on the one hand, that a "strategic conversation" (Fancy and Matheson, 1995) took place amongst ministers and departmental chief executives, and, on the other, that the results of this were translated into achievable performance targets for each department.

At the same time there was an increasing awareness of the more recent strategic management ideas in the private sector, not least of which were new ideas about how best to cope with environmental change. The conventional wisdom of the 1960s and 1970s had been to respond to environmental change through strategic planning. Strategic management was viewed as a linear, sequential process in which strategies were first "formulated" and then "implemented." To help formulate strategy, specialist corporate planning groups were established. Unfortunately, many organizations either found that the plans were ignored or that the institutionalization and routinization of planning systems resulted in strategic planning losing its strategic significance. Even in the best-managed organizations, formal planning systems seemed to degenerate into medium-term control mechanisms largely divorced from the issues of strategic choice and organizational action (Lewis, 1993:6). Furthermore, as mentioned earlier, research had indicated that successful organizations appeared to use emergent rather than deliberate strategies. In the face of accelerating changes (such as the information revolution, globalization and democratization in communities and workplaces), strategic planning has come under attack because the forecasting of discontinuities is virtually impossible, predictions are almost invariably wrong, and its calculating analytical style misses "soft" information and important nuances. According to their critics, formal systems (computerized or otherwise) have not offered improved means of dealing with information overload (Mintzberg, 1994). While they can process more information (at least "hard" information), they cannot internalize, comprehend or synthesize it. To cope with these difficulties, and to generate commitment to strategies at all levels in an organization, Mintzberg (1994:109) advocates strategic thinking. Unlike strategic planning, strategic thinking is based on creativity, intuition and organizational learning; strategies often cannot be developed on schedule and immaculately conceived but must be free to appear at any time and at any place in an organization. The role of planners is to "supply the formal analyses or hard data that strategic thinking requires, as long as they do it to broaden the consideration of issues rather than to discover the one right answer" (1994:108).

By the early 1990s such ideas were likely to fall upon fertile ground in the New Zealand public sector. Change had become recognized as inevitable and the reforms had produced a more innovative culture, in the process weeding out those who were unwilling or unable to adapt. The State Sector Act had facilitated the move of managers from the private sector into the public sector, while the managerial elite that had been created were very open to ideas suggested by consultants or promulgated in conference papers and books. The State Services Commission (SSC) had shed many of their hands-on management functions and were focusing on policy issues related to public service employment and public sector management with the result that they too were much more conscious of developments in the management literature (By contrast, the Treasury drew their theoretical inspiration from economics, law-and-economics and accounting literature and were more wedded to the philosophies of contracting, competition and performance measurement.) Even the Prime Minister and his advisors were influenced by the new literature. Not only did the government commission strategic management guru Michael Porter to prepare a strategy for making the New Zealand economy more competitive but the Prime Minister issued a 35-page "vision" document entitled "Path to 2010" about four months prior to the 1993 general election. In his words, the document set out to:

> [D]efine the strategic path for New Zealand through to the second decade of the next century; to spell out goals, the sort of performance we'll have to turn in to achieve them, and the benefits we can expect....The strategy is based on an assessment of where we are now, our strengths and weaknesses, and what we can realistically achieve. It also acknowledges that, despite the great progress already made, there are some fairly high hurdles which we still need to clear. This is a plan for all New Zealanders (New Zealand Government, 1993:5).

Following the 1993 general election, the Prime Minister's concern was to translate the broad vision contained in Path to 2010 into more specific policies and to identify the particular contribution to be made by the public service. Additionally, the 1993 general election, which had included a referendum on electoral reform, had delivered a decision to switch to proportional representation of the mixed-member type (MMP) in 1996. Concerns were expressed that the loosely bound governments under MMP might be less able to resist the temptation to adopt short-term fiscal strategies which were inconsistent with longer-term goals (Richardson, 1994). The strategic management system described in the next section, then, sprang from three sources: the Prime Minister's concern to operationalize his vision document; the Treasury's desire to lock in the gains from strenuous budget management; and the SSC's concerns about departmental corporate management and chief executive performance agreements. The effect was that its main components—the government's strategic vision, the chief executive performance agreements and the new budget process—were developed in parallel and later brought together. Very little deliberate planning and design of the framework as a whole took place in advance. Neither was it subjected to detailed policy analysis and justification—perhaps if it had, it would never have got off the ground. Rather, to use Mintzberg's terminology, it "emerged" or was "crafted" from component parts (within a general atmosphere where policy makers were wanting to think more holistically and longer term) and it continues to evolve.

"NEWER THAN NEW" PUBLIC MANAGEMENT

As mentioned earlier, all government departments were accounting, budgeting and receiving appropriations on a full accruals basis by July 1991. This facilitated the production of combined financial statements (covering departments, offices of Parliament and the Reserve Bank) on a full accruals basis in 1992. The Crown financial statements include much more than the operating statement, statement of financial position (balance sheet) and statement of cashflows produced by private sector companies. They also require more detailed information about actual and potential liabilities in the form of a statement of borrowings, a statement of commitments and a statement of contingent liabilities (both quantifiable and non-quantifiable). Pallot (1994b) provides a explanation of the Crown financial statements and the accounting issues involved.

In 1993, the Crown reporting entity was extended to include all entities owned by the Crown of which there are nearly 3,000, ranging from large state enterprises to small primary schools. Accrual-based Crown financial statements are now produced monthly (as required by the PFA Amendment Act 1994). Financial statements at all levels in the New Zealand government are described as being on a "modified historic cost basis" although effectively they are close to being on a current cost basis. For example, all fixed assets (including infrastructure and heritage assets) are revalued at least every three years. The New Zealand government has therefore moved further towards current cost accounting than most organizations in the private sector in New Zealand.

The Fiscal Responsibility Act 1994 (FRA) was the next major development in financial management at the whole of government level. The FRA requires governments to state their fiscal objectives and report progress towards achieving those objectives. It does not set mandatory fiscal targets (which overseas experience suggested might merely result in window dressing or disputes about reporting rules) but instead establishes five principles of responsible fiscal management.

Any departure from these principles must be both transparent and temporary. The principles are:

1. Reducing Crown debt to prudent levels by achieving operating surpluses every year until a prudent level of debt has been attained. The legislation does not define or prescribe what is meant by a "prudent level of debt." Rather, it is left to each government to determine, and justify to the public, what it considers "prudent" and "reasonable;"
2. Maintaining total Crown debt at a prudent level by ensuring that on average operating expenses of the Crown do not exceed operating revenue;
3. Achieving and maintaining levels of Crown net worth that provide a buffer against adverse future events;
4. Prudent management of the fiscal risks facing the Crown;
5. The pursuit of policies consistent with a reasonable degree of predicability about the level and stability of tax rates for the future.

The FRA requires a series of accrual-based financial reports, including:

1. A budget policy statement, setting out long term objectives for fiscal policy, broad strategic priorities for the Budget and fiscal intentions. The Government must assess whether these are consistent with the principles of responsible fiscal management and previous budget policy statements, disclosing and explaining any departure from them. The budget policy statement must be published by March 31; i.e. it is explicitly prior to resolution of the detailed budget allocations.
2. Economic and fiscal updates, containing economic and fiscal forecasts for the current year and each of the following two financial years. Each economic and fiscal update must be accompanied by a statement of responsibility signed by the Minister of Finance and the Secretary to the Treasury. Economic information provided includes forecasts of movements in GDP, consumer prices, the current account position of the balance of payments and a description of all significant underlying assumptions. The fiscal updates comprise forecast Crown financial statements, in the same format as the ex post statements, together with details of all significant underlying assumptions and must be produced at the time the Budget is prepared and in December and March of each year. An economic and fiscal update must also be produced between 42 and 28 days before a general election.
3. A fiscal strategy report, containing projections of total revenue, expenditure, debt and net worth over at least the next ten years, and assessing whether the trends and updates are consistent with the budget policy statement.

Both forecast information and subsequent reporting must be in accordance with generally accepted accounting practice (GAAP) established by an independent body under the Financial Reporting Act 1993. In most countries the government is reluctant to give away the power to choose its own accounting rules. The New Zealand government, by contrast, saw value in committing itself and future governments to a regime in which their fiscal plans were as transparent as possible. Transparency would be diminished, however, if governments could manipulate accounting policies. Those politicians who had worked hard to bring public expenditure under control (in particular, Ruth Richardson, Minister of Finance 1990-93) were naturally keen to prevent the gains achieved being eroded by their successors.

The introduction of a formal strategic phase, culminating in the production and publication of a budget policy statement prior to the drawing up of the budget itself, is an important initiative in whole of government priority setting. It has been complemented by a new framework for strategic decision making which requires ministers, individually and collectively, to be explicit about their priorities and to translate the government's broad vision statements[4] into specific strategies to be pursued by the public service in major areas of social policy (e.g economic growth, enterprise and innovation, education, community security, social assistance, protecting the environment). These Strategic Result Areas (SRAs) are linked to the Key Result Areas (KRAs) specified in the performance agreements between chief executives of departments and ministers. They therefore cease to be vague political statements and become an integral part of the accountability system and, hence, the way departments actually operate. The SRAs for the following 3-5 years are established in discussions between ministers and officials and agreed to by the Cabinet as a whole at a full-day strategic planning retreat held about three months into the current financial year. Finalized SRAs are released to the public at the same time as the budget policy statement, the first such occasion being in March 1995. The SRA/KRA framework attempts to provide not only vertical integration between the ministers and officials but also horizontal integration across ministers and departments (for a discussion see Fancy and Matheson, 1995; Boston and Pallot, 1997).

EVALUATION OF NPM IN NEW ZEALAND

At the departmental level, the financial management initiatives—in particular, the relaxation of input controls, the clarification of Crown and departmental responsibilities, the new model of performance reporting and the move to accrual accounting—are viewed by managers as the most successful aspect of the new public management regime (Norman, 1995). While measurement of efficiency and other gains is difficult, especially in the light of massive organizational restructuring and changes to the bases of measurement, anecdotal evidence suggests that departments are providing better services with fewer resources and that departmental management of cash and fixed assets has improved as a result of the additional information provided by accrual accounting (Deloitte Ross Tohmatsu, 1990; Ball 1992; Price Waterhouse 1993; Audit Office 1994). Some further work is required in respect of cost allocation systems, management of the ownership interests of government, creating an awareness of the capital charge regime outside head offices, and minimizing costs of compliance with reporting requirements. One of the major gains of the financial management reforms has been the vast improvement in the quantity and quality of information available to ministers. This has enhanced their capacity to prioritize and control public spending (Birch, 1995; McLeay, 1995; Nethercote, Galligan and Walsh, 1993).

Initiatives at the whole-of-government level are probably too recent to enable an assessment of their impact over the longer term. Nonetheless, there are a number of reasons to expect that they will change (and hopefully improve) decisions involving public expenditure. One is the improvement in the quantity and quality of information available through the Crown financial statements. Furthermore, the fact that they are now published monthly means that continuous attention is paid to the fiscal position. Under accrual accounting , it is no longer possible to hide the costs of decisions (such as superannuation, defence contracts, accident compensation payments or settlement of Treaty of Waitangi claims) that have medium to long term financial implications. Thus the politicians who make financial decisions are fully aware of the cost associated with those decisions. For example, the total value of a commitment to pay, say, $10 million per year for ten years would show up immediately and be more likely to attract public attention thereby changing the incentives on the government. Neither could the costs be deferred until after the next election; with Crown financial statements prepared on a monthly basis, the settlement would show up within about eight weeks at most (Pallot and Ball, 1997).

Requiring governments to state their fiscal objectives and report progress towards achieving those objectives is expected to "encourage the Government to take a longer term perspective to fiscal management" (Treasury, 1994:5). Furthermore, the improved information should allow better and more focused debate about fiscal policy. The idea is that a government will find deviations from good fiscal management more difficult if it has to report, explain and justify any such deviations.

The new strategic management framework can also be expected to have a significant impact on decisions concerning public expenditure. The process has provided forums for discussion amongst ministers, between ministers and officials and across departmental thus improving both vertical and horizontal coordination and helping to prevent unnecessary duplication or unintended oversights. The new framework has also had implications for the budget which can now be developed within a more clearly articulated set of priorities and through a more stable process. Whereas in the past, strategy emerged as a consequence of developing the budget, and often in conditions of secrecy and haste, there is now a formal strategic phase prior to determining micro-level budget allocations. SRAs are used to guide the initial determination of budgetary parameters and priorities. As Fancy and Matheson put it:

> These new strategic management processes are designed to ensure that wider policy issues are more consciously reflected in the formation of the budget and in appropriation decisions. It is an attempt to enrich the budget process and create incentives for more strategic thoughtfulness amongst both politicians and public servants. The present Government gives strong emphasis to the annual "Premier House" retreat to allow ministers to more deliberately set the budget parameters and their strategic objectives within them. (1995:5)

Inevitably, there is some tension between the outputs-outcomes accountability framework and the SRA/KRA framework for strategic management. The former relies on tight specification of "contracts" and measurability. It is detailed and comprehensive in the sense of covering all activities of government. By contrast, the strategic management framework is more "holistic," is oriented to the medium to longer term rather than the current period, makes more extensive use of "soft" information and is oriented towards processes (within a vision that generates commitment) rather than contracts, documents and plans as such. Rather than covering all departmental activities, it tries to focus on a few which are of genuine strategic significance. (This is because at any given moment only a few specific goals can be given the attention and force they need to take hold; too many additional goals can obscure the overall vision and inhibit responsiveness to change.) As a result, the SRAs and KRAs are criticized by some for being too vague and general. This criticism is particularly noticeable among managers and ministers with a "planning and control" mentality (see Boston and Pallot, 1997); they tend to view activities which are not related to SRAs as unnecessary and unworthy of funding. Yet it is arguable that the activities of some departments (e.g. Customs, Valuation, Inland Revenue or Statistics) are routine and of operational, rather than strategic, significance. Unfortunately, if strategic is confused with important, all departments will strain to be seen as strategic with a resultant loss of clarity and thrust in the overall framework.

In short, the challenge is to ensure that there is rigorous debate in the selection of SRAs, and that they rise above the level of dull and toothless platitudes while at the same time avoid becoming so rigid or detailed that they suppress the ability of managers to creatively apply the efforts of their staff (Fancy and Matheson, 1995:5). Perhaps one way forward would be to eliminate confusion by explicitly recognizing that accountability and strategic decision making are different, although complementary, systems requiring different sorts of information. Both are needed, but information designed for one purpose may not be suitable for the other. Drawing such a distinction may help to overcome criticisms, on the one hand, that focusing accountability on delivery of outputs ignores outcomes and, on the other hand, that SRAs and KRAs are not sufficiently specific and measurable. At the same time, it might help to recognize varying levels of outcomes—some closer to outputs and others closer to SRAs—rather than the tendency to date to see outcomes only as general impacts on the community.

CONCLUDING COMMENTS

In its financial management reforms, the New Zealand government has moved from an initial emphasis on management of individual government departments to a greater concern with collective strategizing and the government as a whole. While very different in its orientation, the more recent phase should not be seen as a repudiation of the former. For one thing, it would have been extremely difficult to introduce the system of collective strategizing had there not first been established a more innovative culture (including openness to more recent private sector ideas) and the development of better information to assist in priority-setting. For another, management is required at both the micro level (management of individual organizations) and the macro-level (managing a complex network of interdependent organizations). Neither is sufficient without the other.

In summary, the shift has been from management *in* the public sector (public management) to management *of* the public sector (public management); that is, from defining management in terms of where it takes place to defining it in terms of the nature of the task. Metcalfe (1993) describes the distinction as one of "locus" versus "focus." The first phase of New Zealand's recent financial management reforms was primarily about managing within government departments or, alternatively, shifting activities to the private sector i.e. a locus approach. At this micro-level the task (effective and efficient use of resources) may not be significantly different from in the private sector and private sector techniques can be usefully applied. At the macro-level, however, different tasks (in particular, managing collective action problems to serve vital common interests) require different processes. Public goods are not just private goods produced by public sector organizations. While much can be learned from the recent private sector approaches to strategic management in terms of how to cope with environmental turbulence and uncertainty, public management must also cope with the complexity of first articulating the public interest and then making policy and ethical choices to best serve it. As Metcalfe said:

> Public management needs to be recognized as the main area for creative developments in the theory and practice of management. Governments, by accident or design, have far more difficult management problems than any business would attempt to tackle. If the basis of public management reform until now has been imitation of business management, the challenge for the 1990s is to move on to innovation; the development of new methods of management appropriate to the distinctive needs of government (1993:292)

The New Zealand developments have been an attempt to respond to such a challenge. Whether the new system will survive the additional rigours of MMP, or the natural tendency of public administrators to overformalize their systems and behaviour, remains to be seen. To date, the commitment and achievements of both politicians and bureaucrats in New Zealand give reason to be optimistic.

NOTES

1. It would be a mistake, however, to think that the New Zealand public sector revolution is simply a radical, uncompromising or extreme version of managerialism. Although many of the reforms are in broad conformity with the ideas and practices of the new public management, they have been combined and applied in relatively novel and imaginative ways within an explicitly articulated conceptual framework (Boston et al., 1996:3).
2. Treasury's 1987 post election briefing papers *Government Management* a document which Hood (1990:10) described as the "manifesto" of the new public management—identified the problems with the traditional systems and outlined its proposals for reform. Pallot (1991) and McCulloch and Ball (1992) have described the implementation of those proposals.
3. As since defined in the *Financial Reporting Act 1993*, GAAP means a standards approved by the independent Accounting Standards Review Board or, in the absence of an approved standard, policies that are appropriate to the reporting entity and have authoritative support within the accounting profession in new Zealand.
4. The first of these vision statements was *Path to 2010*. It has been succeeded by annual follow-up statements titled *The Next Three Years* (1994), *Investing in Our Future* (1995) and *New Opportunities* (1996).

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