

# New Zealand experience with public management reform—or why the grass is always greener on the other side of the fence☆

Derek Gill\*

*Strategic Development Branch, State Services Commission (SSC) of New Zealand, Wellington, New Zealand*

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## Abstract

This article provides an analysis of how New Zealand has achieved the successes made to date, issues and problems yet to be resolved, and directions on how to address current shortcomings in public management reform of the New Zealand model. Four issue pillars provide the framework for the analysis: Political—problems that are inherent to the political arena under a range of public management regimes; Incompleteness—problems that reflect that the system is incomplete in some areas, but that do not suggest inherent difficulties; Implementation—problems to do with the way the system has been implemented; Inherent—problems inherent in the New Zealand regime, but not necessarily in other systems. The overall conclusion drawn is that relatively few of the problems are inherent in the New Zealand model and that most problems fall under the first of the four issue pillars: politics. The author concludes that there is much to be done—but that it can be done within the framework of the Public Finance Act and the State Sector Act by changing how the system is operated. © 2000 Elsevier Science Inc. All rights reserved.

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## 1. Introduction

In researching this article on the development of the “New Zealand system,” I was struck by the elegant, seductive, simplicity of what was proposed originally. In the more than ten years since the State Sector Act and the Public Finance Act were passed, much has been achieved, but much remains to be done. Much of the simplicity of what was proposed initially has since been obscured, but the yield from the reforms has been significant.

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☆ This article presents the personal views of the author and not the State Services Commission.

\* Tel.: +64-4-495-6663; fax: +64-4-495-6699.

*E-mail address:* derek.gill@ssc.govt.nz (D. Gill).

The trick in evaluating the New Zealand experience with public management reform, however, is to compare it to real world alternatives. Any evaluation has to grapple with the problem of the counterfactual. It is not a matter of comparing an idealized model, but comparing real world alternatives with real players. Hence, “The grass is always greener on the other side of the fence,” is the perspective I have chosen within which to frame my observations. In this essay I will try to unravel the disparate threads about “what remains to be done” by distinguishing four categories of problems:

1. Political—problems that are inherent to the political arena, and are evident under a range of public management regimes;
2. Incompleteness—problems that provide evidence that the system is incomplete in some areas, but do not suggest inherent difficulties;
3. Implementation—problems to do with the way the system has been implemented;
4. Inherent—problems inherent in the New Zealand regime, but not necessarily in other systems.

This assessment is that of a practitioner, of someone who has worked within the system, but with a professional responsibility for reviewing its effectiveness. The overall conclusion I draw is that relatively few of the problems we have are inherent in the New Zealand regime and that most problems fall under the first of the four categories shown above. That is not to say there is not much to be done—just that it can be done by changing how we operate within the framework of the Public Finance Act and the State Sector Act. Hopefully, this conclusion will crystallize the findings from other research. By posing the question in this way and suggesting some tentative answers, I hope to help inform the debate underpinning future directions for research on public management in New Zealand.

Considerations of space preclude a detailed consideration of all the problems and criticisms of the New Zealand system of public management. A significant body of applied research on some of the features of the system is provided by the State Services Commission (SSC) in its Occasional Papers series (available on the SSC web site at <http://www.ssc.govt.nz/>). In particular, SSC Occasional Paper No. 1, “An Assessment of the State of the Public Service,” provides a very useful summary of the available empirical evidence on Public Service performance (albeit against an unclear and somewhat idealized benchmark). The SSC 1999 “Briefing for the Incoming Minister,” which is also available at the web site provides a contemporary summary of many of the political and management issues under debate in New Zealand and more broadly.

In an attempt to unbundle the various threads of the New Zealand public management debate, it is useful to review the following:

- The drivers of the New Zealand public management reforms;
- The underlying, original concepts and emerging practices;
- The achievements and some remaining challenges;
- An evaluation that unbundles the challenges into the four categories noted;
- Conclusions, summary comments and directions for the future.

## **2. Drivers of the New Zealand reforms**

Many treatments of this topic revisit the drivers of the New Zealand reforms. I will do so again as a means of reminding ourselves of the rationale for the original design, and as a way to better understand the changes that have come about since the beginning. There were two sets of drivers behind the New Zealand Public Management system: first, emerging thinking; second, a need to change the style of public management in a way that would better meet Ministers' needs, and that would contribute to improving New Zealand's overall economic performance.

The thinking behind the New Zealand system emerged out of the practical experience of leading policy makers (with corporatization in particular) and a mix of theoretical tools drawn from economics and management theory. It has been suggested that the New Zealand public management model was based on some variant of new institutional economics, public choice theory and transaction-cost economics. While it is true that the papers that emerged at the time of the design of the reforms were couched in that language, this point is greatly overstated. Just as calculus was invented simultaneously in different locations, so the new public management emerged in the early 1990s in a number of jurisdictions. I have always been struck in my personal conversations with David Osborne, and from reading his works, how he reached very similar conclusions from his review of the U.S. experience of government good practice at state and local levels (Osborne & Gaebler, 1992). There may have been something in the water in the early 1990s that led to an emerging "Scando-Saxon consensus" on the new public management. Of all jurisdictions that undertook reform processes, what distinguishes New Zealand's reform was that it was the fastest and the most far-reaching.

The practical triggers to the New Zealand public management reforms were a combination of an economic crisis and the election of a reformist Government in 1984. As has been documented elsewhere (See, for example, Boston et al., 1996; Chatterjee et al., 1999), this reform strategy touched all sectors of the economy:

- The financial sector—reform moved rapidly and included financial market liberalization, interest rate decontrol to floating exchange rates and central bank autonomy;
- Product market liberalization—the removal of subsidies, and regulatory reform to free up trade;
- Labor markets—the move from a relatively inflexible labor market to the Employment Contracts Act, and more recently to the Employment Relations Act;
- Information markets—the change from the Official Secrets Act to the 1982 Official Information Act;
- Politics—the move from a unicameral first-past-the-post legislature to MMP (Mixed-Member Representation);
- Public finance reform—starting with taxation reform and fiscal consolidation but moving to accrual accounting and greater fiscal transparency through the Fiscal Responsibility Act; and
- State sector reform—starting with corporatization and subsequently moving to output budgeting, performance management and privatization.

### 3. Concepts and emerging practices

As the above list shows, the public management changes (encompassed in the last two bullet points) were the last leg of a quite wide-ranging reform strategy. The system that developed was a pragmatic response to the perceived problem with the public service at the time, that is, it was unresponsive, inefficient, unimaginative and poorly performing, and was perceived as a dead weight upon the overall economic performance of the nation. The experience with corporatization had revealed that significant productivity and performance gains could be extracted from introducing new and better focused management and commercial disciplines into government-owned trading enterprises formerly in the Public Service. If these dividends were available from the trading aspects of the former state sector, could not a similar yield be extracted from the core public service?

One way of characterizing the concepts underpinning the New Zealand model are in terms of three “Ss” and three “Ps” as follows:

- Strategy, Structures and Systems
- People, Performance and Politics

The *strategy* principle underpinning the reforms was for Ministers to set the overall strategic direction, to decide on the best mix of goods and services to meet these objectives, and to purchase these outputs from departments and other government agencies.

On *structure*, there were two principles:

- The separation of trading from nontrading activities, putting commercial activities into a commercial structure; and
- Separating potentially conflicting functions and assigning them to different organizations where other considerations allowed (for example, policy and operations).

The *systems* principle was that Departmental Chief Executives (CEs) and Boards were responsible for managing an organization’s outputs and sustaining its capability.

On the *people* side, the CEs of departments or other agencies became the employer of all staff within their organization. The State Services Commission’s (SSC) role changed fundamentally to one of appointing and monitoring Public Service CEs and departmental performance.

In relation to *performance*, the model intended that government performance would be improved in all areas. By making outcomes explicit, and linking outputs to them via strategic conversations between Ministers and CEs, this would give traction to achieving all government aims, including making progress on the “wicked” social issues.

On *politics*, transparency was improved through requirements to publicly report high quality information about the nature and costs of outputs and the intended results.

The resulting system—the state sector legal framework established by the three pillars of the Official Information Act, the Public Finance Act and the State Sector Act—triggered a set of behaviors and actions. As with all complex systems, it was capable of producing a range of behaviors and styles of operation with unforeseen consequences and dynamics. One

was the accretion of accountability and process instruments onto a system acclaimed for its simplicity. Another was the inflexible application of the model rather than using the model to handle complexity.

The practices that emerged thus varied in some ways from the system that was planned. Going back to the three “3 Ss and 3 Ps”:

With regard to *strategy*, there have been a number of attempts to develop a strategic management system with various systems of key goals and associated outcome indicators. These attempts have tried to fill the void about the results focus. These systems have not proved robust in the face of changes in political leadership, with each Prime Minister introducing a new system rather than building on what went before (see SCC Occasional paper 3 for an analysis of the underpinning to the previous Government’s system of Ministerial teams).

With regard to *structures*, in principle there is a choice of organizational form between Offices of Parliament, government departments, trading corporations (State-owned enterprises) and Crown Entities (a large residual of approximately 170 entities excluding schools, reserve boards and trusts). As analyzed below, the governance arrangements for the residual Government-owned organizations that are not State Owned Enterprises, Offices of Parliament, or Public Service Departments—so called Crown Entities and non-State Sector Act departments—were left relatively untouched until very recently. Crown Entities, in turn, are usefully conceived of as having four dimensions (see SSC Occasional Paper No. 17 in particular): Crown agents (separate entities that give effect to the policy of the Government of the day); Independent Crown entities (exercising quasi-judicial functions); Autonomous Crown entities (separate entities more arms length than agents); and Crown-owned companies (company form entities, akin to private not-for-profit differing from State Owned Enterprises which essentially have a profit maximization objective).

Under *systems*, while in principle the CEs and Boards are accountable for outputs while sustaining capability, and Ministers are responsible for outcomes or results, in practice what has emerged has a virtually total focus on CE and Board accountability for outputs (see Fig. 1).

Under *people*, the key principle was about empowering people and ‘letting the managers manage’. It encouraged initiative, discretion, autonomy and lateral thinking. In practice, this has happened (although perhaps to a lesser degree than was possible), but with the result that behaviors and management practices vary across government agencies.

With *performance*, the problem has been that outcomes are often poorly defined, and causal links are tenuous and have multiple influences (with government being only one of many players). While government now performs better in many areas (in particular economic areas), improving performance to combat and resolve many social problems continues to be a challenge.

Finally, under *politics*, while the quantity, quality and transparency of financial information on costs and the nature of outputs is still unrivaled, the nonfinancial information available about intended results has neither been required nor supplied.

Clearly, while the original system was designed on principles of clarity and simplicity, some distortions and imbalances have become evident over time. The following two sections

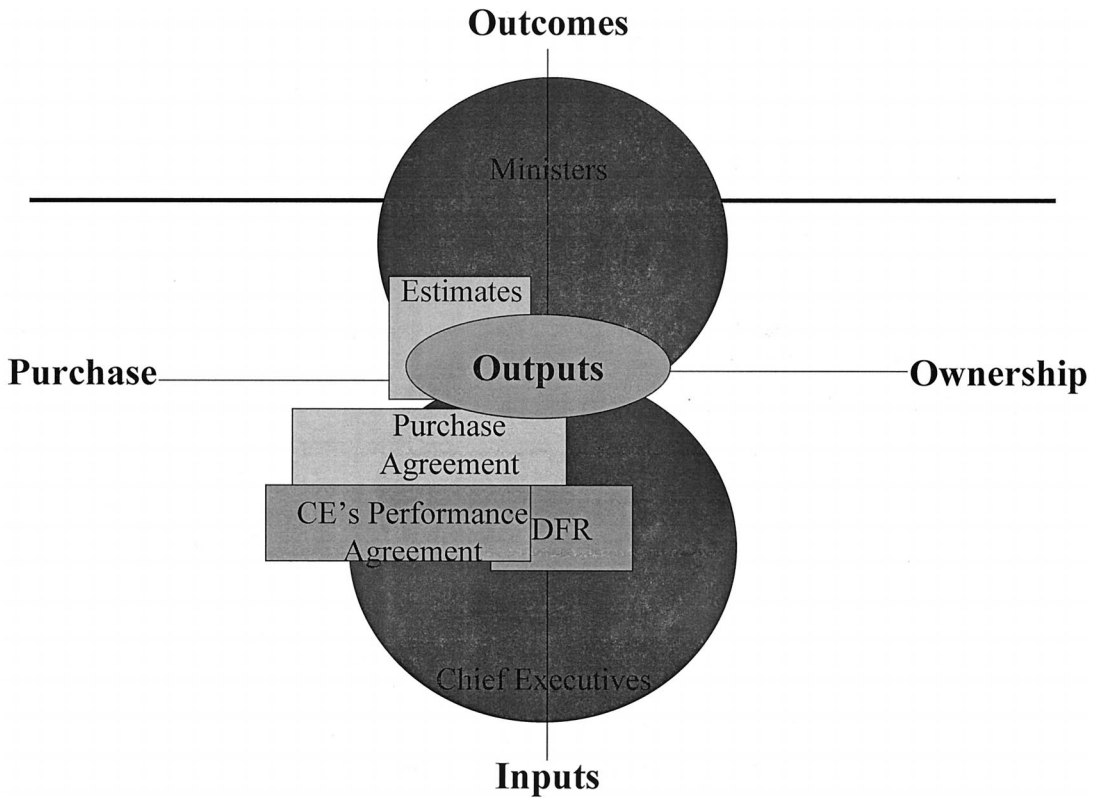


Fig. 1. Unbalanced Accountability

analyze how we might frame the challenges that arise from these problems, and present possible ways forward.

#### 4. Achievements and challenges

The New Zealand reforms have been acclaimed for the focus and clarity of the model. The particular strengths are around its coherence, its encompassing nature, the unity of vision. Particularly notable achievements include: a more efficient production of outputs, a more responsive innovative state sector, improved financial accountability, and improved overall fiscal control (Petrie and Webber, 1999). However, to make the gains the system necessarily reduced the complexity of public management to a set of propositions. That simplicity was a strength but, as circumstances changed, those conscious abstractions and tools needed to be refined. The way the system has evolved, however, has tended to be through an accretion of measures, and this accretion has tended to be unbalanced, focused mainly on CE accountability for outputs, rather than balanced across the entire continuum (see Fig. 1). Instead of a set of tools chosen as a means, to some extent they have become an end in themselves.



The key problems facing public management in New Zealand can usefully be grouped under the same three P's and S's.

On *strategy*, the key problem is that the budget tends to drive the strategy rather than strategy driving the budget. A key feature of financial management in New Zealand is the high quality and clarity of the medium-term financial strategy the Government has outlined. The weakness is that there is no corresponding clarity on other key objectives that the Government wishes to pursue. As a result, the budget tends to dominate because it is the “only show in town.” The challenge now is to find ways to redress this imbalance, while maintaining the successes associated with our budget process.

On *structure*, the organizational design principles applied in New Zealand have resulted in a plethora of well-focused, often single-purpose organizations. The weakness of this is that there are coordination problems inherent in the plethora of departments and other government agencies. While there are no hard barriers to such coordination, neither are there any clear incentives to work cooperatively (existing incentives are vertical in an upward performance relationship). To some extent this coordination is the Holy Grail of public management. However, it would be true to say that in New Zealand we have not developed the steering organizations or correspondingly sophisticated mechanisms to handle the coordination problems that result from the focus in clarity achieved in the structural form.

For *systems*, the challenges that relate to systems can be grouped under four headings: The cost of accountability—in particular how to address the low value added from what Graham Scott described as “ankle biting accountability” (Scott, 2000); The need to redress our current failure to make the link between outputs and outcomes; Risk aversion and lack of innovation; and The challenge of moving from financial information to nonfinancial performance indicators.

Finding the right *people* and paying them the going rate has proved problematic. The problem is across positions, but there may be particular gaps, such as for experienced policy analysts. The reforms involved moving away from a career public service labor market towards a more open labor market concept. In practice, there have been two problems here. The first is that successive governments have been reluctant to pay the going rate, so that public service salaries have tended to lag the market as a whole. The second has been a learning that in practice the sort of skills required at the CE level includes some government-specific competencies that are unlikely to be replicated in the private sector. Mobility into top-level positions is correspondingly limited.

Another problem has been sustaining the spirit of public service. This is partly a perceptual problem—international survey data rank New Zealand highly in terms of absence of corruption and responsiveness of government service. There have, however, clearly been problem in individual entities—predominantly Crown entities in the broader state sector, where the degree of distance from the center has meant the ethos of public service is not as strong.

On *performance*, the Government continues to grapple with what the British term “wicked” problems, the seemingly intractable social issues. It is arguable to what extent the public management system is a cause or an effect in this area. The lags are long and varied,

what works is unclear, relationships are many to many, and results are separated in time and space from the initial intervention. But, it would be true to say that the public management system has not helped to focus government efforts in this area.

The other tension that has emerged is between the Minister as customer, and the citizen/tax payer as client. A strength of the system has been the increased focus on the Minister as customer. In policy departments this has sometimes put pressure on the importance of providing free and frank advice. In service delivery departments this has sometimes resulted in less focus than desired on citizen/clients.

In the *political* area, while in general and on average the quality of citizen service has tended to improve, overall, citizens' service expectations have continued to rise more rapidly than the state sector has been able to improve its performance. So, there is still a gap between citizens' expectations and the quality of services they receive.

We have also learned that citizens pierce the corporate veil when it comes to public money. When the government has set up entities that are legally separate from the Crown and given them public money to pursue public policy objectives, the public has expected to hold the Ministers to account for the use of the public money. The fact that a Minister is at arms length, that it is a separate legal entity which has decision-making powers is a fine distinction that does not travel well outside of Wellington. By contrast, the government has been better able to distance itself from the governance of commercial organizations where public monies are not directly involved.

## 5. Evaluation

In evaluating the New Zealand experience to date one must be very mindful of “the grass is always greener” fallacy and that it is necessary to compare the outcomes of real people interacting in real systems, rather than idealized behaviors under idealized conditions. The most difficult analytical task is to unbundle to what extent the observed results are inherent in the system. How many are products of factors that would be present in a wide range of conceivable public management systems? It is useful, therefore, to distinguish between four alternative explanations for the observed results from the New Zealand reforms. These can be posed as four questions:

- How much is inherent in publicness and politics?
- How much is because the system is incomplete?
- How much reflect the way the system was implemented?
- How much is inherent in the system (but not in realistic alternatives)?

### 5.1. *Inherent in publicness and politics*

The striking thing about Fig. 1 is the imbalance in the emergent system around CE and departmental output responsibilities compared to the zone of ministerial responsibility. Why has that occurred?



In fiscal policy, the Fiscal Responsibility Act (FRA) has been rightly acclaimed as a model for medium-term strategy and transparency. The development of the FRA reflects the interaction of four things:

- Ministerial leadership;
- Bureaucratic capability;
- Information; and
- Integration with other processes.

While in the fiscal area we have developed a sophisticated results and risk management focus, with the notable exception of the environment strategy, this has not been matched for other key overarching government goals. Other progressive jurisdictions have tended to move from input budgets to output budgets and then on towards a more results-focused system. New Zealand, in a sense, has got stuck with output budgets. This is an ‘in general and on average proposition,’ for which there are some notable exceptions, for example, the outcome-focus in Occupation Safety and Health.

Why has NZ got stuck at this point? The linkage between outputs and results are separated in time and space, and the lags are long and variable. In the face of that uncertainty, and without effective capability and integrity of information, Ministers are correspondingly (and understandably) reluctant to be held responsible for some results. The original version of the New Zealand reforms always anticipated greater ministerial responsibility for articulating outcomes. Indeed there is a vestigial requirement in the Public Finance Act for outcome statements. However, little progress has been made on them since then.

### *5.2. System incompleteness*

The second group of problems relate to system incompleteness. Two examples spring to mind. The first is the governance and accountability for Crown entities, and the second is finding the right people.

Historically, there has always been a range of government-owned entities, which are neither departments nor trading corporations. The governance and accountability arrangements around non-department, non-trading corporation entities have always been somewhat stochastic and uneven. The notion of Crown entities is essentially a creature of the introduction of accrual accounting. With the introduction of accrual accounting, the government had to clarify which entities it owned, and it was always envisaged that an integrated governance and accountability regime would be developed. There have been quite long lags in getting these reforms in place but, the previous Government announced, and the current Government has signaled its strong commitment, to introducing a Crown Entities Bill. This would put in place integrated governance and accountability arrangements, while still recognizing the diversity in the entities concerned.

The second example of system incompleteness is public service senior management succession and development. The New Zealand public management system was predicated on an open labor market operating between the state sector and the rest of the market. Successive governments have been reluctant to pay state sector employees the going rate, particularly for CE positions. However, there has been no systemic response to compensate

for this move away from the original concept. That is not to say that money is everything, but merely that remuneration does matter. Over time, it will affect the quality and size of the talent pool that the government can draw from. Developing a sizeable pool from which to appoint CEs is a systems problem, with which both the public and private sectors must grapple. In this area, New Zealand, as with other jurisdictions, still has some way to go.

### *5.3. Inherent in implementation*

The key feature driving the reforms in New Zealand was to introduce greater clarity. In practice, the way the public management system has been rolled-out has tended to place far greater emphasis on vertical hierarchies than lateral, horizontal relationship with government. For example, the funding for voluntary sector organizations was moved onto a purchase relationships with government. I would argue that this is a symptom of the way the system has been implemented rather than something inherent in the model. The Public Finance Act quite clearly distinguishes between the purchase of outputs and unrequited expenses. Unrequited expenses support the notions of partnership and strong horizontal relationships.

Similarly, the thinking behind the Public Finance Act and the State Sector Act quite clearly emphasized both the government purchase interest and its ownership interest in the entities concerned. While these have proved useful concepts as ways of thinking about things, in practice, it has often proved difficult to separate the two interests. This is not surprising. They are best seen as something like a continuum where purchase is the short-run manifestation, and ownership is the long-run manifestation, with a large degree of overlap in the middle. Any purchaser, with a limited pool of suppliers, has an interest not only in current least cost price but in an ongoing relationship for the sustainability of the supplier over time. So, there is inevitably a medium-term dimension to purchase. Similarly, capability or ownership only exists for a purpose, and the goods and services the purchaser wants often define that purpose.

The practice in New Zealand (see Fig. 1) has been that purchase has tended to dominate over ownership. That reflects more, in my view, the flaws of the way the system has been applied and implemented than an inherent flaw in the model. While there is an inevitable tension between purchase and ownership, these are tensions rather than fundamental contradictions. Moreover, there is some evidence that in some cases the balance between the two interests is being well managed. The reason the problem is ‘inherent in implementation’ is that it relies heavily on the skill, experience and relationships of those involved, namely the CEs and Ministers (Barnes, 1999).

### *5.4. Inherent in the system itself*

I would argue, looking at the problems that the New Zealand public management system faces, there are no problems that are inherent in the system. That, in itself, is a relatively unsurprising conclusion given the alternatives. The system, in the sense of the three legislative pillars, after all has no core or unique solution—it is capable of supporting a wide range of behaviors, style, strategies and structures.

Instead, what this suggests is that the system needs to evolve in different ways. However, it will require a subtle but important shift in the balance of the system and the way the system is implemented, if the system is to continue to develop and evolve to meet the needs of New Zealand. The language of outputs, a risk averse public service (driven in part by the relationship with the media), and the lack of clarity about strategy have all contributed to a climate of conformance rather than performance.

## **6. Conclusions**

Public sector management is a race without a finish line. As strategies to address one set of issues are put in place, the next generation of even more complex issues emerges. The New Zealand experience with public management reform, while mixed, is positive. We have much to show for what has been done. The quality of the financial output information available to Parliament is unrivaled, and the extent of the focus and clarity in the system is a strength. Having drawn this conclusion, much remains still to be done.

What are the key challenges facing public management in New Zealand looking ahead? Again, I will utilize the 3 “Ps” and “Ss.”

### *6.1. Strategy*

Strategy must focus on a few key things and use these to drive budget, legislation, and performance.

### *6.2. Systems*

The key challenge here is to shift the focus onto the results while retaining the strength of the output budgeting system. It is also to shift the focus onto the results, while sustaining capability. The move towards greater use of strategic business plans is in my view, the way to move ahead in this area.

### *6.3. Structures*

Increasing adaptability without continually resorting to the restructuring lever is the challenge. Hopefully, a higher performing strategic management system will enable Ministers to signal the results they are trying to achieve without resorting to structural solutions.

### *6.4. People*

A key issue is maintaining an apolitical, noncorrupt public service in a devolved environment. The risk here is that the overuse of restructuring has tended to undermine the culture of integrity required when taxpayers’ money is involved. The other key challenge is sustaining the bench of capable senior managers.

### 6.5. Performance issues

Leveraging greater performance to address “wicked” social issues will require using the instrument of the public management model in more subtle ways than has occurred in the past.

### 6.6. Politics

Improving the focus on citizen/customer service standards and managing expectations of citizens about what the public service can and cannot provide is a considerable challenge.

What all of this suggests is that there is a no silver bullet to improving public management in New Zealand. The “big new idea” from the New Zealand experience is that *there is no one big new idea*. Progress is only going to come from coherent, mutually reinforcing strategies, and not from piecemeal reactions or big pushes.

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