

# Letting and making managers manage: the effect of control systems on management action in New Zealand's central government

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## Abstract

Business-like control systems that seek to let managers manage and hold them accountable for results have been a feature of New Zealand's public management model since the late 1980s. In the experience of a sample of 41 Capital City public servants and consultants, these systems have clarified roles and responsibilities, created managerial freedoms and led to more transparent information. They have also fostered organizational silos and a climate of fear that inhibits innovation, as accountability and transparency have become synonymous with public and political criticism. Using a four-sided levers of control model (Simons 1995) the paper concludes that the New Zealand system over-emphasizes diagnostic controls based on formal plans and overlooks the paradox that effective control systems require a balance between control and empowerment. More balance is needed between formal reporting and more motivating, but less easily observed, controls related to organizational purpose and learning. © 2001 Elsevier Science Inc. All rights reserved.

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## 1. Introduction

The question of how best to translate political strategies into delivered performance is an enduring and central theme of the field of public administration and management.

Should governments deliver services directly through their own organizations or buy performance from other sectors? Should they control public spending on the basis of inputs and procedures or outputs and outcomes? Debate about how to organize government services has occurred throughout recorded history. Hood and Jackson (1991) identify 99 doctrines as

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illustrative of the diversity of strategies adopted at different times to answer the what, how and who of public service delivery.

Since the early 1980s, prescriptions based on private sector experience and economic theories and known as managerialism or New Public Management (NPM) have come to dominate, particularly in English speaking countries (Pollitt, 1990; Hood, 1991; Aucoin, 1996). In essence, governments have sought to shift from funding organizations and institutions to funding performance. They have sought to move from managing for process to managing for results (Feldman & Khademian, 2000). Public services, which were previously delivered largely through government owned bureaucracies, are now delivered through a mixed economy (Gray, 1998) of public and private organizations that compete for available funds. Government bureaucracies have been re-invented in attempts to reduce costs to taxpayers and to increase responsiveness to clients and citizens (Osborne & Gaebler, 1992; Gore, 1993; Osborne & Plastrik, 1997).

Since the late 1980s, New Zealand's public sector has been more comprehensively reorganized than in most countries. A traditional, centralized bureaucracy has been replaced by a system that seeks to hold public sector managers accountable for delivering outputs purchased by Cabinet Ministers. Private-sector style accrual accounting is used to ensure that output costs include the depreciation of assets and can be compared with private sector alternatives. Managers have considerable freedom to choose how they organize inputs to deliver results. The changes have earned for New Zealand a reputation which has variously been seen as a hero by international agencies (Premfors, 1998), as an outlier (Ferlie et al., 1996), or as an experiment not to be recommended for most developing countries (Schick, 1998). Alternatively the experience of reform has been interpreted as one of getting better but feeling worse (Gregory, 2000).

While there has been vigorous academic debate about the merits of the NPM systems, there is little research-based evaluation of how they work in practice. Reforms have more frequently been based on rhetoric and ideology than on careful evaluation (Peters & Savoie, 1998). The comprehensiveness of changes undertaken makes it difficult to identify causes of effects, or to establish valid baselines against which comparisons can be made. Criteria for evaluation can vary markedly depending on political persuasions and differ between employees and clients of the public sector and between levels of responsibility within public sector organizations. It is a paradox that while NPM reforms have sought more measurable outputs, the reforms themselves have been almost immune from evaluation (Pollitt, 1995).

This study seeks to contribute to evaluation of the new realities of New Public Management by focusing on the control systems in the New Zealand model which are central to delivering performance as an alternative to funding organizations. Control systems are defined as the "formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities" (Simons, 1995). The control systems being studied are those which provide the link between political strategy and administrative delivery. These systems are the current and more publicly visible equivalent of the private government of public money examined by Hecló and Wildavsky (1981) in Britain thirty years ago.

The study heeds the warnings of Pollitt (1995) about the difficulty of evaluation and restricts its focus to comparing perceptions of how the current system works in practice

against benchmarks outlined in a model developed from experience in decentralized private sector organizations by Simons (1995; 2000). The New Zealand model of control systems drew heavily on private sector experience and language when introduced in the late 1980s. It is appropriate to examine its practical outcomes against a private sector model that tackles a concern common to both private and public sectors—the effective implementation of strategic intentions.

This evaluation is based on the experience and perceptions of a sample of public sector employees and consultants who work closely with control systems. A representative sample of 41 capital-city insiders were interviewed about their experiences with the freedoms and accountabilities promised in the design of the control systems. Statements derived from interviews were then tested in a postal ballot with interviewees, to derive a group opinion to help interpret the wide ranging individual perspectives.

Experience with control systems can be seen to be central to addressing the big questions of public management, proposed by Behn (1995) as a way of focusing research activity.<sup>1</sup> All three questions are directly relevant to a system that has sought to decrease micro-management by removing centralized, procedural rules, to motivate public managers by providing them with new freedoms, and to increase organizational achievement by defining and measuring work as outputs that contribute to political and social outcomes.

## **2. Freedom and control—a public sector paradox**

All organizations face a central problem of autonomy and control. At the top of a hierarchy, managers try to develop a unified mission or strategy, using commands and rules and other means to create centripetal forces. By contrast, middle managers can be expected to use autonomy to create centrifugal forces that pull an organization in the direction of Balkanization (Bolman & Deal, 1997, p. 71). Too much autonomy and too little control can undermine coordination and prevent the delivery of a consistent service or product. Too much control at the center can undermine motivation among those who are furthest from the source of power. It can result in the passivity, lack of initiative and acceptance of rule-bound behavior that is seen as a failing of bureaucratic organizations and as a rationale for public sector reform.

The challenge is to balance the control necessary for a unified strategy with sufficient autonomy to foster initiative and responsiveness. Public organizations face a two step challenge of balancing freedom and control—within each organization and in relationships between officials and elected representatives. The issue of democratic control over management action is central to the political process because public agencies have awesome powers of compulsion. They can tax, regulate, inspect, arrest and can reward through subsidies, purchases or protection (Wilson, 1994, p. 672).

NPM solutions to the age-old questions of how to organize can be seen as antiphons or contradictory pairs of proverbs (Peters, 1998). Among these antiphons is a pair that sums up the contradictions and paradoxes of freedom and control for public agencies:

- A. The principal goal of reform is to empower public employees, create autonomous and effective public managers and make government a more attractive employer.

B. Effective government will only work by reducing the power of the civil service and empowering their nominal political masters.

Expressions of both antiphons can be seen in the tides of reform identified by Light (1997), which have periodically brought change to the organization of the federal government in the United States. Among four tides identified by Light, one can be seen as advocating greater managerial freedoms while the others seek to increase the powers of politicians and the public. Liberation management, the tide of the reinventing government movement of the 1990s, proposes freeing public sector employees from excess rules to enable them to perform and creating market-like competition to foster client responsiveness and innovation.

Three earlier tides, each dominant in earlier periods and with continuing impact on public management processes, are:

- Scientific management, descended from the work of Frederick Taylor (1911), emphasizes the quest for efficiency through identifying the best possible ways of working.
- War on waste, which was a reaction to big government of the 1960s, with political pressure focusing on achieving economy in public spending.
- Watchful eye, a citizens and political movement that has emphasized openness of information as a form of control which will ensure fairness in the implementation of public services.

The antiphonal nature of NPM reform and elements of different tides can be seen at work in the model of public sector reform adopted in New Zealand in the late 1980s. These changes were adopted more quickly and comprehensively than in most countries. New Zealand is a state in microcosm with a small population (3.8 million), and a limited history of human settlement, with 160 years of European and 1000 years of Maori settlement. The country is surrounded by ocean with its near large neighbor, Australia, as far away as London is from Moscow. As a prominent New Zealand historian observes, the country is “a test tube whose glass sides are 2000 kilometers thick, in which some of the grand themes of world history are played out more discernibly than elsewhere.”<sup>2</sup> Smallness, isolation and special political circumstances made it possible for a group of determined reformers in the late 1980s to introduce radical and comprehensive public sector reforms as part of trying to improve the performance of the country’s economy.

Liberation management concepts can be seen at work in a delegation of authority to managers, letting them make decisions about choices of inputs and staff instead of holding them subject to complex centrally driven procedure manuals. A traditional, centralized bureaucracy was broken into focused organizations, whose managers would be held accountable using concepts from scientific management about efficiency and measurement. Managers of ministries, departments and agencies would no longer be lifetime permanent public servants, but contracted chief executives expected to deliver performance defined in terms of outputs and measurable indicators. Elected representatives would have discretion to buy from private or non-profit sources if public organizations failed to deliver.

Within four years a classic bureaucracy was reshaped along the lines of a decentralized private sector corporation, complete with the world’s first application of accrual accounting

to all government functions. Extensive use was made of private sector language such as purchase agreements between ministers and Chief Executives in a quest to change the focus from organizational maintenance to focused performance. The use of language was part of a deliberate effort to emphasize the extent of the break with past practices (Matheson, 1997).

Expressed as a slogan, the New Zealand model of public management sought to let managers manage, but hold them accountable for results.

The paradoxes involved in this slogan, as in the antiphon developed by Peters, create a challenge for analysis and evaluation. Both freedoms and accountability are desirable for effective public management. Public sectors that fail to provide sufficient managerial freedoms will foster unresponsive, bureaucratic behavior of the sort that created an appetite for the NPM proposals from the early 1980s. On the other hand public sectors that fail to hold their managers accountable, risk loss of control by democratically elected representatives to unelected public entrepreneurs who choose how they spend the public's money (Lewis, 1980).

The two-sided nature of control is well expressed in a model developed by Harvard professor Robert Simons (1990a, 1990b, 1995, 2000), who has studied the operation of control systems in more than 100 US businesses.

Simons developed this model to illustrate the need for managers to have systems for both control and empowerment (the term for autonomy or freedom used by Simons). Managers must balance and control tensions between freedom and constraint, between empowerment and accountability, between top-down direction and bottom-up creativity, between experimentation and efficiency (Simons, 1995, p. 5).

Simons' definition of control systems as the "formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities" is equally applicable to public sector systems. It aptly describes the activities and interactions of elected representatives, chief executives, central agencies and corporate services managers as they seek to translate political strategies into managerial and organizational performance.

Simons' model visually presents the paradoxes of control as opposites contributing to a multifaceted definition of strategy derived from the work of Mintzberg (1994). The link with definitions of strategy is particularly helpful for study of New Public Management systems, because one of the central promises of reforms has been to provide both elected representatives and chief executives with greater ability to think and act strategically. Strategy is more than strategic planning. Indeed, Mintzberg argues that strategic planning is an oxymoron, a contradiction in terms, because strategy involves synthesis and planning requires a breaking into component parts. Simons' model shows that monitoring of plans is only one of four dimensions.

Simons presents the paradoxes as a yin and yang of management—the light and shade present in the Chinese symbol for forces which are opposites but also need each other to create a whole being. The empowering yang energy is on the left side of the model with its focus on beliefs and interactive relationships. The controlling yin energy on the right balances the freedoms with definitions of boundaries and feedback through diagnostic systems. Control and empowerment co-exist in a tension-filled partnership, which is necessary for overall effectiveness.

By examining each of the corners of Simons' model, it is possible to gain insights into

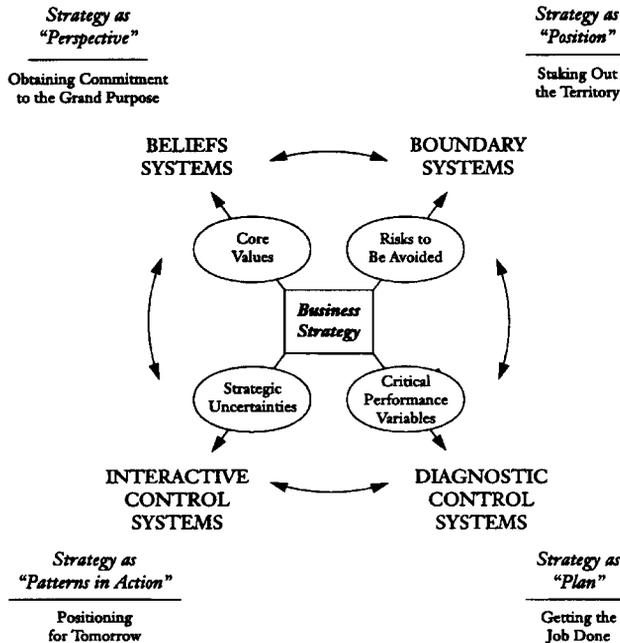


Fig. 1. Model developed in “Levers of Control” by Robert Simons, Harvard Business School Press, Boston, 1995, Page 159.

how NPM systems work in reality. More detail about the Simons’ model is provided later, alongside comments about the current realities of the New Zealand control systems.

### 3. Methodology

One of the challenges of researching public management is the scale and diversity of public sector organizations. Services provided range from routine clerical tasks to the complex exercise of professional judgment. Generalizing about the public sector can lead to interpretations which differ as widely as the observations of three blind men about the characteristics of an elephant, a Sufi parable cited by Senge (1993). One, touching an ear, found something wide and broad, like a rug. Another, grasping the trunk found a straight and hollow pipe. The third, holding a front leg, found a firm and mighty pillar.

As a result of the reforming zeal of the late 1980s, all public sector organizations in New Zealand have a set of control systems in common. This study seeks to explore in depth how these systems are operating in practice and to build on observations in Schick (1996) and Stace and Norman (1997). The study seeks to move beyond rhetoric about what these systems were supposed to achieve, to explain their realities as perceived by people for whom the systems are a major part of their work life.

In order to tackle what are largely how questions, an exploratory, qualitative research strategy has been used. The purpose is to provide explanations and rich detail of experience rather than derive statistical significance from a randomized sample.

A modified form of the Delphi technique (Delbeq et al., 1975) was used to work with individuals who have a range of in-depth experience with public sector control systems. Members of a Delphic oracle were identified in the following way. Initially the researcher started with people known to him from the period of major public sector reform between 1988 and 1993. At that time, he had worked as a Training Manager for the State Services Commission, delivering management and financial training to support the reforms and through this role had worked with many public sector organizations. People who had been active and well informed during this period and were still working with control system issues a decade later were the first to be approached. A snowball approach to sampling was adopted (Hussey & Hussey, 1997, p. 147). Each of these people was asked to identify others who they considered likely to be experienced and informed about the current realities of the public sector control systems.

From nearly 80 possible interviewees identified in this way, 45 were chosen to provide a sampling across government functions and roles. Of the 45 approached, only two Chief Executives responded that they did not wish to take part and two were unavailable because of travel commitments. In total 41 interviews were carried out, resulting in more than 100,000 words of interview transcripts. Interviewees within the public sector came from 27 organizations, between them covering the spread of central government functions. Among these were six Crown entities,<sup>3</sup> with the other 21 being either core public service departments including central agencies, or Defense and Police. All major functions of government have been canvassed. Appendix A shows the composition of the interview group by and role and organization.

Interviews were conducted between May 1 and August 17, 2000, a period during which public sector awareness of control issues was strongly influenced by controversies prior to the 1999 general election and actions of the new center-left coalition government. The policies of this government have been a major break from the market-orientated new-right political agenda that has been dominant in New Zealand for the previous 15 years. Also influencing responses was the release of a Ministerial review into the Department of Work and Income, on May 8, 2000. In 1999, this department chartered an aircraft to take managers to a corporate conference at a central North Island tourist resort, provoking pre-election controversy about extravagant spending and the imitation of private sector practices within a core government agency. Many interviewees were very conscious of the impact this controversy was having on public perceptions about how much freedom and accountability public sector managers should have.

Interviews were initially transcribed from tape recordings, with shorthand (Teeline) notes used as a backup. As the interviews progressed, the author's facility with Teeline improved, and the last eight interviews were recorded entirely from shorthand notes.

Interviews averaged 45 minutes in length and followed a semi-structured format, using the questions and issue areas outlined in Appendix B. The characteristics of elite interviewing (Dexter, 1970) were evident throughout the interview process. The interviewer invited

interviewees to teach him about the situation, rather than insist on their hewing to a standardized line of discussion. As Dexter observes (p. 6), many well-informed or influential people are unwilling to accept the assumptions with which the investigator starts and will insist on explaining how they see the situation and what the real problems are.

Interviewees were seen to be co-researchers who have a role in defining the issues (Lawler, 1986) with the intention of organizing and interpreting “the complexity of government organizations and stick as close as possible to what actually happens in them” (Wilson, 1989, p. xii).

Development of empathy with interviewees was particularly important given the sensitive nature of the subject matter, involving relationships with elected representatives and central agencies. For many interviewees, the information provided could, if disseminated, prove to be highly career limiting. An assurance of confidentiality was provided in writing and signed by both interviewer and interviewee. One Chief Executive asked for an additional assurance of first sighting statements derived from the interview in case the views could be traced. Confidentiality was critical in enabling interviewees to speak freely and resulted in a level of frankness that could not have been achieved otherwise.

The process of analyzing the interview information began with the first interview. As soon as each transcript was completed, the strongest and most significant propositions made by the interviewee were identified. Minor changes were made to ensure that these statements were expressed in understandable and grammatically correct form, so other interviewees could later assess them. In all 364 propositions were developed from interviews, an average of just under nine statements per interviewee, ranging from the twelve or more statements provided by eight senior interviewees, to five or fewer statements from five interviewees.

Propositions were categorized to identify duplicate statements and a reduced list of 220 statements was tested using Victoria University’s Decision Support software. This electronic meeting facility makes it possible for a group of up to 12 to vote individually and anonymously and gain near-instantaneous feedback on the group result. Thirteen interviewees took part in two sessions and voted levels of agreement and disagreement about the statements, making it possible to identify areas of strong agreement, major debate and where statements were unclear or of minority application. From these results, a paper-based questionnaire with 95 statements was prepared and mailed to all interviewees. A rating scale offering four voting options was used. Numbers allocated to each of the options were: Strongly Agree (4), Agree (3), Disagree (2) and Strongly Disagree (1). The four-point scale was used to avoid a tendency to the middle, which can occur with a five-point scale. Participants were asked to leave blank items which did not relate to their experience or about which they had no view.

The mail questionnaires were completed and returned by 37 of 41 interviewees, a response rate of 90 percent, providing a reliable base from which to identify levels of consensus and divergence.

Those statements which were answered by more than 70% of respondents were considered for analysis, and within these, the statements chosen to identify the consensus of the group were those which received 2.8 and above, indicating agreement or strong agreement. Statements that attracted strongly contrasting responses were also retained to provide comparisons with those that had been agreed.

## 4. Findings

Agreed and strongly agreed statements from the questionnaire form the basis for these findings. Statements from the survey are highlighted in italics to distinguish them from supporting commentary and quotations from individuals. Where quotations from individuals are used, the role of the interviewee and the date of the interview is identified as an endnote. All interviews were conducted by the author.

### 4.1. *Achievements of reform*

While critical of many aspects of control systems, respondents were clear about the need for systems that balanced freedom and accountability. The two are seen as working hand in hand, as in a strongly agreed statement that:

*“Clearer lines of accountability are central to providing greater management freedoms. These have empowered people to be better managers.”*

Trust is a central ingredient as expressed in the strongly endorsed statement:

*“The extent to which you are given trust and advised that you are going to be held accountable acts as a very strong incentive.”*

Major strengths of the reforms are clear roles and responsibilities, more transparency of information and integration of Human Resource Management into organizations (rather than being run centrally).

Accrual accounting reports are probably being produced for less than it used to cost for cash accounting, a trend that has been assisted by technology change. This financial information is seen as

*“considerably more useful for analysis and planning and in a format which can be understood by people with commercial backgrounds, aiding transfer of staff between sectors.”*

The benefits of the reforms are seen as enormous compared with what respondents perceive to be *“bureaucratic and unresponsive systems still commonplace in other governments.”* They saw themselves as being much more concerned with and aware of management issues and sources of funding than overseas counterparts who were seen as being highly specialized, and working in large bureaucratic structures.

### 4.2. *Costs of reform*

Two major costs were identified—the creation of organizational silos and discouragement of innovation. Silos were seen to stem mostly from the degree of cooperation that Cabinet Ministers wanted, rather than from the management systems. A system of Ministerial teams used by the former National Government was seen as having been effective in creating cross-boundary work and should be reinstated by the current government.

Political scrutiny was seen as creating a risk averse approach in which *“innovation and creativity have been discouraged to some extent.”* Public service was seen as a very harsh environment in which

*“you can build your reputation on 99 outstanding things and destroy it all overnight with one.” “Avoiding mistakes had become more important than achieving positive things.” Public-sector staff have “hard hats on, which doesn’t provide a climate in which improvement can occur. The government won’t get the results it wants by telling the public sector to do it or else.”*

Close political scrutiny effectively meant that while the system purported to fund outputs, *“funding is still based on input costs rather than output prices.”*

A number of costs identified by individual interviewees failed to gain agreement. The following are statements with which the group disagreed:

- *“The creation of policy agencies puts a barrier in the way of implementation. Policy staff think they have achieved a result just because they gain a sign-off from a Cabinet meeting.”*
- *“Treasury operates on a belief that all government expenditure is bad and should be cut, which does nothing for your long-term capacity.”*
- *“There is little incentive to collaborate with other departments, even on policy projects.”*
- *“There is less free and frank advice because fixed term contracts mean that senior advisers run the risk of being out of favor at court and not reemployed.”*

#### 4.3. Managerial freedoms

The New Zealand reforms sought to remove the micro-management that had become institutionalized in large manuals for personnel and financial management. As Allan Schick (1996) highlighted, the New Zealand reforms resulted in fewer constraints on managerial discretion than in any other country that has reformed its State sector. Within budget limits and the law, managers have flexibility in how they hire and pay staff, obtain office accommodation, and purchase supplies and services which contribute to agreed outputs. Considerable faith was placed in the ability of robust, entrepreneurial, risk-taking managers to revamp operations, reallocate resources and point organizations in new directions. Top managers would be expected to actively recruit others who are willing and able to take charge and shed workers who shirk responsibility or are unproductive (Schick, 1996).

Respondents believed they or managers generally had sufficient access to resources to be able to make sensible trade-offs between their use of inputs. Such freedom was seen as necessary for performance. As one agreed statement put it:

*“Managers will achieve more if they are given more freedom and responsibility. They are also likely to make more mistakes, but these will be well offset by the achievement. Organization achievement can only really be influenced by focusing on the achievement side, not by attempting negative controls.”*

However, since the late 1980s, there has been a chipping away at management freedoms over inputs and to a lesser extent management systems, with an expressed belief that central agencies have in some ways never really loosened the apron strings.

*“They manage a culture of minimizing risk and plugging gaps, usually adding more monitoring to performance agreements rather than think about the systems issues,”*

and

*“at each sign of an input performance failure a first instinct has been to go back to an across-the-board control. This has resulted in implicit delegation changes that are ad hoc and non-systematic.”*

#### 4.4. *Balancing freedom with accountability*

Given an interview group that included implementers and central agency monitors, views about accountability were not surprisingly varied.

The complexity of relationships involved in the system was captured in the statement

*“I am conscious there are an awful lot of people looking over our shoulders to make sure we are doing it right, whatever we are doing.”*

Cabinet Ministers were seen as in most cases to pay little attention to performance agreements with public sector Chief Executives, but remained more concerned that when *“they ask for something they get it.”*

The State Services Commission, responsible for appointing and managing the performance of public service chief executives, was a subject for particular criticism. It had *“not been seen visibly to deal with good and poor performance in a fair but effective way.”* It was *“effectively an absentee employer, failing to get to know staff sufficiently to know their capabilities, strengths, deficiencies, weaknesses and problems.”*

*“Like other central agencies, it has people who don’t know what it is like to be running a business so they ask inappropriate questions and basically clutter up the process of getting on with making a difference in the world.”*

SSC along with The Treasury was seen as having *“limited understanding of information technology issues,”* which made them *“become extraordinarily risk averse and try to impose additional controls for IT projects.”*

Treasury, the financial monitoring organization, had as many supporters as detractors, reflecting the extent to which financial monitoring has become routine and noncontroversial. Views about Treasury’s role in budget setting were divided, with the following receiving divided responses:

- *“Treasury second guesses departments and through imposing budget cuts can place a department in the difficult situation of failing to deliver and taking flack for this. Meanwhile Treasury escapes accountability for its role in setting the budget.”*
- *“Vote analysts from Treasury have been young, arrogant, lacking in their willingness to understand departmental issues and positional in their negotiating tactics. They have not served Treasury well.”*
- *“Treasury operates on a belief that all government expenditure is bad and should be cut, which does nothing for your long-term capacity.”*

The watchful eye element of the system, created by the Official Information Act, and managed by the Office of the Ombudsman, was seen as adding considerably to compliance costs.

*“While the principle of open and free information is fine, the Act is being used by people who want to find a scandal or to be vexatious.”*

The role of central agencies was seen to be confusing. Respondents agreed with the following analysis:

*“We have too many control agencies competing for influence. We should have a strengthened Department of Prime Minister that has real power and authority, with Chief Executive appointments left to an independent State Services Commissioner and with Treasury operating as a Ministry of Finance. There should be one clear authority so we can avoid the power plays that happen at present between Treasury, SSC, the Department of Prime Minister and Cabinet, and now Te Puni Kokiri.”<sup>4</sup>*

Solutions to accountability tensions were seen to lie in improving the performance of management and the management of relationships. Problems with accountability were seen to be a result of a loss of confidence in delegation.

*“Working on the relationship is a more effective solution than putting in place more controls.”*

#### 4.5. *Using Simons’ model to interpret perceptions of control systems*

Simons’ model has been used as a way of interpreting realities as perceived by interviewees rather than providing a funnel for the gathering of information. Near the end of each interview, participants were shown Simons’ model and asked whether one or more of the quadrants dominated in the systems with which they worked. Just over half of interviewees felt able to make an immediate response and of those the great majority saw diagnostics, and to a lesser extent boundary systems, as dominant. At one interview, the model drew a laugh, followed by clear identification of the control side of the diagram.<sup>5</sup> A number of interviewees saw their organizations as having moved through each of the control system quadrants at different periods in their history. Very few identified controls based on beliefs or interaction as central.

Survey statements were categorized to relate to each of the quadrants, providing a means for exploring how each of the forms of control is seen to work in practice. The weight of opinion is again related to the control side of the model. Control systems are described in the sequence in which they most affect interviewees.

#### 4.6. *Diagnostic control systems*

Strategy as plan dominates the work world of interviewees. The routines of developing and then reporting on financial and performance plans are continuously visible. The extent to which they are effective is a matter of contention. Simons uses the term diagnostic controls to refer to measures of outputs of processes compared with predetermined standards.

Working effectively, these controls will operate like a thermostat, identifying and correcting deviations from pre-set standards just as thermostats activate heat or cold to regulate the temperature. Working well, diagnostic controls can streamline the amount of information managers must react to in the scarce time they have available. Effective controls can increase return on management making it possible for managers to focus on exceptions to the pre-set targets. However, diagnostic control is most difficult to achieve when a high degree of novelty is involved, and measures used can affect motivation and subsequent performance.

Reactions from interviewees echo the need identified by Simons for periodic review of diagnostic measures to ensure they are sufficiently responsive and don't distort results.

The potential for game playing in the setting of measures was highlighted with a statement that:

*“the things you tend to report formally are those you have real confidence about being able to measure and prove to an auditor. These often may not be the things you most want to worry about in your organization—the softer indicators that really tell you how well the organization is doing.”*

#### Performance measures

*“too easily get focused on form and lose sight of substance.” “The formal control systems don't drive behavior. Often they are worked around. They only drive behavior if Chief Executives choose to use them throughout their organizations.”*

The incentive for managers is seen to be to focus on more easily obtainable, safe measures, closer to activities than to outcomes. As one Policy Manager put it, the trick is to keep focused on the outcomes, while only committing to paper those objectives which can most readily be achieved.<sup>6</sup>

Interviewees are skeptical about the extent to which diagnostic controls lead to action, outside the hanging offense of overspending budgets. While financial controls are closely and effectively monitored, quality measures are far less considered. It was perceived that there were no visible consequences for Chief Executives who failed to deliver on performance agreements, in sharp contrast to the consequences meted out for politically embarrassing actions.

More effort was seen to go into the ex ante side of accountability with the preparation of plans, budgets and performance indicators than into monitoring of results. One central agency interviewee pointed out a widespread reluctance to spend on the overhead of reporting which was needed for follow-through.<sup>7</sup>

The extent to which central agencies could make judgments and act as the Government's thermostat was questioned. They were seen as being essentially restricted to monitoring the most visible of activities—seeing

*“only the flagship and firefighting activities of a department and not the routine or the research and development activities from which future capability would come.”*

The diagnostics of financial control have developed into a “game which departments and central agencies have become increasingly adept at playing.” Incentives to not underspend are as great as the incentives to avoid overspending.

*“If you under spend, there is no reward for being efficient and providing savings. Treasury looks to reduce spending in subsequent years. The select committee wants to know why you haven’t solved all the problems in the portfolio. Staff complain. The real incentive is to manage all appropriations as close as possible to the appropriation level.”*

While skeptical about diagnostics, respondents wouldn’t support an extreme view tested in the questionnaire that

*“performance and output class measures are weak, inconclusive, nebulous, unreliable and capable of manipulation precisely because this serves the interests of both Ministers and Chief Executives.”*

#### 4.7. *Boundaries*

Boundary systems are described by Simons as limits to opportunity seeking. They are the means by which an organization limits its field of action to conserve limited resources. Boundaries are usually stated in negative terms or as minimum standards and are accompanied with sanctions for breaching the boundaries. Boundaries are like brakes on a car: without them, cars (and organizations) cannot operate at high speeds. By expressing boundaries in negative terms, organizations effectively leave considerable freedom for managers to choose how they will deliver results. Clear boundary systems can be a means for fostering managerial freedom—a shorter method than spelling out what must be done in complex procedure manuals. Boundaries can be expected to be of both the espoused and in use forms (Argyris & Schon, 1978).

For respondents, changing boundary systems were of particular concern. Media and political focus on public spending had increased anxiety about the boundaries of freedoms to act. Despite formal diagnostics focused on outputs, attention from the media and opposition politicians had invariably been focused on spending on inputs. Interviewees were very conscious of the learned vulnerabilities (Wilson, 1989, p. 192) which had emerged from a number of post-reform disasters. Firstly, in 1994, in a major blow for the cause of letting managers manage, the Controller and Auditor-General, Parliament’s ultimate check on public funds, was found to have fraudulently used credit cards to sustain a lavish lifestyle, and was subsequently imprisoned. Credit card expenditure became a learned vulnerability, subsequently closely scrutinized by Chief Executives. In 1995, the tragic loss of 14 lives as the result of the collapse of a poorly constructed viewing platform installed by the Department of Conservation tested the boundaries of accountability and focused attention on the risks of physical structures (Gregory, 1998). In 1999, controversy about the chartering of a plane to fly managers of the Department of Work and Income to a conference at a tourist resort had public sector managers scaling back on spending on venues and initiatives that might relate to the building of corporate culture. Also in 1999, the failure of a major Information Technology system at the Police Department increased nervousness about technology and large payouts to departing senior managers and board members raised public and political unease about the freedom with which a managerial elite was using public money.

These and other media and political controversies have lead to nervousness about doing *“anything that might be viewed by the press and public as a possible misuse of public*

money.” Interviewees felt that “*all Chief Executives tend to get penalized when one steps out of line, because politicians and central agencies tend to take a structural solution.*” Senior managers observed the pressures placed on Chief Executives—particularly the pressures to report and conform at the risk of getting beaten up by central agencies or the media and were “*increasingly deciding the Chief Executive role was not one to aspire to.*”

The lack of incentive to work as a Chief Executive was related to the problem of working in a gold fish bowl. “*You can feel exposed and powerless when sometimes you are strapped for resources and then blamed for not delivering.*” Boundaries were unclear in resource allocations made by ministers, with Ministers normally saying—just rearrange your priorities. “*It takes a bold CE to say I can’t deliver with the resources.*”

One approach to boundary setting much used in the reforms has been changing organization structures, producing this change-weary response:

*“I wish people would stop trying to solve problems by changing organizations or structures.”*

Boundary setting in the public sector is a complex interaction between officials and politicians. The group polled regretted that political decision making doesn’t make it easy to set boundaries for activities that will no longer be pursued.

*“As a small country we don’t have the resources or talent to do everything we would like to do. We need to prioritize, but this is exactly what politicians most dislike doing.”*

#### 4.8. Beliefs

Beliefs systems provide a means for gaining commitment to a larger purpose, contributing a level of meaning to strategy. Simons clusters beliefs along with boundary systems as the means for establishing the arena in which an organization operates. Boundaries restrict the freedom of movement; beliefs encourage the search for new opportunities. Simons sees the contribution of a beliefs system as inspiring and guiding organizational search and discovery and motivating individuals to search for new ways of creating value.

The use of a beliefs-based strategy as an element of public sector controls raises the difficult issue of whose beliefs will prevail—those of elected representatives or officials? Should public service beliefs be restricted to the traditional role of neutral competence or is a move towards responsive competence unavoidable (Peters & Savoie, 1998)?

The most readily applicable beliefs are those focused on the how of public management. For interviewees, the most appealing features of public sector work are

*“challenging jobs with the ability to paint on a broad scale, make things happen and have a big impact on New Zealand.”*

They see

*“the proper role of policy agencies should be to provide objective, full and frank advice, without fear or favor right to the point when a decision is made, and then get on with implementing the decision.”*

Interviewees felt it unlikely that they would obtain strategic guidance from the political arena, voting that

*“long term strategic planning from politicians is very rare.”* This made it even more important that Chief Executives and departments had *“their own good long-term strategic visions and a focus on retaining capability for the longer term.”*

Frustration with political leadership was shown in these statements:

- *“I would like the government to take a very clear line, make its expectations crystal clear, get people of good caliber, let them get on with it, talk about outcomes and not about money spent on inputs. But I suppose the nature of politicians acts against the possibility of this happening.”*
- *“For ministers, to be seen to not be failing is just as important as to be seen to be succeeding.”*
- *“Ministers who repeatedly cross the line to interfere in managerial decisions should expect to suffer consequences.”*

They were struggling with adapting to a new government’s change agenda, perceiving it to lack an overall strategy and instead containing *“a shopping list of isolated issues which departments are struggling to respond to and retain a sense of strategic cohesion in their work.”*

They saw the public management systems struggling with assumptions made about *“rational purchasers making rational choices and scrutinizing results in a similarly rational way.”* The difference between this view and the realities of the political process had become more pronounced with MMP *“in which relatively small groups set out to create a niche profile with issues that are not necessarily rational.”*

Political beliefs were seen to cloud rational allocation of resources, with Police and Health spending in particular being seen as *“being rewarded for political clout rather than proven efficiency or effectiveness.”*

#### 4.9. Interactive

Interactive controls are those that deal with strategic uncertainties, developing strategies from patterns of action and positioning for the future. High levels of management interaction are needed particularly if novel circumstances are faced. Such controls provide the means by which an organization learns to adapt and they are strongly linked with the creation of strategic vision (Simons, 1995, p. 117). The clarified beliefs base which can come from a strong vision provides a way of reducing the management time required.

In the political context, the process of interaction appears to be the reverse of that observed by Simons in the private sector. Politicians place a premium on interaction—with their electors and with their advisers. As noted in the diagnostics area, few put serious weight on the reports constructed for them by their officials, with the real weight of the relationship with senior public servants coming through frequent interaction. Interviewees identified that

*“the real substance of accountability to the minister does not come through the formal processes and documents, but through weekly meetings and informal exchanges. The formal system is only really relevant for when there are problems.”*

The role of trust is central:

*“Trust matters more than anything else in relationships between Chief Executives of Policy Ministries and Ministers. Documentation doesn’t help build such trust and can get in the way of building this.”*

The interaction however isn’t necessarily about positioning for tomorrow, but responding to current crises and the return on management of the time spent may be lower than managerially experienced staff would wish. The statements below express these frustrations:

- *“I would like to have a structured debate about issues of strategic direction, capability and performance, so we can report to Parliament on our ability and performance. We need to be accountable but want to be accountable properly.”*
- *“Specification of outcomes for which ministers were to be accountable is the major unfinished part of the model of the late 1980s.”*
- *“Budgets for outputs are still run in jam jars called ministerial portfolios. There is no real comparison of the value of shifting resources from one output to another.”*

## 5. Analysis of findings

One of the major challenges of qualitative research is to detect patterns emerging from diffuse and diverging views. Analysis of data is an exercise in sense making (Weick, 1995) assisted in this case by levels of agreement and disagreement to statements in the questionnaire. Findings are based on both the convergent information from the questionnaire and the often highly diverging views expressed through interviews.

The topic of control systems was of strong interest to participants, reflecting the central place of these systems in public sector work. Systems have, as Wilson (1989) points out, the most profound affects on what people know, believe, attend to, hope, wish, emphasize, fear and propose. Interviewees were particularly willing to assist in the research and were forthright in their views. Indeed many interviewees seemed to welcome the opportunity as a cathartic relief to express frustrations to an independent outsider who was offering a signed guarantee of confidentiality.

The most significant success is unquestionably the use of financial information presented and audited in the same way as private sector accounts. After major investment in the early phases of change, this area has become routine and uncontroversial. Financial information is seen as more straightforward to develop and report, perhaps using fewer but more qualified staff than before. Standardized reports developed by The Treasury have reduced the effort required for administration.

The formal use of outputs as the foundation for funding has succeeded—despite political focus on inputs—in creating a new focus on performance. The process of defining and redefining outputs has sharpened the clarity of purpose for organizations, laying the groundwork for new debates about the extent to which outputs really contribute towards desired social and political outcomes.

The use of outputs has not however resulted in a tidy system of arms length purchases by politicians as envisaged in extreme versions of the contracting model. Output funding is essentially a rearrangement of input costs, not a contract price. The reforms envisaged that

Ministers would be explicit about their requirements and departments and ministries would be explicit about what they can deliver. The reality appears to be very different from the rhetoric. Rather, ministers use their new powers to insist that Chief Executives accept budget cuts and do their best to continue delivering stated levels of output. In searching for a new form of democratic accountability (Behn, 1998), the New Zealand model has created a new distance between the arenas of politicians and officials. As purchasers of services, Ministers have not held back from criticizing employees who can not answer back publicly.

Since the organizational upheavals of the late 1980s and early 1990s, a new form of budget playing has become the routine. Outputs have become institutionalized, locked into defined jam jars based on ministerial portfolios, with one of the hopes of the reforms—a comparison of value between outputs—not being realized. A new form of incremental budgeting has developed, with a small amount of new funding providing, as a policy manager put it, a “small sand pit for politicians to play in.”<sup>8</sup>

Through the lens of the Simons model, one can observe a system which:

- is strongly focused on the use of formal planning and diagnostics that report variations to plans.
- faces new and unclear boundaries as a result of public and political controversies
- is uncertain about its beliefs base, particularly given a change of government, and
- is weak in its use of interactive systems to foster learning and orientation for the longer term.

The conflicting expectations described in the antiphons identified by Peters (1998) show through in the views of these public sector employees. Public sector managers revel in the freedom to choose between inputs, but chafe at the accountability to political processes that in their view lack strategic coherence.

Assessing the system by using Behn’s big questions, one can see considerable progress coupled with tensions that are inherent in operating in a political context. Behn’s first question raises the issue of micro-management by politicians. The reforms of the late 1980s represented a bold breakaway from micro-management of inputs. As a result, managers have significant freedoms in how they use inputs to achieve results. But a new form of micro-management has emerged, particularly since the introduction in 1996 of a proportional representation political system. Smaller political parties, seeking to create and hold political niches, have found a focus on the spending of publicly funded inputs to be a ready source of media publicity. While reporting systems are formally focused on outputs and indicators of results, the focus of Parliamentary select committees is invariably on the cost of inputs, effectively requiring public sector executives to monitor spending on inputs as closely as ever.

On the question of motivation, the attraction of challenging jobs which have a big impact is balanced by what is now seen as a very harsh environment of blame seeking. As a result of a limited number of highly public failures, accountability has come to be seen as a means for locating blame rather than as a means for improving performance. A new reality is a climate of fear, which runs the risk of being as damaging to innovation and risk taking by public sector employees as was seen to be the case with the traditional, rules bound bureaucracy that was replaced by the reforms of the late 1980s.

As a response to Behn's question about providing meaningful measures, the control system struggles. During interviews, clear contrasts emerged between those organizations with easily observable and measurable outputs and those without (Gregory, 1995). Those with repetitive operational activities had little problem in responding to requests for information and saw diagnostic information expressing their realities. Those who were providing advice and less measurable outputs however felt they were playing a game in which the substance was different from the form. With Ministers placing little weight on formal purchase and performance agreements, such officials saw the intangibles of interaction, trust and responsiveness as more important than preplanned and formally assessed targets.

## **6. Conclusion**

This article started with two antiphons or paradoxes about the relative power of politicians and officials in New Public Management prescriptions for reform. The concept of paradox is very useful for interpreting the realities of public management roles. One of the characteristics of the NPM approach has been to search for technically based certainties in an arena of ambiguity, and politically driven search for the art of the possible. Its control systems fail to acknowledge that a primary feature of public management is a need to manage ambiguity and paradox. The NPM system used in New Zealand is built on a series of either-or choices such as purchase or ownership, policy or delivery, political or managerial, private or public sector, outputs or outcomes. While making it possible to analyze organizational structures and delivery systems with apparent rigor and logic, such dualisms fail to provide a realistic model for assessing the tasks involved in management implementation. They demonstrate a faith in the analytical rigor of planning systems which ironically governments came to be mesmerized by just as private sector corporations were becoming disenchanted (Behn, 1991, p. 143).

The Simons' model provides an effective method for assessing how thinking in control systems has progressed since the New Zealand system was embedded in legislation in the late 1980s. The New Zealand system is strongly weighted towards the right hand side of the model, emphasizing control oriented systems. Unless balanced by the more person-centered, motivational forces of the other side of the model, such control systems run the risk of fostering minimum compliance rather than committed enthusiasm. Balance is a theme of debate about control systems during the 1990s, with the balanced score card (Kaplan & Norton, 1996) focusing on what should be reported, while Simons explores the how issues of reporting.

Rather than use either-or thinking, public sector management would be better served by a recognition of the yin and yang of Simons' model, which is equivalent to the both and approach to management identified by Collins and Porras (1994) as a feature of companies which have been built to last.

The tensions of the New Zealand public management control systems won't be resolved by seeking analytical certainty. Instead they require a balancing of the paradoxes involved in both—and approaches to management.

Both diagnostics and beliefs are required in any control system. Without the beliefs, what

gets managed may indeed be measurable, but not particularly meaningful. In its quest for rational efficiency, the NPM system in New Zealand has over-emphasized the formality of reporting outputs and under-valued the more value laden and political issues of what constitute effective outcomes and results.

Both beliefs and boundaries are needed to define the arena in which public managers can use the freedoms provided by the changes of the late 1980s. A change in political leadership has led to the replacement of one form of bureaucrat bashing by another. For the new right, the aim was to reduce the size of the state through forcing efficiency and economy. The current center left government, a supporter of activist public management has been lashing out in frustration at what it sees as a public service captured by the ideology of the previous fifteen years. A clearer focus on core beliefs and boundaries of acceptable behavior for both officials and politicians is needed. The alternative is the creation of a public service with hard hats on, paralyzed as a potential innovator and implementer of the mandate of an elected government.

Both diagnostic and interactive controls are needed, with diagnostic information providing the feedback and signals that can ensure the scarce resource of Cabinet level attention is used as effectively as possible. Both are needed to help public organizations learn from experience and develop future directions.

Conclusions based on an understanding of paradox lack the apparent simplicity and clarity of rational and analytical New Public Management rhetoric. They do however more closely capture the realities faced by those whose challenge it is to make such systems work.

## Notes

1. Behn's big questions are: 1) micromanagement: how can public managers break the micro management cycle—an excess of procedural rules, which prevents public agencies from producing results, which leads to more procedural rules, which leads to . . . , 2) motivation: how can public managers motivate people (public employees as well as those outside the formal authority of government) to work energetically and intelligently towards achieving public purposes, and 3) measurement: how can public managers measure the achievements of their agencies in ways that help to increase those achievements?
2. James Belich, currently Professor of History at Auckland University, quoted in *North and South Magazine*, August 1997.
3. Organizations which are governed by a board which reports to a Minister, as opposed to core functions in which the Chief Executive reports directly to a Minister.
4. The Maori name for the Ministry of Maori Development.
5. Interview conducted by the author with a Corporate Services Manager, Wellington, July 27, 2000.
6. Interview with a Policy Manager, Wellington, July 19, 2000.
7. Interview with a Central Agency Analyst, Wellington, May 10, 2000.
8. Interview with a Policy Manager, Wellington, May 22, 2000.

**Appendix A. Interview sample**

	Interviews	Questionnaire responses
Central Agencies (Treasury, SSC, Office of the Controller and Auditor General)	8	7
Chief Executives (including three in acting roles and two with recent past experience)	12	10
Corporate Services managers and analysts	7	7
External consultants	7	6
Divisional Managers (four in operational roles; 3 in policy roles)	7	7
Total	41	37

Public sector employees were drawn from the following organizations, a cross section of the major functions of central government in New Zealand.

Agriculture and Forestry, Department of  
 Child, Youth and Family, Department of  
 Commerce Commission  
 Conservation, Department of  
 Courts, Department of  
 Cultural Affairs, Ministry of  
 Economic Development, Ministry of  
 Education Review Office  
 Education, Ministry of  
 Fire Service  
 Foreign Affairs and Trade, Ministry of  
 Health Funding Agency  
 Inland Revenue Department  
 Internal Affairs, Department of  
 Labour, Department of  
 Land Information New Zealand  
 National Library  
 New Zealand Defence Force  
 New Zealand Police  
 Office of the Controller and Auditor General  
 Prime Minister and Cabinet, Department of  
 Qualifications Authority  
 State Services Commission  
 Te Puni Kokiri (Ministry of Maori Development)  
 The Treasury  
 Tourism New Zealand  
 Transit New Zealand

## Appendix B. Interview format

A combination of questions and statements, described below, was used as the basis for semi-structured interviews.

1. What control systems most affect your work?
2. **Freedom and accountability.**  
How well is the system achieving a balance between freedom to manage and accountability for results?
3. **Incentives and disincentives.**  
Another aim of the systems has been to provide incentives and disincentives that result in more effective public performance than is delivered through centralized bureaucracies. What incentives are in place? What disincentives do you observe?
4. **Costs and benefits.**  
What do you see as the major costs and benefits of these systems?
5. **Simons' model of controls.**  
Thinking about the systems with which you are familiar, is one of the corners of the model more strongly used than others?
6. **One major change?**  
If you could make one major change to the current framework, what would it be?

## Appendix C. Results from questionnaire

The following statements received strongly agreed ratings from respondents. These are statements which received 3.3 and above on a scale where 3 = agreed and 4 = strongly agreed. Statements included are restricted to those that received votes from 29 or more of respondents (just under 80 percent of the sample).

- *Clearer lines of accountability are central to providing greater management freedoms. These have empowered people to be better managers.*
- *The proper role of policy agencies should be to provide objective, full and frank advice, without fear or favor right to the point when a decision is made, and then get on with implementing the decision.*
- *The most appealing features of public sector work are challenging jobs with the ability to paint on a broad scale, make things happen and have a big impact on New Zealand.*
- *The extent to which you are given trust and advised that you are going to be held accountable acts as a very strong incentive.*
- *The benefits of the reforms of the late 1980s have been enormous, compared with the bureaucratic and unresponsive systems still commonplace in other governments.*
- *I would like to have a structured debate about issues of strategic direction, capability and performance, so we can report to Parliament on our ability and performance. We need to be accountable but want to be accountable properly.*
- *Long term strategic planning from politicians is very rare. This makes it even more*

important that the Chief Executives and departments have good long-term strategic visions and a focus on retaining capability for the longer term.

- I am conscious there are an awful lot of people looking over our shoulders to make sure we are doing it right, whatever we are doing.
- It is costing less to produce accrual accounting reports than it used to cost for cash accounting. The information is considerably more useful for analysis and planning and in a format which can be understood by people with commercial backgrounds.
- With public service work, you can build your reputation on 99 outstanding things and destroy it all overnight with one. It's a very harsh environment.
- I wish people would stop trying to solve problems by changing organizations or structures.
- Too often managers in the public service rely on using their technical skills, which often are knowledge of process and relationships and government processes. Before taking on management roles, they should have training in management skills.
- Media attention has created among public servants a nervousness to do anything that might be viewed by the press and public as a possible misuse of public money.
- At the moment public sector staff have hard hats on. This doesn't provide a climate in which improvement can occur. The government won't get the results it wants by telling the public sector to do it or else.
- Clarity of roles and responsibilities (as a benefit).
- More transparency (as a benefit).

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