# Public Management in New Zealand: Lessons and Challenges

## by Graham Scott

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This book has great value as an informed discussion of fifteen years of public sector reform in New Zealand; as a lucid articulation of the different strands of theory and pragmatism driving those reforms; and finally, as the views of Graham Scott, key adviser on the reform architecture and subsequent major actor in it's implementation. It derives special interest from appearing in the term of a Labour–led coalition government for whom the reforms (initiated by a Labour Government in 1986) sit uncomfortably with their current political and administrative philosophy.

The book has three elements - an account of the reforms; discussion of key issues including: Public Sector Roles and Relationships; The Role of Ministers; Accountability (it covers most recent controversies); Performance Specification (including outcomes); the "Ownership" interest; Top Personnel Management; Crown Entities, and Strategic Management: and finally Scott's views on what needs to be done to take New Zealand's public management forward.

Scott's overview is that after the innovation of the eighties, apart from some effort in better coordinating government strategy, New Zealand's public management drifted until the late nineties. At that time over-due efforts were made (under Simon Upton as responsible Minister) to direct more attention to government's "ownership" interest in the public sector, and to the problems with crown entities. However doubt over carrying through these changes arises because of the election of a new government which was not part of the decade-long bi-partisan consensus on public management. To this new audience that Scott seeks to explain why things are as they are, and to urge the government to address important weaknesses in: ministerial performance, policy analysis and evaluation, strategic management, performance monitoring of chief executives and departments, human resource development, and the governance of arms-length state agencies.

Scott also has two deeper messages. The first is a warning about tendencies in the current government undermining the professional and non-partisan nature of the New Zealand public service. He cites: the current government's lack of support for the traditional public service duty of 'free and frank policy advice" and claims this obligation has recently been removed from chief executive performance agreements. He sees the problem compounded by the (continuing) resistance to paying attractive salaries for chief executives; and the government's apparent support for greater powers of summary dismissal of chief executives – without compensation.

The second message is that the future of the New Zealand model of public management depends critically on the State Services Commission becoming more effective than it has been to date in: developing future public service leaders; assessing and rewarding the performance of Chief Executives; dealing with big errors by individuals which threaten public confidence; strengthening human and intellectual capital in public service departments, and defending the public service against politicisation.

It seems one hears three different voices in this book- the external expert on public management, the powerful insider keen to explain and protect the integrity of the reforms' driving principles, (but Scott avoids letting the book become a personal apologia) and the advocate for good government. The following comments on each separately.

Scott is unusual as a practitioner and writer on public administration, in that his intellectual framework is economics- in particular New Institutional Economics (NIE)- and he headed the Treasury that radically changed the organisation and processes of government straight off economic theory. The up-side of involving theorists so directly in machinery of government is their clarity. The down-side is that these theories speak to broad principles and relationships, but do not carry with them received or empirically derived wisdom on how organisational devices interact with informal behaviour and wider institutions in particular circumstances. For example- performance specification helps align the interests of principals and agents- but how much of it to do and to what level is a matter for trial and error and institutional learning. Doing too much of it may be worse than not doing it at all. Equally- the Ministerial "purchase" metaphor has great power in changing a bureaucratic "we're here because we're here" mentality. But theory does not tell you the point at which the purchase approach squeezes out attention to longer term organisational capacity. Nor how to stop it being misused as when a Minister says – in effect- "I won't "purchase" policy advice I don't agree with".

This is not to say that Scott ignores management. His current concerns are all managerial and the ideas in this book are presented as a harmonious framework drawn from economics, management and accounting. But there has been some telescoping of history here. Over the past decade the managerial perspective was often an awkward retrofit to an original NIE inspired model, and at each point, (e.g. the introduction of higher level performance targets – Key Result Areas - for chief executives) adaptations met resistance from Treasury purists. As Professor Allen Schick observed in *The Spirit of Reform* [1](Schick provides an interesting Foreword to this book), the NIE-derived and managerial designs sometimes conflict. The area of greatest tension was around the assurance of the whole of government interest. The reforms made this particularly difficult because of the primacy given to the individual accountability of departmental chief executives.

Heavy reliance on a theoretical model in a complex situation creates a tendency to attribute failure to bad implementation – rather than revisit the model. Scott occasionally displays that tendency. His scolding of Ministers for not playing their part; the chronic dissatisfaction with the work of the State Services Commission; and the insistence that problems with performance can all be alleviated by smarter specification and monitoring, while understandable in each instance, begin to run counter to Ronald Coase's warning which Scott quotes. "We should start with real institutions. Let us also deal with man as he is." If, after ten years, parts of the reformed New Zealand system are not working for the people in it- they may be misconceived.

Scott gives an authoritative account of why and how reforms were implemented, and the lessons learnt. (The unfortunate effect of his avoiding the appearance of defending his own role is the lightness of his coverage of the Treasury – both in his time and after.). He considers each criticism leveled at the reforms, and discusses them in a fair-minded and constructive way. The criticism which gives him most pause, is that New Zealand might have derived the same benefits but less collateral damage, by following the less radical reform path of Australia. He defends the path taken on the basis that New Zealand was in much deeper economic and fiscal strife, and that the appropriate comparison is not the Commonwealth Government in Canberra, but what happened in state governments.

In retrospect, I believe there are deeper challenges to the reforms, which Graham Scott does not address in this book.

The first is that the reforms were a leap in the dark by public officials without experience or precedents. Propelled by the impetus of stroke- of- the- pen, action to open the economy, remove subsidies, and divest commercial activities, the government re-designed the whole public management system. Given the uncertainty of outcome, (compared with the economic and role of government reforms) this could be seen as hubristic. Don't important government institutions warrant, as in medicine, some kind of precautionary principle? Many OECD countries have managed their way out of chronic fiscal deficits by less extreme measures. The creation of an arguably unmanageable number of core departments under powerful chief executives, and the lumping together of a mixed bag of public functions under a new and untried "crown entity' governance regime, were not responses dictated by the difficult economic and fiscal circumstances of the early eighties. They were risky choices.

Some reform tendencies can be adjusted in the light of experience, others cannot. Herein lies the second challenge. Scott rightly makes much of the problems New Zealand has in public sector leadership development. Two strong and related tendencies in the initial reforms made this problem inevitable. The first was making individual chief executives so much the pivot of the new system, and the second was formal and informal strictures placed on the State Services Commission, because of the fear of it reasserting a centralised management role. The alternative to direct central control was reliance on external and internal market mechanisms. Reliance on the external market for new leaders proved insufficient, and, the Senior Executive Service idea, which has worked well elsewhere to develop leaders, never worked properly in New Zealand and is now in abeyance. It failed because of its voluntary nature. Some departments- including the Treasury- boycotted it, and the SSC did not have the clout to enforce it as a whole-of –government interest. Its replacement, the Management Development Centre, gives even more control to individual chief executives, and has proven patently inadequate for whole of government purposes. It is pertinent to observe that most modern governments and most large successful private companies take firm centralised control of the development of their future leaders.

More generally these two tendencies created enduring difficulties in striking the right balance in decision-rights between the representative of the interest of the whole of government (on management matters the State Services Commissioner) and the heads of individual departments and crown entities. It underlines this point that the reform legislation gave the Commissioner almost no responsibility for the wider State Sector. The NIE derived thinking of the original design created what is proving to be too weak a managerial centre for the public service, and the parallel process of Treasury-run co-ordination in the crown entity

[1] Schick A. The Spirit of Reform: Managing the New Zealand State Services in a Time of Change, A report prepared for State Service Commission and The Treasury, Wellington, NZ. 1995. http://ssc.govt.nz (13 Aug. 2001)

sector (through the Crown Company Monitoring and Advisory Unit) has left important public interests uncovered. A number of the difficult cases discussed in this book, including the Cave Creek tragedy, involve the problem of ambivalence as to when the State Services Commissioner can and should take responsibility for decisions involving the wider public interest.

The final challenge is that the reforms not only involved large-scale re-structuring, but, whether or not this was intended, a legacy in which structural change became the first rather than the last tool for dealing with organisational non-performance. The threshold for structural change dropped too low. What makes this an acute problem in the New Zealand public service context is that re-structuring is normally accompanied by firing and new hiring. Initially, structural reform was seen as necessary action in the face of a national crisis. Subsequently it came to be used for a range of lesser purposes, including as a means for a new manager, or a new minister, to show they are in charge and signal a new strategy. In the last three years there have been attempts to slow this process down, but restructuring seem to be continuing, which suggests it is a response to deeper incentives in the system.

The problem with restructuring is that it damages the human institutions important to the continuity of a complex public function. Lest this sound too vague- it means loss of institutional memory, reputation and networks. It reduces confidence of staff (good ones often leave) and of clients. Immediately pressing shortages of skilled staff make it less likely the organisation will hire young graduates. The processes of mentoring and bringing people up through a graduated progression of jobs to higher positions if they do well are interrupted. Newly re-structured organisations remain fragile for several years while they try to rebuild these informal attributes- and weaknesses in higher functions such as policy advice, for example, while this occurs, are to be expected. Scott cites the Treasury and Ministry of Foreign Affairs and Trade as exceptions to a general tendency not to give enough attention to human resource development. It is not coincidental that almost uniquely in the public service; neither ministry was subjected to a core restructuring.

Whether or not Scott under-estimates some of the deeper systemic problems in what he had a hand in creating, what was achieved was remarkable. The enduring positive legacy of this period of reform, is a system of public administration with a very high level of transparency of government intent and action, a very advanced budgeting and accounting system, unusual clarity in roles and relationships on public sector matters, and efficient and citizen-friendly delivery of many government services. The traditional well-behaved and non-corrupt nature of the public service has also survived these big changes. A deeper benefit is that in New Zealand, more than in any public service that this reviewer is aware of, a culture of true institutional learning took root with a disposition to address public sector issues on the basis of first principles rather than tradition. No one has made a greater contribution to the creation of this culture of learning, than Graham Scott.

It is the voice of Graham Scott as the passionate advocate of better government, drawing on his experience as the most influential adviser of New Zealand government in modern times, that is the most appealing and authentic aspect of this book. In this mode he does not mince words:

"From my observations, mature opposition politicians do not admire senior civil servants who are seen to be ducking and diving to position themselves favourably with them."
"Ministers who find strategic policy-making too hard soon find themselves in side-show alley."
"Leaving out tertiary education and consigning health to circumstances which invite confusion, places critical areas of the economy at risk..."
"... a government will get as much co-ordination in policy and administration as it wants. It is not clear yet how much the present government will want. History says that it will want more later in its term than it wants to begin with."
"There has been too much talk for too long about the importance of developing future leaders in the public service and too much hand-wringing about the lack of top quality candidates for jobs. The problem risks becoming critical and should be addressed by whatever means it requires."

Two important ideas, sponsored by Graham Scott during his period as Secretary for the Treasury, have now, more than a decade later, become accepted as international best practice and applied in some of the world's most successful nations. These are the use of term contracts for chief executives and the introduction of accrual – based accounting. In other areas especially bringing performance information into the budget and accounting process, New Zealand, while not directly emulated, has been a source of inspiration for other countries. These are towering achievements. Since leaving the public service Scott has continued to bring a penetrating intelligence to bear on New Zealand's public management, and has progressed his ideas beyond the thinking of the mid-eighties. His views on what the New Zealand public sector should now be attending to, deserve to be taken very seriously.

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