New Governance, New Dilemmas: Post-Reform Issues in New Zealand's Public Sector

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Introduction

During fast-paced reforms of the 1980s and 1990s in New Zealand, the emphasis was on 'problem solving' to create a new system of governance. With 'new governance' structures in place for nearly 20 years, a major management role is that of reconciling dilemmas arising from prescriptions for reform. The art of managing dilemmas – the balancing of competing propositions – is described in this article. Eight dilemmas are identified to encapsulate the tensions that are evident in a model which gives managers considerable delegated authority for finance and people, while holding them accountable for results.

New governance, new dilemmas

As an early and comprehensive adopter of theories described as New Public Management (NPM) or 'reinventing government', New Zealand now has 20 years experience of what Salamon (2002) terms 'new governance'. This term helps distinguish between advocacy for reform which was a feature of the late 1980s and much of the 1990s, and the new systems of public management created as a result of reform. While before 1984 'old public administration' was delivered through centralised bureaucracies with distinctive employment and accounting rules, new governance involves the use a 'dizzying array' of tools for delivering government objectives.

The essence of new governance is the use of private sector-style techniques and instruments that seek to encourage and cajole performance. In place of steep public sector hierarchies are networks and contracts for performance with a variety of public, private and non-profit agencies. Where the task of management previously meant command and control within self-contained bureaucracies, a significant element of the work now requires negotiating, persuading and

enabling the delivery of services through contracts and partnerships (Salamon, 2002, p.9).

The skills required for such work are significantly different from those required for past, rule-based systems of bureaucracy or the entrepreneurial freedoms of the private sector from which many new governance techniques have been drawn. Ironically, perhaps, clear prescriptions for reform have created a performance system which contains a series of paradoxes, the 'simultaneous presence of contradictory, even mutually exclusive elements' (Cameron and Quinn, 1988, p.2; Norman, 2003).

Paradoxes include:

- Freedom to manage gives managers freedom over resources, but has also increased the desire of politicians to scrutinise this freedom and rein it in (Maor, 1999).

- Clear objectives and targets for performance can sharpen the focus of public agencies, but can also distort results when clear goals displace longer term and less measurable outcomes (Blau, 1963).

- Quality information is needed to ensure that managers can be held accountable. However, accountability agencies are constantly open to the temptation to increase the information they require, particularly if they don't directly pay for its gathering (Feldman and March, 1981). Increased quantities of information can be at the expense of its quality.

- Accountability for results, which is intended to improve performance, can pressure managers so that they opt to volunteer only safe, easily achievable (and sometimes trivial) objectives that minimise the risk of political embarrassment (Thomas, 1998).

The performance framework that resulted from NPM creates a series of contrasting propositions which present themselves as dilemmas, or polarities to be managed,

mapped, navigated and reconciled (Johnson, 1996; Hampden-Turner, 1990).

Dilemmas are inherent in public sector roles. Many issues in 'the public domain' typically do not have simple solutions. With the privatising of the most easily marketised services during the 1980s and 1990s, this is even more the case for the remaining publicly-owned activities. Public services often involve dilemmas because decision makers must 'weigh the balance of benefit and disadvantage for the well-being of the many and of all' (Ranson and Stewart, 1994, p.90). Whereas private sector organisations can solve dilemmas by writing them out of their area of organisational concern and focus on the bottom line, public organisations must reconcile the values and interests of a range of competing claims. One of these is the conflict between citizens' interests as clients and the interests of citizens as taxpayers, which means that 'street level bureaucrats', those in charge of day-to-day client service, must make constant rationing decisions in the face of potentially unlimited demand and fixed budgets (Lipsky, 1980).

Recurring dilemmas for New Zealand public managers

The following eight dilemmas, which have been distilled from earlier research (Norman, 2003), illustrate tensions experienced by managers working with a complex 'new governance' system, created in New Zealand since 1984. The first four dilemmas take an inwards focus on the 'how' and 'who' of government, while the second four focus on 'what' government organisations are expected to deliver.

The how and who of government

Partners or arms-length deliverers?

With approximately 40% of the New Zealand budget being delivered through 'third party' agencies rather than ministerially-controlled departments or ministries, the dilemmas of steering for results are a central feature of the system.[1] Staff of ministries and departments in charge of managing the funding of third parties, predominantly publicly-owned agencies, but also private

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1 For the 2005-06 financial year, non-departmental and other spending was $NZ23.5 billion, compared with $9.4 billion of departmental spending. Non-departmental spending was nearly 40% of total spending of $57.5 billion, with health and education agencies receiving the bulk of the funds. Other major items were benefits ($16 billion), borrowing costs ($2.6 billion) and capital ($5.5 billion).

and non-profit organisations, need to steer for results while also guarding against politically embarrassing risk, without stifling the innovation, flexibility and savings that such sub-contract systems are intended to encourage. How do people in these roles reconcile the dilemmas of centralised direction and localised autonomy? How can they steer without stifling?

Performance or capability?

Public sector reforms have sought to shift 'entitlement focused' organisational cultures towards performance. Efficiency, effectiveness and outputs have been the language of performance. The overall theme has been one of managing for results within specified time periods. Yet for many public services, such as defence, emergency services and biosecurity, capability building and being prepared is the major part of performance. For professional groups in the health, education and welfare sectors, which constitute the largest proportion of government budgeting, capability is directly linked with performance. Too much focus on performance can reduce the opportunity to invest in capability building, while too much focus on capability can result in a 'gold plating' of public sector roles.

Focus or collaboration

Organisation structures need to accomplish both focus and collaboration, but achieving such balance is the core dilemma of organisation design. Functionally organised and focused services are frequently expected to collaborate in the delivery of services to particular communities to avoid local confusion. Whether the term is 'joined-up government' (Britain) or 'strengthening the centre' (New Zealand), the dilemma is how to create goal-driven, focused organisations which also collaborate effectively. For central agencies in particular, the challenge is similar to the dilemmas faced by managers of third-party deliverers: how to steer for collaboration without stifling the initiatives that can come from organisational focus.

Central control or autonomy of decision making in financial management

Central agencies within government face a dilemma similar to that faced by contractors in charge of third-party delivery. There is an absolute need to safeguard taxpayers' funds, but also the need to encourage those

closest to the creating of public value (Moore, 1995) to take responsibility for determining the best forms of delivery. The budget cycle of approvals for operating and capital spending, monitoring and auditing creates a framework of incentives or barriers to effective financial management. Too little delegation of authority can stifle decentralised agencies; too much delegation of authority, and too little power held at the centre, can make it difficult for government to tackle large issues requiring coordinated effort and risk lapses in ethics and performance by peripheral agencies.

The 'what' of government

Referee or coach?

In deciding how to deliver public value, governments as legislators have a considerably wider range of options than do private sector corporations in their creation of private value. Elected representatives and officials can choose to be enablers or regulators, developers or conservers. After a trend towards deregulation during the 1980s and 1990s, when governments came to see themselves as largely passive referees, issues such as energy, transport infrastructure, climate change and regulation of globalised industries such as telecommunications require a more active 'coaching' role. Governments around the world face the dilemma of how much to intervene on behalf of their geography-bound citizens in the face of mobile capital. Finding the appropriate balance between acting as a bystander referee and an activist coach is an ongoing issue about the desirable boundaries for governments.

Outputs or outcomes

Performance management and strategic planning instruments can have a powerful effect on the focus of public sector employees. Tightly-defined outputs can create focused effort within short-term horizons. The strategic planning and budgets that are at the core of the management cycle are annual reminders of the tension between organisational purpose and organisational control. Outputs and their associated performance measures are the primary method of control in the New Zealand public sector model; outcomes are declarations of purpose. The dilemma lies in finding a productive balance between clear and measurable outputs and potentially more motivating but difficult-to-assess outcomes.

Political responsiveness or frank advice

With their emphasis on the achievement of managerial results, and use of the language of clients and contractors, public sector reforms have heightened expectations by politicians for 'responsive' rather than 'neutral' competence (Rockman, 1998). In New Zealand, the pre-reform public sector model emphasised ministerial responsibility and public service anonymity. The contract-like relationships have had the effect of creating greater distance between political and administrative leadership, encouraging politicians to name and blame public servants for failures in delivery. Given employment conditions which place public service chief executives on fixed contracts, how do senior public servants reconcile the professional expectation that they provide frank and fearless advice with the possibility that career safety might lie in minimising the frankness?

Client or citizen?

One of the ironies of public sector reform is that improvements in services can result in increased demands for better services from clients, who may also be the same taxpaying citizens who are unwilling to fund the increasing expectations. Unlike private sector managers, public managers are continually challenged to balance the interests of clients who are usually not meeting the full costs of a service with the interests that citizens and their representatives have in tax levels, political goals and the fairness with which state resources are used. How do the 'street level bureaucrats' of Lipsky's (1980) study experience the dilemmas created in mediating between the demands of citizens as clients, and the restricted budgets that citizens as taxpayers are willing to provide? Given that public organisations usually have little or no choice about the clients they must serve, and that in services such as probation or compulsory education the clients have no choice either, how far can private sector analogies work in the public sector?

Working with dilemmas

One of the features of rhetoric for reform is the zeal with which arguments for change are put. The New Zealand reforms argued the superiority of private sector structures and techniques, of separating policy and delivery organisations, and the importance of 'busting bureaucracies' and replacing them with client-focused units performing with the prompting of real or potential competition.
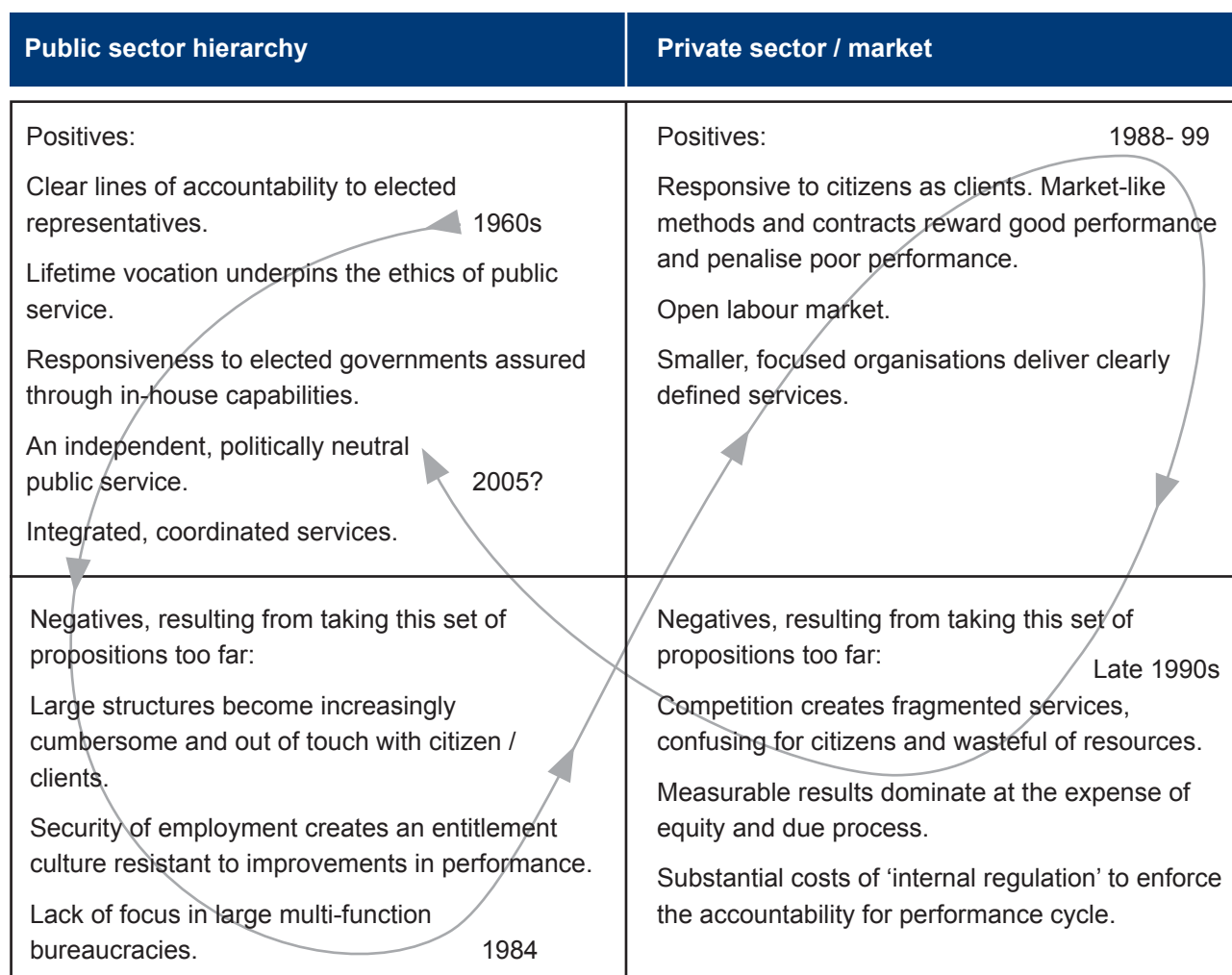
Such advocacy was in the tradition of the 'best way' problem solving techniques of Frederick Taylor (1911), or the Boston Consulting Group matrix of the 1960s, which steered private sector managers towards focusing single-mindedly on definitive niches such as low cost or quality. Acknowledging the dilemmas inherent in many public services provides an antidote to 'one best way' thinking. Viewing public management as a series of dilemmas involves the balancing of competing values (Quinn, 1988) and requires skills that are more like those of 'map making' and navigating than problem solving.

Dilemma management has been most fully developed as a technique by Hampden-Turner (1990) and Hampden-Turner and Trompenaars (2000) to map how multinational corporations can more effectively work across national cultures. Cross-cultural management in multinational corporations is surprisingly relevant

to public sector roles. Working across cultures involves reconciling national differences about fundamental values, such as communitarianism and individualism, or equality and hierarchy. Public managers also work amidst clashing values, created by politics and the cultures that surround very different government functions. Government organisations are as large as the largest of multinational corporations. New Zealand's central government organisations employ approximately 190,000 people,[2] compared with IBM which employs 330,000 people worldwide.[3] The new governance tools are strongly based on techniques of large corporations,

Figure 1: Dilemmas of public management delivery

Public sector hierarchy	Private sector / market
Positives: Clear lines of accountability to elected representatives. 1960s Lifetime vocation underpins the ethics of public service. Responsiveness to elected governments assured through in-house capabilities. An independent, politically neutral public service. 2005? Integrated, coordinated services.	Positives: 1988- 99 Responsive to citizens as clients. Market-like methods and contracts reward good performance and penalise poor performance. Open labour market. Smaller, focused organisations deliver clearly defined services.
Negatives, resulting from taking this set of propositions too far: Large structures become increasingly cumbersome and out of touch with citizen / clients. Security of employment creates an entitlement culture resistant to improvements in performance. Lack of focus in large multi-function bureaucracies. 1984	Negatives, resulting from taking this set of propositions too far: Late 1990s Competition creates fragmented services, confusing for citizens and wasteful of resources. Measurable results dominate at the expense of equity and due process. Substantial costs of 'internal regulation' to enforce the accountability for performance cycle.

particularly the use of the 'financial control' style (Goold and Campbell, 1987), through which subsidiary organisations are given considerable managerial freedom provided they demonstrate measurable value.

The mapping of the emphasis on public and private sector techniques in the New Zealand public sector shown in Figure 1 uses the approach developed by Johnson (1996) to track the positives and negatives of dilemmas and map changes in emphasis on the polarities.

The hierarchies of 'old public administration' and the market-like methods of 'new public management' each contain useful wisdom about the creation of public sector performance. The way the propositions have interacted in New Zealand has been a pendulum swing from one set of extremes to another. Johnson (1996) analyses the process of change as being a contest between crusaders and traditionalists. Change results from rhetoric that acts as a key to politically unlock a new set of doctrines, change that resembles fashions in consumer industries (Hood and Jackson, 1991). The private sector techniques adopted as solutions were in the late 1990s creating increasing concern about lack of consistency in ethics across the public sector and a fragmentation of services. A pendulum swing towards more centralised coordination has been the result, with the current tension being whether recentralisation will trigger a new cycle, or a more effective balancing of the best features of the two sets of propositions. The risk is the creation of a continuously recycling loop in which the grass always looks greener on the other side of the fence, as the positives of one set of propositions are contrasted with the negatives of the existing dominant proposition. While the map in Figure 1, derived from Johnson, charts the stages of response to a dilemma and focuses on the risks of alternating between negatives and positives, Hampden-Turner and Trompenaars (2000) focus on how dilemmas might be reframed into new and potentially more lasting shapes.

Managing dilemmas or solving problems?

A persistent image of the role of a manager is that of a determined identifier and solver of problems. Hampden-Turner suggests that 'the admission that dilemmas even exist tends to be difficult for some companies and discussions may show strain or embarrassment'. Raising the dilemma is to suggest the 'absence of a perfect consensus' (Hampden-Turner, 1990, p.109).

The use of hard-edged management is a potentially appealing solution to the complexity, compromise and politics involved in many public sector challenges. Yet, as Downs and Larkey (1986, p.3) observe, if the performance of government could be solved by 'hard charging, tough minded business executives', the problems of government would have been solved following the adoption of this method during the era of the city manager movement in the late 19th century in the United States.

The English word 'manager' has two distinctly different origins (Garratt, 1987, p.103). Its macho characteristics relate to the 16th-century use of the Italian 'maneggiare', which meant 'one who breaks horses'. The more nurturing side of management can perhaps be related to the derivation from the French word 'ménager' – the management of the domestic economy of a household or kitchen.

Dilemma management requires an active-reflective approach to management issues, one more resembling household management than horse-breaking. It is a contrast to the 'take charge' analytical form of management that seeks to reduce or ignore contradictions and value clashes. The acronym POSDCORB (Gulick and Urwick, 1937, pp.12-13) persists as a powerful idealisation of such managerial rationality, summarising the management role as planning, organising, staffing, directing, coordinating, reporting and budgeting. A role description of this 'take charge' type of manager, given by Schick (1996) in an analysis of the New Zealand public management model, only slightly exaggerates the expectations still placed on New Zealand departmental chief executives:

> They must weed out weak managers, shed redundant workers, re-examine or sever long-standing relationships with suppliers, actively recruit from outside the Public Service, negotiate the wages of senior managers, revamp operations, abandon low-priority activities, manage their assets, commit in advance to output and cost levels, take responsibility for the volume and quality of services, negotiate employment, purchase and performance agreements, respond to numerous inquiries from Parliamentary committees and central agencies, represent

the department to the media and public, be responsive to the Minister, and more. They must drive the department to be more efficient, productive, and responsive. They must act as if their own job is on the line and their own money is being spent.

Focusing on dilemmas acknowledges the competing values contained in new governance. In most public sector roles the lack of direct connection between funds and clients creates a greater set of dilemmas than in most private sector roles. Performance assessment is mediated by an 'authorising environment' (Moore, 1995) of political decision making and accountability agencies rather than direct market-place transactions. Conflicting expectations for public sector performance are systematically captured by Hood and Jackson (1991), with their collection of 99 doctrines about how best to organise public services. For each doctrine there is a set of contrary propositions, and the acceptability of doctrines changes over time in a manner similar to changes in fashion for clothes or cars.

Contested views are the essence of democracy, and public managers operate within a context of shifting views about how best to tackle what Rittel and Weber (1973) termed 'wicked problems'. Whereas problems in the natural sciences can be defined and separated, and may have solutions, many government challenges, particularly in the area of social policy, are ill-defined, and rely upon political judgement for resolution. 'Solutions' are not an option, as social problems are never solved, but at best resolved over and over again.

In his classic book *The Art of Judgment*, Vickers (1965, p.112) observed that management is fundamentally a skill of balancing, involving 'constant evaluation and appraisal of risks, limitations, opportunities, and resources'. It requires integrating into one solution 'aims which first seem incompatible' and a 'rare measure of mental discipline' to determine priorities for the present, while also dreaming about future possibilities.

Perhaps it is no accident that the traditional road to major roles in the British civil service, which for almost a century ruled a quarter of the globe, was study of Greek and Latin, the 'Greats' as the syllabi for Oxford and Cambridge described them. Classical learning, in contrast to the analytical techniques of economics, accounting and statistics-based policy analysis, emphasised human interactions and processes, offering no easy once-and-for-all solutions. One of the recurring themes of classical education is that heroes are liable to overdo their winning combinations. 'Yesterday's triumph becomes tomorrow's excess' (Hampden-Turner, 1990, p.74). British colonial officers were schooled in the lessons of the triumphs and failures of the Roman empire as preparation for their own imperial duties.

Homer's story of Odysseus navigating between Scylla and Charybdis, between the rock and the whirlpool, for instance, provides a dramatic analogy for the management of dilemmas. Navigate too close to the whirlpool of soft, difficult-to-see currents and the ship will be sucked to destruction. Navigate too close to the hard, visible features of the rock, and the ship will be smashed. Navigating dilemmas is the art of finding a route 'between a rock and a hard place'. It is the process of finding one's way through the 'horns of a dilemma' – avoiding being impaled by either horn.

Rock-like, straight-line thinking has made a major contribution to public sector efficiency during the past 20 years. It has helped clear out the clutter of nearly a century of bureaucratic tradition, with its inwardly focused employment and performance systems. New governance organisations now have the accounting, human resource management and information technology techniques used by private sector organisations. The constantly changing, 'whirlpool'-like issues cannot be solved but only managed. Acknowledging the challenges created by opposing propositions makes it possible to map possible directions, reduce complexity and seek to reconcile opposites.

Conclusion

The distinctive feature of a dilemma is that there is no 'right answer'. Clashes of perspectives based on values fit uncomfortably with formal reasoning processes, in which objective criteria and ratios are sought.

Hampden-Turner (1990, p.xi) uses the term 'encompassing reason' to describe a process of managing dilemmas. Formal reasoning is linear – the decision maker reasons, acts and achieves. By contrast, encompassing reason 'is circular and iterative': 'You probe, discover something interesting, reflect, cogitate, and probe again.' Dealing with dilemmas is a process of learning, working through the processes described in

Kolb's (1984) learning cycle – experiencing, reflecting, conceptualising, planning and generalising. Learning moves from the concrete to the abstract or vice versa. The process of encompassing reason, with its probing of dilemmas, offers the possibility of combining values that initially may appear to clash and resist each other.

Mapping a dilemma, as demonstrated in Figure 1, is part of a learning process through which seemingly opposed propositions can be reconciled. The visual representation makes explicit the opportunities for trade-offs and reconciliation. As Hampden-Turner puts it (1990, p.xii), 'like navigators, we can steer by our judgment, while periodically checking our position on the charts'. Living with and reconciling dilemmas is the essence of the art of public management.

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