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Contributions and Challenges

of 'New Public Management': New Zealand Since 1984

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Introduction

When New Public Management (NPM) swept around the world in the 1980s the New Zealand public sector embraced its theories and embarked upon a rigorous reform process which brought both praise and some scepticism. New Zealand was seen at that time, by some observers, to be a 'world leader'. However, in the years following the initial impact of NPM the euphoria has given way to a more rigorous analysis of the performance of the public sector and a re-examination of the functions and responsibilities of the public service.

The impact of NPM on New Zealand

Public sector reform has captured the attention of politicians, academics and researchers in all western democracies since the 1970s. While there were cells of activity and change in many countries, there did not appear to be any universal embracing theme, theory or collection of theories until the literature started to focus around the notion of a new style of governance which became known as the New Public Management, or NPM.

The origin of the term 'New Public Management' and its appearance in the literature has been the subject of some debate. In his review of NPM, Barzelay acknowledged NPM

as an international trend and stimulated by 'two seminal articles', by Aucoin (1990) and Hood (1991). He considered that NPM '[i]s a shorthand expression used by scholars and professionals to refer to distinctive themes, styles and patterns of public service management that have come to the fore within the past two decades, notably in the United Kingdom, Australia and New Zealand' (Barzelay, 2001, p.xi).

NPM consists, essentially, of two sets of ideas: economics-based theories and managerialist systems. The theories which initially underpinned NPM, public choice theory and agency theory, and transaction-cost analysis had their origin in the discipline of economics and were referred to as the 'new institutional economics' (Boston, 1996). Public choice theory had an influence on institutional design in a number of jurisdictions, and the application of one aspect resulted in the restructuring of government sector agencies to separate policy ministries from operational departments. Agency theory clarified the relationship between principals and agents and focused on accountability relationships. In New Zealand it was used to codify the relationship between chief executives and ministers under the State Sector Act 1988. The other component of NPM was the managerialism movement, which imported generic private sector management practices into the public sector in order to improve performance and increase efficiency and accountability.

The isolation of departments and ministries
was seen to have resulted in inefficiencies, duplication and a lack of policy co-ordination.

The first wave of change in New Zealand took place in 1984 with the coming to power of the fourth Labour government. New Zealand's economic position was in a parlous state, with high fiscal deficit and levels of overseas borrowing. The overall size and perceived inefficiency of the public sector was also a concern for the incoming government, which was prepared to take immediate action to address the multiplicity of major problems identified. Cabinet ministers in the fourth Labour government, when interviewed for my research, attested to the seriousness of the situation they encountered and rationalised that the actions subsequently taken were essential at that time.

Another factor to be considered was that (according to people interviewed) senior Treasury managers had been 'under-employed' under Finance Minister Robert Muldoon and had the time to read and to observe overseas trends such as 'rolling back the state' in Thatcher's Britain and the advent of managerialism in the United States. The Treasury's briefings to incoming governments – *Economic Management* (1984) and *Government Management* (1987) – provided the blueprint for the reforms which subsequently took place in New Zealand.

However – and this point is often lost sight of in the literature on

and criticism of the Treasury approach – the Treasury advocates of reform did not envisage a total take-up of the separation of policy and operations and urged a case-by-case approach. There was a caution against that too rigorous a separation which could result in the development of inappropriate policy: 'Policy advice, divorced from considerations of reality, is bad advice' (Treasury, 1987, p.77).

In their paper to the 1988 conference of the New Zealand Institute of Public Administration, Bushnell and Scott cautioned that the presumption of the separation of policy control from operational functions would need to be tested against a possible need for a high degree of involvement in operations for informed advice. In interviews undertaken, both these authors repeated the view that each situation should be assessed separately, but noted that, instead, the separation had been applied regardless of the circumstances. A 'one size fits all' approach had been taken instead of a discussion on the strengths and weaknesses of each case, and once an idea had been 'wholesaled' it became doctrine.

A timely caution had also been offered by Boston, who commented in 1991 that:

It would be unfortunate if the current excitement with the new economics of organizations and the new managerialism blinded policy makers to the insights of earlier political philosophies, administrative traditions, and organizational theories, or led them to ignore the way public agencies have been shaped by the forces of culture and history. (Boston, 1991, p.23)

Boston's caution does not appear to have been heeded by the incoming government in 1990, which proceeded to continue on the 'reform' path and to separate policy ministries from operational departments, including those in the social sector.

Another aspect to consider, when the 'drivers' of change are being discussed, is the impact – perceived or otherwise – of capture. According to Gregory (2006), the original reformers believed that public choice and agency theories were tools that enabled them to solve perceived problems, such as 'provider capture' of the political executive by egoistically self-interested bureaucrats who were unresponsive to the will of the elected government of the day. For the Cabinet ministers in the incoming government in 1984 who were interviewed, the experience of capture by bureaucrats and by providers was a very real occurrence.

Structural reform proceeded through the 1980s and 1990s. The creation of state-owned enterprises, through the State Owned Enterprises Act 1986, was followed by environmental and conservation restructuring in 1986–87, and then the creation of Ministry of Research, Science and Technology in 1989 followed by the establishment of Crown research institutes. Agencies established in the 1990s included the Department of the Prime Minister and Cabinet (through the merger of the Cabinet Office and the Prime Minister's Department) and the Ministry of Māori Development, Te

Puni Kōkiri (formed from the Department of Māori Affairs and the Iwi Transition Agency). In the social sector, changes commenced in 1989, starting with the separation of the Department of Education and proceeding through housing, justice and social welfare in the 1990s. The last department to be established was the Department of Child, Youth and Family Services in October 1999.

Impact of a change of government in 1999

The arrival of a Labour-led government in late 1999 brought extensive changes which were signalled in the party's manifesto, issued prior to the election. Here, the past 15 years in the central government sector were reviewed and the observation made that it was showing signs of stress from constant restructuring. One of the consequences of this was the fragmentation of the sector. The isolation of departments and ministries was seen to have resulted in inefficiencies, duplication and a lack of policy co-ordination.

Once in power, successive Labour governments (coalition and minority) from 1999 have set out to address the problems identified. A series of reports, ministerial statements and reviews have followed. Initially, in November 2000, a State Sector Standards Board was set up to work on the government's expectations of the state sector and identify problems which required attention. The Standards Board was a result of the recommendations of the report into the Department of Work and Income (known as the Hunn Report) and reflected the government's wish to set out what it expects from state servants. The board operated for two years and produced several reports. It was subsequently overtaken by the work of the advisory group on the Review of the Centre, which was established by the government in 2001. In a series of reports from 2001 onwards, the advisory group identified co-ordination problems and suggested solutions to combat siloisation and achieve the goal of departments working together in a constructive way, with improved service delivery to client groups and a continuing emphasis on managing for shared outcomes.

From the work undertaken by the Review of the Centre projects, it became apparent that the core legislation of the State Sector Act 1988 and the Public Finance Act 1989 needed review. In August 2003 the Ministers of Finance and State Services issued a pre-introduction Parliamentary briefing on the Public Finance (State Sector Management) Bill to provide details of the legislation proposed and obtain cross-party support. The bill was introduced in December 2003, and was promoted as the culmination of legislative work arising from the Review of the Centre. Its purpose was to maintain and strengthen the public service and the wider state sector. The legislation, passed in 2004, brought increased powers and responsibilities to the State Services Commission and the commissioner, and for government finances there were more flexible Vote structures and appropriation options, and expanded non-financial reporting requirements.

A summary of developments post-1999, in response to the identified problems, is shown in Table 1.

Table 1: Problems identified in the 1999 Labour Party manifesto (pre-election) and action taken subsequently

Problems identified in the 1999 Labour Party manifesto (pre-election) (page 2)	Actions taken since 2000
Fragmentation of the sector – in terms of the both number of agencies and the different types of agencies, all with responsibility for aspects of output delivery.	Restructuring continuously from 2001 to 2007: 36 public sector departments at 30 June 1999 and 35 at 1 July 2007. Groups of ministers consolidated around three themes (Families – young and old, Economic Transformation, National Identity) introduced in 2006.
State Services Commission has not been an effective guardian.	2004 amendments to the 1988 State Sector Act have given the commissioner an increased mandate for machinery of government and consolidating the public service around shared ethics and training.
Departments and ministries exist in isolation, resulting in duplication and inefficiencies.	Consolidation around social development should produce efficiencies. Some smaller ministries integrated.
A focus on narrow, technical contracts rather than the provision of service.	Statements of intent have been introduced which require departments and ministers to set strategic priorities ahead for 3–5 years.
Agencies regarding themselves as businesses.	The business model has largely been discontinued.
Service departments spending 'fortunes on branding exercises'.	Spending on branding has been actively discouraged by ministers and central agencies.
The National-led government reducing the size of the state.	Concerted effort by government to increase the size and capability of the public service – 30,702 in 1999 to 44,335 in 2007 (headcount) (State Services Commission, 2007)
Loss of long-term operational capacity.	Departments are still complaining about lack of institutional memory caused through the exodus of key staff in the 1990s.
Emphasis on the political interests of the minister rather than the needs of citizens.	More emphasis on involving citizens and developing partnerships with the community sector and non-governmental organisations.
The narrow focus on 'efficiency and financial performance rather than effectiveness, quality and service'.	Purpose of the Public Finance Amendment Act 2004 changed to 'effective and efficient management of public financial resources' (s1A).

The actions taken since 2000 have also focused on re-coupling in the social sector (see Table 2).

Reviewing the NPM impact

The literature emerging post-1999 took a more critical look at the proclaimed achievements of the NPM reforms. The findings from cross-country studies caused academic observers from European countries to query whether the impact of NPM reforms on western democracies had delivered any significant gains. European-based observers were questioning the thesis of a global convergence of the new style of public management (Pollitt, 2001). A later 12-country study by Pollitt and Bouckaert (2004) observed that the ideas expressed in Anglophone literature were not necessarily the only, or the best, ideas around, and that gaps between words and deeds and between pronouncements from the top and grassroots experience were extremely wide. The apparent ability of leaders to forget the lessons and limitations of previous administrative reforms was also remarked upon (Pollitt and Bouckaert, 2004, p.199). A further concern had been noted by Peters (2001), who observed that 'academics and practitioners alike were advocating a series of ideas about reform and they were being adopted willy-nilly' and 'without careful examination of the contradictions inherent in the disparate approaches' (Peters, 2001, p.195).

The speed of change was taken up by Christensen and Lægreid in their study of the changes in regulatory reforms. Using examples from European and Westminster systems, they considered that a 'second generation' of reforms had arrived and concluded that there was no easy solution or one ideal type of public management system (Christensen and Lægreid, 2006, p.378). The same authors subsequently noted that the structural devolution of the initial NPM reforms has now been replaced by a reassertion of the centre. Co-ordination and coherence is being sought as the antidote to fragmentation and terms such as 'whole-of-government' and 'joined-up government' are being used to describe the moves to greater coherence, and, while the terms are new, they have been adopted to address the old problems concerning co-ordination and control (Christensen and Lægreid, 2007, p.25).

In a 2005 report resulting from a two-year study of 30 countries, the OECD concluded that 'as governments move forward in deciding organisation change, the case for adopting a whole of government perspective is overwhelming (OECD, 2005, p.90). The contributions of New Zealand writers have been included in the cross-country studies, and their analysis of the changing New Zealand situation has brought into focus the unique path of the New Zealand reforms and the current moves to achieve greater co-ordination between, and within,

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departments to combat problems of fragmentation and siloisation.

The period of the New Zealand reforms from 1984 has been separated into two phases by Boston and Eichbaum (2005), who defined the distinction between the phases on the dimension of organisational design, where phase one was typified by the separation of funding, purchasing and provision and of policy from operational delivery, which revealed problems associated with fragmentation and a lack of horizontal integration. Phase two, from 1999, saw some re-coupling of policy and operational functions and a focus on inter-agency collaboration and integrated service delivery. The disjunction between theory and practice is also discussed, as the complexity of constitutional arrangements in Westminster systems do not sit comfortably with the economic theories which underpinned the phase one reforms.

When comparing the reform phases, Gregory concluded that 'the original reforms were theoretically informed, comprehensive in scope, and authorised quickly by the opportunistic dominance of the political executive. By comparison, the latest changes are pragmatic, incremental, and much more slowly put together' (Gregory, 2006, p.153).

The record of structural change in the social sector over the period from 2001 to 2006 supports this point (see Table 2). The changes have been pragmatic (in response to particular situations, such as the departure of a chief executive); incremental (certainly in the case of the Ministry of Social Development, where offices and responsibilities have been added); and they have been more slowly put together, as they have extended over a six-year period. However, overall the process has been essentially evolutionary, in that what has developed has been based on what went before. The re-coupling which has taken place has not been a total return to the former structure, but has built on the earlier configuration and enhanced it.

The sequence and variety of actions taken over the period indicates that a case-by-case approach was taken within the overall parameters of determining the best way to achieve cohesion in a whole-of-government context. Analysis of the information contained in Table 2 indicates that, of the 15 actions identified, five agencies (departments or Crown entities) returned or merged with their previous departments. Some of the changes were a result of the government creating new portfolios and ministries, and needing an organisational office location for them. Six of the structural changes resulted from a review – usually ordered by the minister of state services, Trevor Mallard. These reviews produced results ranging from mergers, through restructuring, to the status quo, with the agencies remaining independent.

Table 2: Summary of structural changes in the social sector from 2001 (not including health)

Year	Change	Reason(s) given for the change
2001	Merger of the Housing Corporation with Housing New Zealand together with housing policy staff from the Ministry of Social Policy, to form Housing New Zealand Corporation.	The move was designed to bring all those agencies under one roof and provide a one-stop shop for housing services and better service for customers.
2001	Ministry of Social Policy and the Department of Work and Income were re-coupled to form the Ministry of Social Development.	The government had decided on the merger to provide a better organisational basis for implementing a social development approach in order to deliver more effective solutions to social issues. Better co-ordination between policy and operations was wanted.
2002	Special Education Service (Crown entity) returned to the Ministry of Education.	Review ordered by the minister of education: it found the service was 'ineffectual, fragmented and distanced from schools and parents'. Better co-ordination could be achieved under the ministry.
2002	Office for Disability Issues was added to the Ministry of Social Development.	Office established to support the minister for disability issues. The portfolio was established in 2000, and policy capability was wanted following the passing of the new Disability Act (2000). New ministerial portfolio.
2003	Capability reviews of the ministries of Women's Affairs and Youth Affairs.	Decision after the review that the Ministry of Women's Affairs remain as a stand-alone department as it has an overarching, cross-governmental focus.
2003	Ministry of Youth Affairs moved to the Ministry of Social Development.	Review found that Youth Affairs sits closely with the social development interests of the Ministry of Social Development. Move to house small ministries under a bigger department.
2003	Office for the Community and Voluntary Sector was added to the Ministry of Social Development.	Office established to support the minister for the community and voluntary sector. The portfolio was established in 2000. New ministerial portfolio.
2003	Early Childhood Development (Crown entity) returned to the Ministry of Education.	The integration followed a review of early childhood education and was to help progress the goals of the ten-year strategic plan by combining the strengths of each organisation to build greater support for the sector.
2003	Department for Courts merged with the Ministry of Justice.	Minister of state services directed the State Services Commission to review the 'fit for purpose' of the 1995/96 Justice restructuring and to achieve better sector and policy/operations co-ordination. Problems in handling the 1999 election were identified by Clark (2004).
2004	Transport sector was reorganised following a comprehensive review in 2003.	The recommendations from the review were implemented with the aim of better aligning the sector and the legislation with the New Zealand transport strategy. Structural changes included transferring the policy functions of the Land Transport Safety Authority and Transfund to the Ministry of Transport to support its role of leading the sector.
2004	Ministry of Housing was expanded and renamed the Department of Building and Housing.	The change was aimed at improving and streamlining building and housing services for the public to provide a 'one-stop shop'.
2004	Family and Community Services Group (FACS) was established in the Ministry of Social Development.	To lead and co-ordinate government and non-government actions to support families and communities and to contract out operational funding transferred from the Department of Child, Youth and Family Services.
2004	Department of Labour restructured.	To realign key functions and improve responsiveness and organisational adaptability to the labour market now and in the future. Service delivery and policy advice capabilities were brought together.
2005	Review of education sector on the effectiveness of machinery of government and governance arrangements for education sector agencies (Ministry of Education, New Zealand Qualifications Authority and the Tertiary Education Commission).	Review found that the three agencies should work together more closely, their policies and activities should be better aligned, and that the Ministry of Education should exercise leadership. The review concluded that, at this time, there should be no major structural change.
2006	Department of Child, Youth and Family Services merged with the Ministry of Social Development.	In light of the departure of the chief executive, and after reviewing four options, the State Services Commission recommended the merger option to achieve better alignment in the social services sector.

Challenges – the legacy of NPM

When reviewing NPM and its impact on New Zealand public management it is necessary to stand back and take a more objective view than has been adopted hitherto. Much of the literature focusing on public sector reform has taken a journey from strong advocacy of the NPM reforms, through scepticism, to some condemnation. This overall direction could be translated to a time continuum, where opinions changed over the period following the introduction of the reforms.

For New Zealand, the contribution of NPM cannot be discounted. The public sector needed to concentrate on its core functions and allow commercial activities to be undertaken by the private sector. At a time when the country was in financial difficulties, firm financial management was essential. Emphasis on sharpening up management practices was needed, as was the emphasis on efficiency and effectiveness to take the sector forward. The notion of provider and professional capture, while it is discounted today, was very real to ministers and senior managers in the 1980s.

Some redefinition of the role of the 'control agencies', Treasury and the State Services Commission, was also required. In the case of the State Services Commission, a change was needed to break the shackles, to allow departments some flexibility to make appropriate staffing arrangements and remove the inhibiting appeal procedures whereby long service could override ability as the main criterion for appointment to senior positions. Under the Public Finance Act 1989, the Treasury was able to lead stronger financial management, and the introduction of accrual accounting (called 'cruel accounting' by some sceptics at that time) provided responsible management of budgets throughout the year, where previously a year-end rush to spend the whole departmental appropriation had often occurred.

Certainly, the scope and speed of changes caused casualties. There was a loss of institutional memory, and the human costs of constant restructuring. The earlier emphasis on imitating private sector management practices had meant that the responsibilities and ethical behaviour required of public servants had often been overlooked. However, one of the most obvious downsides of the NPM changes in New Zealand was in the application across the board of public choice theory – the rationale and justification for the separation of policy ministries and operational departments.

The jury is still out on the impact of the State Sector Act 1988, which turned permanent heads into chief executives on three- to five-year contracts, and made them the employer of their staff. The Public Service Association is now suggesting that centralised employment practices could to revisited to achieve a new employment relations framework. This would involve common employment provisions across the public service as a way of improving career pathways, and bringing pay and conditions across departments closer together (Pilott, 2008).

The focus of the government since 1999 has been to 'rebuild' the sector (Clark, 2004; Mallard, 2001) and a step-by-step process has been followed (see Table 1).

The State Services Commission has welcomed the additional responsibilities bestowed by the 2004 Amendment Act and proceeded to develop standards of integrity and conduct (June 2007) and the development goals for the state services. The development goals programme is designed to transform the state services in a way that is aligned with government priorities and delivers better results to all New Zealanders – according to the promotion pamphlet. The emphasis is on co-ordinated state agencies, where agencies work together to achieve joint outcomes to support the government's priorities.

Conclusion

In New Zealand, NPM was seen as the way forward in the 1980s and 1990s. It did make a significant contribution to changing the management of the public sector. However, the initial unquestioning of the totality of the NPM 'basket' failed to take into account the fact that the operation of the public sector has different imperatives from that of the private sector. These differences began to become apparent, and by 1999 a new government sought to remedy the problems which it had identified while in opposition.

What has also become evident, when reviewing the reforms of the past 25 years, is that there have been fashions or trends in public sector reform. The focus has changed from the emphasis on management and the performance of individual agencies, to looking at the operation of the sector as a whole. As the 2005 OECD study showed, the way forward involves joined-up government and whole-of-government approaches to address the fragmentation and siloisation which had occurred through the separation of policy ministries and operational departments and by departments operating independently.

The ongoing debate regarding the operation of the public sector is now focusing on the quality of government. Rothstein and Teorell (2008) have argued that the quality of government is based on impartiality in the exercise of public authority. This impartiality is linked to administration by public servants who behave in a manner consistent with a public service ethos that is inculcated during their training and professional development. For the New Zealand public sector in 2008, the promotion of sector-wide standards, with departments working together to deliver service to the public, is a way forward.

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