Instability in New Zealand’s Public Sector

Abstract

This article assesses the level of organisational instability in New Zealand’s public sector, measured by changes in structure, leadership and mission. Based on the methodology employed, it finds that there is a high level of organisational instability, characterised by frequent restructuring, rapid changes of organisational mission, and frequent leadership change, resulting in less-than-optimal CEO tenures. The article explores the reasons for the high level of change, and whether there might be better strategies for responding to an increasingly turbulent public sector environment.

Keywords organisational restructuring, managerialism, organisational instability, public sector, hyper-innovation

For at least 40 years New Zealand has frequently restructured its public sector agencies (Donadelli and Lodge, 2019; Norman and Gill, 2011; Yui and Gregory, 2018; Pollitt, 2009), a phenomenon sometimes referred to as ‘hyper-innovation’ (Moran, 2003). In the 1990s, hyper-innovation was closely associated with New Public Management and ideas such as purchaser/provider splits, separate micro-agencies and the growth of quasi-governmental agencies (Dunleavy et al., 2006; Yui and Gregory, 2018). Yet three decades on from New Public Management’s high-water mark, this level of change continues apace. Since the turn of the century there has been a tendency for restructurings to be a response to previous disaggregation efforts, attempting to fix fragmentation and silo-isation in the name of ‘joined-up government’ (Yui and Gregory, 2018).

Frequent change predates New Public Management, though, and New Zealand has historically made changes to its public service more frequently than other English-speaking countries (Donadelli and Lodge, 2019). Rates of change are estimated to be two to three times more than in comparable jurisdictions during the late 20th century (Yui and Gregory, 2018; Davis et al., 1999), and point to some uniquely New Zealand features at work. Suggested features include small and heavily interconnected political and academic communities, a centralised and majoritarian system of government able to make administrative changes without legislative constraints (Donadelli and Lodge, 2019), a long-standing, ingrained culture of restructuring (Yui and Gregory, 2018; Norman and Gill, 2011) and career advancement incentives for executives. Internationally, commercial consultancies and political factors have also been suggested as drivers of change (Seabrooke and Sending, 2022; Ylönen and Kuusela, 2019).
Clearly not all change is bad. Often, particularly after a long period of stability, a public system may no longer be appropriate for the challenges raised by a turbulent environment. Some changes, even controversial ones, may prove correct and necessary in the long run. However, all change comes with costs and risks as well as opportunities, so how much change is too much? Have the levels of change seen within the New Zealand public service reached these levels? If so, what might the consequences be?

What are the downsides of change?
The concept of hyper-innovation, or rapid and continuous change in public services, is well established. Key to this concept is that rapid change is both a cause and consequence of poor performance. Moran argues that constant administrative reform is associated with policy fiascos and that this drives a vicious circle whereby ‘fiasco is both a reflection of hyper-innovation and a force driving the state to even greater frenzies of hyper-innovation’ (Moran, 2003, p.156). Donadelli and Lodge find that ‘New Zealand could be argued to be caught up in its own policy frenzy of hyper-innovation in which actors “overcorrect” ... in view of perceived shortcomings and failures of existing arrangements’ (Donadelli and Lodge, 2019, p.47).

Other effects than just over-correcting apply. One effect is on leadership, where sector expertise is difficult to accrue, and risky for employees. Repeated shifts by public servants between employers and sectors limits the development of subject matter expertise, and credibility with threatening situations increase a tendency to reserve decision making to a small set of central leaders, reducing freedom to innovate at a local level. Other negative consequences of threat rigidity include retrenchment to the most well-ingrained behaviours, reduced flows of information, and reduced collaboration (Staw, Sandelands and Dutton, 1981). In combination these behaviours inhibit the ability to effect change in response to dynamic environments. This is ironic, as restructuring is often a response to dynamic environments, responding to a belief that existing structures are no longer ‘fit for purpose’. Constant repeated change does not allow employees to recuperate ( Wynen, Verhoest and Kleizen, 2017).

A belief in repeated restructuring assumes that organisations only operate through easily changed formal hierarchies and groupings; that skill and knowledge are tangible and devoid of context so can be easily switched; and that productive units (people, teams) can be easily shuffled on a board. Wariness of restructuring assumes that organisations work though informal social processes, of close and loose ties; that much work is done (or not done) informally and out of sight; that relationships matter; and that formal processes are just the tip of the iceberg of organisational life and productivity (Mintzberg and Westley, 1992). This article supports the latter, well-established position. The question being asked is whether repeated restructuring is harming both formal and informal processes; and is dosing the public sector with restructuring just treating the symptoms of previous restructurings?

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Types of change
Although change can occur in many forms – in branding, customer needs and tactics – this study is concerned with changes within the organisation that are likely to affect day-to-day decision making and performance. First, it looks at leadership, specifically changes in the CEOs, because of their power over organisational success. Second, it examines change in mission. Finally, it focuses on structural reform, as it changes both what and how work is done.

Leadership change
Some change in leadership and mission is inevitable and appropriate. The classic concept of CEO life cycle is that CEO performance follows an inverted curvilinear relationship between time in office and organisational performance: ‘response to mandate’, ‘experimentation’, ‘selection of an enduring theme’, ‘convergence’ and ‘dysfunction’, with performance declining after about six years as CEOs stick too closely to dated paradigms and information, and lose motivation (Hambrick and Fukutomi, 1991). Studies since then have supported the continued broad relevance of this model, albeit with variations across context. The case for continuity of CEO tenure has remained: ‘Although in the first two years short-tenured CEOs outperform their longer tenured counterparts, in the long run CEOs, who are given more time to develop their paradigms and gain legitimacy, have a
more positive influence on performance, with performance often peaking in year seven or so (Wulf et al., 2010, p.23). Frequent and repetitive changes in CEO destabilise organisations and can harm performance of organisations (Simsek, 2007; Geys et al., 2020). This evidence is recognised in the New Zealand public sector’s common policy, in theory, of CEO contracts of five years with the option to extend for another three. Furthermore, CEO change is associated with internal restructuring, which is also associated with threat rigidity and its negative consequences (Darouichi et al., 2021; Miller, 1993).

**Mission change**

Changing environments and political requirements mean that some changes in priorities are both necessary and desirable. Regularly changing half an organisation’s stated priorities year on year, however, allows almost no time for projects to be properly established before being disbanded. Frequent changes in mission can harm delivery as workstreams are abandoned before coming to fruition, and before they have been properly evaluated. Frequent changes also reduce the capacity to adapt to uncertain environments, as this capacity is used to address the change in mission. Public servants suffer too. In a study of the Australian public service, change in mission, along with other types of change, was associated with reduced support for innovative work behaviour (Wynen et al., 2020).

Frequent priority changes may work fine for private sector work, such as deploying new consumer brands, but they seem poorly suited to the complexity of government work. Public services work in areas where markets have failed. They have intense legal constraints, strong externalities, are often monopolies, are sometimes coercive, and outcomes are often hard or impossible to measure. Managing this complexity requires both focus and accountability. Frequent shifts in priorities does not allow time for either, but does allow organisations to get away with poor performance, until there is a crisis.

Mission changes can also beget other changes, such as budgetary and personnel changes. Restructuring, in which some work teams are disbanded and new ones established, is a well-used lever for change as well.

**Organisational restructuring**

A substantial literature points to negative consequences of frequent restructuring, including poor employee outcomes, mediocre management and mediocre sector performance (Franken and Plimmer, 2019). It undermines managers’ sense of strategic discretion, which in turn makes them risk averse under the threat of further structural reforms (Kleizen, Verhoest and Wynen, 2018). Constant restructuring prevents organisations from accruing leadership change

This article reports change in leadership, mission and organisation (i.e., restructuring) in the New Zealand public sector, calculated as part of a wider study concerning instability, leadership and performance, for a group of 16 ministries and departments and 20 district health boards (DHBs) for the ten years 2007–16. Appendix 1 lists these organisations.

The analysis does not include the many internal restructurings, such as directorate

Studies have found that frequent change has a range of employee costs, which include loss of morale, loss of networks, reduced job satisfaction, reduced trust, and increased rates of turnover and absenteeism.

**Data and definitions**

**Leadership change**

This is measured by CEO turnover and tenure, calculated with reference to annual reports, accountability documents signed-off by organisational CEOs.

**Mission change**

This is measured by the number of years when more than half of an organisation's stated priorities changed. For DHBs this was derived from a generic letter of expectation for each year from 2006–16 retrieved via DHB annual plans. For ministries and departments, statements of intent – four-yearly strategic plans – set out priorities (albeit described in different ways by different entities and over time). Statements of intent were available annually for ministries and departments between
2006 and 2014, but from this date their production was made less frequent. Where no statement of intent is published in a year, priorities are deemed to be unchanged.

Comparing these documents year on year required some judgement to be applied to determine whether priorities had truly changed:
• an entirely new issue or complete removal of an issue was counted as a change in mission;
• where an issue continues but the policy emphasis is distinct (e.g., the degree of enthusiasm about exploiting the commercial opportunities of conservation implicit in a priority), this was also counted as a change of priority;
• simple tweaks in language were not counted as a change.

This allows identification of the number of year-on-year changes in priority (i.e., six priorities replaced with six different ones is 12 changes – six stop, six start). This is relevant to stability as a high number of changes will require a change in leadership focus, organisational arrangements and employee activities, and will likely create new training and education needs.

Organisation restructuring
Using the Public Service Commission database of changes, and supplementing this with data from organisational annual reports, three overarching types of organisational change are derived:
• full mergers (with accompanying disestablishments);
• substantial restructurings, such as carve-outs of specific functions, with a transfer of these to an existing agency, or a newly created one;
• establishment and disestablishment of agencies with related functions to the organisation (e.g., creation of Crown agents to advance a particular agenda also held by the core public service agent).

This last category is important when considering the experience of agencies. Understanding the public sector as an ecosystem (Strokosch and Osborne, 2020) suggests that the stability of any given organisation will be affected by changes in related organisations. For example, the creation of four stand-alone health agencies following the Horn report (Ministerial Review Group, 2009) affected all DHBs by requiring the creation of new networks, new ways of collaborating and new lines of accountability.

To provide a measure of comparison we adapted Wynen, Verhoest and Kleizen’s (2017) index to the New Zealand context. The index brings together three related qualities of change – severity (i.e., the significance of the change), frequency (i.e., how many changes occurred within a given period), and recency (i.e., how recently those changes occurred) – in order to determine the likely effect of the combination of changes on an organisation. To calculate this, changes over time are categorised and weighted (with merger at the high end and name change at the low), divided by the number of years since the change was made, and summed and squared. In practical terms this approach prioritises regular, smaller changes over a single large change.

This study provides a methodology and benchmark that can inform discussion about the level and frequency of change seen in New Zealand. To adapt this indicator in the present study, a classification of major to minor change was...
developed, based on Wynen, Verhoest and Kleizen’s original categorisation. Flemish legal status changes, included in the original index, were excluded. Adaptation to New Zealand circumstances also included a changed time frame from Wynen’s original study, inclusion of full mergers as a major impact, and inclusion of subsidiaries and other organisations with a related function as a minor impact (see Table 1 and aggregated as per Figure 1).

To allow relative comparisons, Wynen, Verhoest and Kleizen divided the index for each organisation by the mean index across all organisations.

Results

Results are reported for the three types of change: leadership, mission, and structural stability.

Leadership change

Figure 2 shows the number of CEOs who had different lengths of tenure among both ministries and departments and DHBs. While the graph shows data for those CEOs who were in office between 2007 and 2016, length of tenure includes the total time in office, including time outside the studied period. Results show that the full eight years that the New Zealand system is designed for was only rarely achieved (six out of the 37 CEOs who had permanent employment in the 16 ministries and departments studied). Just over 60% of tenures reached the five-year norm. Short tenures do not denote failure in the role: in both DHBs and ministries and departments, departure to another job was not uncommon. Among DHBs there are numerous examples of much longer tenures of more than ten years. This reflects the fact that several CEOs during this period were public health doctors, and greater recognition of the expertise required to run hospital services.

Mission change

Findings show that over the ten-year period, every organisation had half or more of their priorities (expressed in statements of intent or letters of expectation) change year-on-year at least once. DHBs as a group had it occur in five years of the ten under review (see Figure 3). Government changed only once over this period, suggesting that this frequency of change cannot be ascribed to legitimate outworkings of the democratic process. This very high level of change happened just as frequently when the same government, and even the same minister, was in control.

Organisational restructuring

Restructurings are not evenly distributed. About half of the central agencies experienced none at all, while, at the other extreme, two agencies reported six in a roughly eight-year period, and one organisation experienced 11 (see Figure 4). Because of regular disaggregation and aggregation of related health agencies, DHBs experienced regular restructurings – a minimum of seven in the ten-year period.

Organisations with the most restructurings are those with large service delivery elements, such as health (e.g., Horn report agencies established and then disestablished), education, or those created through merger in the period: the Ministry of Business, Innovation and Employment and the Ministry for Primary Industries.
Some organisations experience many restructurings, and also experience restructuring very regularly, year after year. Figure 5 indicates the regularity of restructurings, and thus the likelihood of threat rigidity.

Figure 5 shows the number of years in which organisations experienced changes. All DHBs experienced changes in four out of ten years, although in most cases these were restricted to restructurings of relevant external organisations (such as the creation and dissolution of Health Benefits Limited and the National Health Board). While this creates the need to build new working relationships, and may reduce efficient cross-boundary working while these are established, it is probably less likely to create threat rigidity because for many the nature of work remains unchanged. However, among ministries and departments, changes were more commonly substantial – e.g., transfer of functions between agencies, carve-outs of specific functions, and even full mergers. Six of the 16 ministries and departments experienced such changes in at least three of the ten years. These can be more fully explored using the historical restructuring index (Wynen, Verhoest and Kleizen, 2017), which combines the severity, frequency and recency of change.

Figure 6 shows the index for all organisations in 2016. Twelve organisations have scores of less than one, indicating either no changes or changes that took place well before the end of the period. All DHBs had indices of between 3 and 4, accounting for the spike at this point in the distribution. The two outliers are the Ministry of Business, Innovation and Employment with a score of 12.5 (largely reflecting the effect of its creation through merger, and the Ministry of Health, reflecting the regular disaggregation and reaggregation of functions throughout the period. For highly affected organisations, scores predominantly come from the removal and/or reabsorption of functions.

Overall
In aggregate, change was notably frequent, with 31 out of 36 organisations having had a leadership change, a year-on-year change of half their priorities, and/or a relevant restructuring in five or more years over the
period studied (see Figure 7). This suggests that the experience of many New Zealand public sector organisations is of high and repeating levels of change, despite the identified risks of repetitive change over a relatively short period.

**Post hoc analysis**

One possible explanation for high levels of change is that this is a response to political change and the electoral cycle. We therefore tested for this by comparing levels of change by year across several electoral cycles.

Figure 8 shows the number of each type of change by year; this allows comparison with when political changes, which might be thought likely to drive change, took place. The only change of government in this period took place in 2008. While there was an increase in change from then until 2011, most noticeably in organisational design, changes from 2012 until 2016 remained high. There is no clear relationship between levels of change and the general election cycle. Of the three election years in this period, 2011 has the highest number of changes, but 2008 and 2014 the lowest.

**Discussion and conclusion**

Some change and instability is inevitable, and some is beneficial. Some changes, even controversial ones, may prove desirable and necessary in the long run. But how much is too much? A system where every year a quarter of organisations change their CEO, where over half the organisations change half their priorities five years out of ten, and where most organisations are regularly restructured is hard to describe as stable. And it is hard to argue that such instability is beneficial, given what we know of the negative effects of instability from elsewhere. We analysed changes through three lenses: leadership, mission and restructuring. Each is discussed below.

Leadership changes are frequent and few CEOs achieve the ideal of seven to eight years in the job (Wulf et al., 2010) under the New Zealand government’s five plus three years policy. The fact that leaders shuffle between positions indicates that failure is not the reason for change. The movement between leadership of very different organisations with very different purposes among the ministries and departments points to the creation of a generalist leadership cadre within the New Zealand public service. Prioritising this above subject matter expertise is a deliberate policy explicitly advocated for in Public Service Commission thinking (Hughes, 2019), but it comes with costs and has its discontents (Chapple, 2019). Leadership skills are seen as generic, and technical and sector skills as unimportant. The lack of regard for technical expertise is contrary to the findings of widespread leadership studies since the 1950s (Day et al., 2014; Kahn and Katz, 1952; Peterson and Van Fleet, 2004). This lack of expertise increases the risk of public leaders prioritising unthinking delivery of the agenda of the day over other values, such as a spirit of public service and stewardship.

We also looked at the frequency of changes in formally stated priorities, finding that they changed frequently, despite the long-term nature and difficulty of the problems that governments face. This level of change raises the question of how much planning documents such as statements of intent really reflect what government departments do. If formal priorities are so ephemeral, do they actually mean anything? One interpretation is that stated priorities are a bureaucratic exercise detached from the real meat of the organisation’s agenda, which remains broadly unchanged. Rapid changes in stated priorities may therefore be an exercise in ‘paper instability’, where apparent priority changes do not correspond to reality. If this was the case, however, large amounts of bureaucratic energy and resource would have been expended in exercises that are largely irrelevant to an organisation’s true mission.

Finally, we assessed restructuring, finding, as have other studies, that rates are higher than for international comparators (Donadelli and Lodge, 2019; Yui and Gregory, 2018). The original study of Flemish agencies that we based our index on made clear that increases in the index (i.e., more severe, recent and frequent changes) were associated with a reduction in innovative capacity, an essential capability for dealing with dynamic environments. In the Flemish study the mean observed index was 1.14, compared with a mean of 2.93 in New Zealand, suggesting greater instability in New Zealand. Comparisons, however, need to be made cautiously. The Flemish study did not include changes to related organisations as we have (on the grounds that they are highly interdependent and subsidiary to DHBs); and we have not included other types of change, such as changes in precise legal structure according to local legislation, because such changes are not relevant to New Zealand. That said, this finding would be in line with earlier studies which have
found New Zealand to restructure more frequently than other jurisdictions.

A possibly naïve response to all this instability would run something as follows: we make constant changes because we suspect that how we are set up, or what we are doing, isn’t right; but this just begs the question of why, when all our previous changes didn’t work, we should expect this next one to. One response, articulated in different ways, is a counsel of despair: we change constantly not because we expect it to work, but because we don’t know what else to do. Whether this is a consequence of managerialism (Chapple, 2019) or ‘consultocracy’ (i.e., over-reliance on external consultants for the functions of government) (Ylonen and Kuusela, 2019), the emergent result is of restructuring becoming a ‘substitute for action’ (Norman and Gill, 2011, p.1).

Applying though this may be as an explanation, a slightly less cynical position would recognise two other causes: the long-term effects of the still prevalent New Public Management paradigm, and the increasing volatility and turbulence of the public sector (Ansell, Sørensen and Torfing, 2023).

All domains of instability reported here can be seen as outworkings of New Public Management. As Yui and Gregory (2018) identify, early disaggregation and ‘agencification’ of public sector agencies followed New Public Management strictures concerning decentralisation, and was followed with later reversals of this in the name of ‘joined-up government’, responding to the inevitable limitations of disaggregation. However, the influence is hostilities (Tenbensel, Silwal and Walton, 2021, p.1054). This is unfortunate, as New Public Management, whatever its successes, is recognised as having a range of perverse outcomes at variance with its stated aims; even ‘policy disasters’ (Dunleavy et al., 2006, p.468). Decentralisation, which aimed at reducing hierarchy and bringing services closer to people, had the effect of centralising power at a national policy and commissioning level, effectively making the locus of power even further disconnected from the provision of services (Courpasson, 2000). Similarly, performance management, which was designed to increase efficiency and transparency, had the perverse effects of increasing bureaucracy through the creation of a measurement and audit infrastructure (Butterfield, Edwards and Woodall, 2005) which added overhead costs to delivery; and encouraging gaming, a mixture of measure falsification and ‘hitting the target and missing the point’ (Bevan and Hamblin, 2009), which misled the public.

To these perverse consequences, we can add one more. While the enthusiasm for restructuring and regular change may reflect a desire to pursue flexibility in response to increasingly turbulent environments, it likely has had the entirely perverse effect of making it more difficult to do so. A recent study of the Norwegian system (Trondal, 2023) has highlighted that stable structures can create the adaptive capacity needed to address turbulence. Perhaps counter-intuitively, stability creates the space for flexibility, while the apparently flexible ‘hyper-innovation’ overwhelms it. Thus, the instability in the New Zealand public sector described in this article may make it more difficult for public agencies to respond with the needed flexibility to turbulent environments.

To understand this counter-intuitive conclusion requires us to reflect on how instability affects leaders and their leadership. A volatile and turbulent environment requires innovation, utilising situation-specific knowledge and expertise. The intent of each of the instability types reviewed above is to support this: structures designed for ‘the old world’ need rethinking; missions need to change to reflect environmental and political changes; leaders with relevant experience need to be in place. Yet collectively they may act as distraction – focusing leadership attention onto the changes proposed to deal with turbulence (organising the restructuring, planning new programmes, and holding onto their jobs) – rather than the turbulence itself, and how this affects services to the public.

An alternative way of conceptualising the problem of providing strong public services in a volatile environment is to state that public services must preserve their primary function, while dealing with multiple simultaneous stressors.
Birkinshaw, 2004). Managerialist approaches that play down the importance of specialist knowledge and disrupt networks in the name of flexibility tend to damage both trust and support, making this crucial capability of balancing delivery and adaptability harder to acquire. This damage to trust and support also has the effect of reducing the very ‘spirit of service’ that the Public Service Act 2020 explicitly recognises as the public service’s fundamental purpose, and which leaders are charged with preserving in their employees (Scott and Hughes, 2023). It would be tragic to lose the potential benefits of such a far-sighted piece of policy.

Since at least the 1980s the default position of the New Zealand public sector has been change, in structure, certainly, but also in leadership and mission. In an increasingly volatile environment, standing still long enough to build the capabilities needed for adaptation, while maintaining delivery of services the public rely upon, might just be a better strategy. A limitation of our study is that we exclude internal restructurings, thus understating the extent of instability.

For example, a small change every other year over a five-year period would give a higher index at the end of the period than one large change made a year prior to the end of the period.

References


Ministerial Review Group (2009) Meeting the Challenge: enhancing sustainability and the patient and consumer experience within the current legislative framework for health and disability services in...
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Appendix 1: Organisations included in the study

Ministries and Departments

Ministry of Social Development
Ministry of Education
Ministry of Business, Innovation and Employment
(and antecedent ministries)
Inland Revenue
Department of Corrections
Department of Conservation
Ministry of Agriculture and Forestry
(and antecedent ministries)
Ministry of Fisheries
Ministry for Primary Industries
Ministry of Justice
Land Information New Zealand
Ministry of Health
Department of Internal Affairs
New Zealand Customs Service
Education Review Office
Ministry for the Environment
Ministry of Transport
Ministry of Defence

District Health Boards

Auckland District Health Board
Bay of Plenty District Health Board
Canterbury District Health Board
Capital and Coast District Health Board
Counties Manukau District Health Board
Hawke's Bay District Health Board
Hutt Valley District Health Board
Lakes District Health Board
MidCentral District Health Board
Nelson Marlborough District Health Board
Northland District Health Board
Southern District Health Board (and antecedent DHBs)
South Canterbury District Health Board
Tairāwhiti District Health
Taranaki District Health Board
Waikato District Health Board
Wairarapa District Health Board
Waitematā District Health Board
West Coast District Health Board
Whanganui District Health Board

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