

Managing for Performance in New Zealand – the search for the Holy Grail?¹

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Introduction

This paper will explore the barriers to implementing successful performance management systems in Government using New Zealand as an example. It starts from the evidence emerging from the recent performance audit by the NZ Controller and Auditor General (C&AG) of prospective and reported performance information in central and local government. The C&AG's work highlights that nearly twenty years after the reforms, while the quality of financial information and the quality of the systems is satisfactory, non-financial information is not supported by robust systems and the quality is patchy at best. This paper suggests that the solution to this issue is deeper than installing improved systems and developing better guidance & training. The C&AG suggests that 'New Zealand is at a cross roads' and explicitly raises the question reflected in the title of this paper – is the search for performance management “the search for the holy grail?”

To address this issue this paper will examine the New Zealand central government's journey with Output & Outcome Performance Management systems since the introduction of the pioneering reforms of the late 1980s. It will start with a very short summary of the public management model and then review the journey starting with outputs and attempting to move to outputs and outcomes. It will then explore a range of barriers – implementation failures, capability gaps, technical issues such as inherent specification & measurement difficulties, and the lack of an evidence base. It will suggest that none of these barriers were 'show stoppers' and all these barriers could potentially have been overcome if there was the political will and incentives to move to managing for performance. This raises the possibility that there is a fundamental disconnect between the rhetoric of performance management and the reality of how the bureaucracy interfaces with the political system. It will raise as a hypothesis that the key to understanding the New Zealand experience is to look beyond the formal system to the real system that shapes behaviour such as the demand and use that is made of performance information. The degree of bureaucratic and ministerial reluctance to engage in performance management may reflect the reality of the political system.

This article is written from the perspective of a practitioner who has been heavily involved in the development of the NZ Public Management system. This has included working in the NZ Treasury (in the 80 and early 90s), as a General Manager in the State Services Commission (in the late 90s to 2005) with responsibility for leading the development of the Public Management System, and most recently as a General Manager in an operational agency (Child, Youth & Family) attempting to implement Managing for Outcomes (MfO). In my current role on sabbatical at Victoria University, I leading a research project for the Public Service on improving performance management. The views expressed are those of the author and not of any organisation.

¹ *Chapter Three from Holy Grail or Achievable Quest – International Perspectives on Public Sector Management – published by KPMG International 2008*

Background

This paper will use the term ‘performance management’ < following Bouckaert & Halligan 2008: P26> to refer to the use of performance information to manage at the organisational (micro), sectoral policy (or meso) or whole of government (macro) level. This includes *measurement* through collecting and processing data into information, *incorporating* this information into policies, practices and reporting and *using* it to improve decision making and hence performance (economy, efficiency and effectiveness). The term outcome will be used to include immediate impacts and longer term results.

While performance measurement long pre-dates so-called ‘new public management,’ in a range of jurisdictions the 1990 witnessed a dramatic rise in public sector performance management. If any country epitomised this rise, at the micro agency level in particular, it was New Zealand. New Zealand had a long and relatively undistinguished history as an adopter of Programme Performance Budgeting System (PPBS). Yet within a short time, New Zealand became a major innovator as the first country in the world to develop and introduce accrual based output budgeting and reporting. The first audited consolidated Crown accounts which received an unqualified audit opinion were produced in 1992 just 3 years after the Public Finance Act was passed. Clearly whatever the barriers were to introducing financial performance information, these were overcome reasonably quickly.

By contrast, after nearly 20 years of producing non-financial performance information, the quality is uneven at best. The Controller and Auditor General recently (June 2008) published the results of a performance audit of performance specification and reporting in central and local government. He has suggested that NZ is at a “cross roads’ on performance management and raises the question reflected in the title of this paper – is disclosure of performance information “the search for the holy grail”? The C&AG’s work highlights that while the quality of financial systems and financial information is satisfactory, non-financial information is not supported by robust systems and the quality is patchy at best. The latest C&AG annual report commented on Statements of Intent (SOIs) that ‘the quality ... was variable and that government departments had made only small, incremental improvements in quality on the 2004/05 SOIs. There are three particular areas where we consider that they need to make more substantial improvement:

- setting out the logic and evidence that links the key outputs produced to the outcomes worked toward;
- comprehensively identifying the risks faced by departments and providing more detail on how these risks are managed; and
- refining the output and outcome indicators and gradually introducing outcome reporting in Statements of Service Performance (SSPs).” < C&AG:2007 :Part 8.104 >

Despite statutory requirements for nearly 20 years for information on outcomes and non-financial performance measures, the C&AG’s recent review concluded “overall, the poor

quality of non-financial performance reporting by public entities is disappointing. It needs to improve significantly to allow Parliament and the public to hold public entities accountable for their use of taxes and rates and for the effectiveness of their service delivery.” These are strong words for a statutory office holder. A senior minister was even stronger in commenting to a researcher “no-one in their right mind would rely on central government management reporting.” The next section explores how this situation evolved.

The New Zealand Performance Management Model

This article will not add to the huge literature on the New Zealand public management ‘model’ (see in particular Scott (Chapter 7) and Boston 1996). Five key features of the NZ central government model need particular emphasis here:

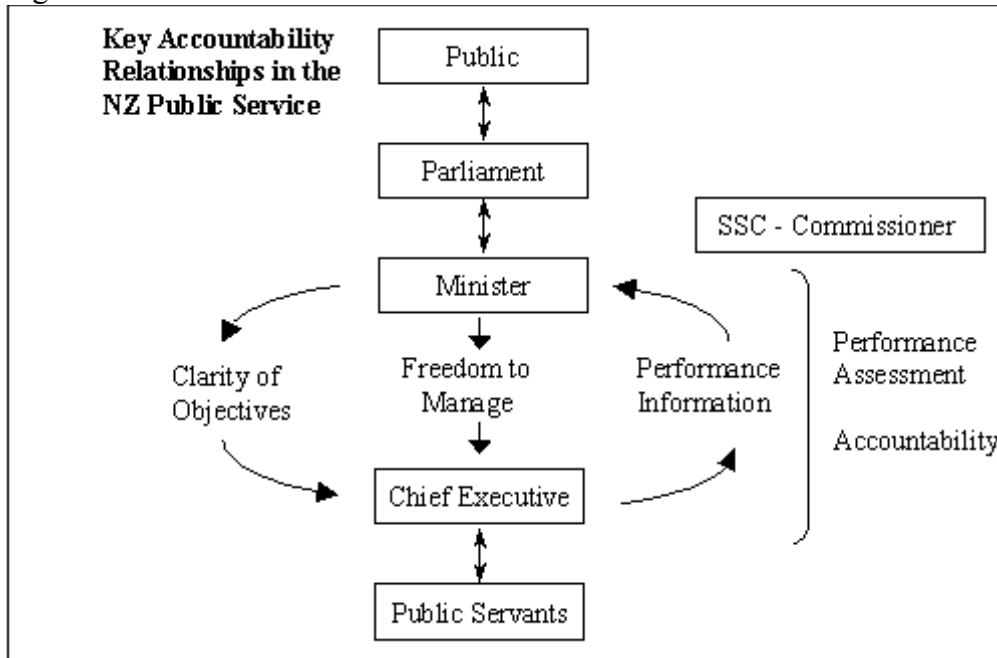
1. The comprehensiveness, speed and integration of the reforms. Existing controls on staff numbers, terms and conditions were removed and the Public Service Manual was repealed in toto, requirements to use government policy providers (procurement, capital works etc) were removed, Chief Executives were placed on contracts etc.
2. The goal was not public sector reform or accrual accounting – the goal was improved total system performance and this was part of a wide ranging and (one could add destructive and disruptive) structural adjustment programme that left no sector of society untouched.
3. The public management reforms sought (unsuccessfully) to strengthen the role of Ministers over the bureaucracy by giving them a number of ‘levers’ – the ability to set strategy, articulate outcomes, and choose whether to purchase the outputs required and to shape the process for holding CE’s to account for delivering those through the CE performance agreements and review process.
4. The implicit bargain for the bureaucrats was in return for the freedom to manage, they were accountable for the efficient performance of their organisation.² “ The approach taken was to require Chief Executives to be directly responsible for the outputs produced while Ministers choose which outputs should be produced and should then have to answer directly themselves for the outcomes” <Scott Bushnell & Sallee: 1990: >
5. Accountability, as Allan Schick observed ‘was not an afterthought,’ it was central to the New Zealand architecture as shown in Figure One below.

The performance dimension of the model at the organisational level was about outputs and outcomes. Initial design work for the reforms in the Treasury in the late 1980s focussed on how Ministers should be ‘answerable for outcomes’ as well as how the

² Among the outputs was advice on effectiveness – hence the preference for separation of policy from delivery.

bureaucrat should be held to account for delivery of outputs. However, the Public Finance Act (PFA) contained only the modest requirement Section 9(2A) (f) that in the Estimates, Departments must “identify the link between the classes of outputs... and the Government’s desired outcomes.”³ Subsequent work in the Treasury in the early 90s on the outcomes project failed to yield significant progress.

Figure One



As a result, the definition of outcomes in the PFA (“a state or condition or a change in that condition that impacts on the consequences for the community” was vague (either a level or a change in a level). This was in sharp contrast to the precision around outputs. Having learnt from the failure of the implementation of PPBS, the Treasury placed great focus on ensuring adequate output specification. As a number of reviews have noted, this emphasis on the accountability for outputs occurred at the expense of focus on outcomes or capability (see SSC Occasional papers No. 10 & 11).

The 1990s included a number of developments at the Macro and Meso levels. At the macro level the first of these was the rise and fall of the Strategic Management framework. Initially this involved ministerial mandated Strategic Result Areas (SRAs) and agency driven Key Result Areas (KRAs). While initially not well integrated into the budget system, this was a significant alignment device as it was used to inform SSC’s Chief Executive Performance review process. This system subsequently developed with

³ A legislative requirement for Ministerial responsibility for outcomes as well as bureaucratic accountability for outputs was included in the Public Finance Act in Fiji in the mid 90s but with subsequent coups this has never been operationalised and has since repealed.

the creation of Ministerial teams around SRA networks⁴, only to be abandoned with a change of Government after the 1999 election.

The new Government's Goals that replaced the strategic management system were by contrast, rather token and not connected to any formal management system. More recently the Government has articulated an overall goal underpinned by three components: Economic Transformation, Families Young and Old and Strengthening National Identity. While this was used as an organising device for allocating new money in the budget, there is insufficient underpinning in terms of intervention logic to allow measurement and incorporation into policies.

At the sectoral or meso level, a key development over this period was the move to comprehensive sector reporting, starting with the Environmental New Zealand 1997, and then the Social Report 2001 and subsequently the Economic Development Indicators 2007 report. The need for economic reporting had been met before then by the information provided as part of the medium term fiscal framework required under the Fiscal Responsibility Act.

The key development in the late 1990 and early 2000s was the increased focus on outcomes at the micro agency level with the launch of the Managing for Outcomes (MFO). This initiative came about from a combination of factors. The first the failure to 'make the managers manage' through the hard edged contractual accountability for performance because of a range of factors including the difficulty and getting meaningful performance information and of getting ministers to engage substantively in the performance review process. Staff work, initially driven out of State Services Commission (SSC),⁵ but subsequently also the Treasury, aimed to ensure that the public management system focussed greater attention on outcomes. Within the Treasury, given the failure to achieve traction on accountability for performance, there was a willingness to 'enable the managers to manage' by building a more formal management and reporting architecture around outcomes.

The change of Government in 1999 accelerated because the demise of the top-down strategic management system increased the need for a bottom-up approach to outcome development. The Review of the Centre (2002) provided a ministerial mandate for this initiative and this was cemented in with amendments to the Public Finance Act (and in the Crown Entities Act for most other central government organisations). While outputs were retained as the basis for appropriations, increased requirements were introduced for ex ante articulation of and ex post reporting of outcomes.

In a clear move away from the identification of outcomes with Ministers, departments were made accountable for developing and articulating the link between outputs and outcomes. Ministers retaining nominal responsibility through the requirement for the Statement of Intents (SOIs) to be jointly signed. In practice, however, SOIs were seen as departmental documents and the degree of ministerial ownership was often limited.

⁴ See SSC Occasional paper No. 3 A Better Focus on Outcomes through SRA Networks, 1998

⁵ See SSC Occasional papers No.10 and 11 on Improving Accountability, 1999

A key feature of the MFO process was the strong emphasis on ‘empowering the managers to manage,’ ‘tools not rules’ and ‘managing for outcomes’ not ‘planning for outcomes’. Each organisation was encouraged to undertake its own strategic development process to develop its own integrated performance story that was owned by management. The roll out was designed in this way so MFO was not seen as the latest central agency imposition and a fad to be complied with but as a tool to help agencies better manage the business. It was expected to lead to greater integration between internal management information systems, management reporting, and any external Budget related and accountability documents.

There was a ‘no one size fits all’ approach and, while agencies received central agencies comments on draft SOIs, there was less pressure about meeting ‘best practice’ than in the development of the Outputs through the Purchase Agreement process. As a result there were only weak incentives to improve the articulation and reporting of results and no sanctions for poor specification and reporting.

This bottom-up agency driven approach was supported by the Pathfinder project, which in tandem with the MFO, developed technical background material based on the practices in some of the leading agencies on outcome measurement. It was expected that this bottom-up ‘empowering the managers to manage, approach would harness the professionalism, public spiritedness and passion of public sector staff to achieve results.

At the time of writing it is seven years since the roll out of MFO. While there has been no official ‘death notice’, it is widely regarded by practitioners as ‘missing in action’. One simple indication of this is the virtual complete lack of any reference to MFO on the Treasury website after 2005, other than in a compliance context. Of the 105 hits for MFO all but a handful related to the period from 2001 to 2005. Similarly evidence of the degeneration into compliance can be found in the C&AG review cited above which damned with faint praise the lack of evident logical links between outputs and outcomes in external accountability documents as well as the generally poor quality of non-financial performance information

While the death of MFO is not formal, future observers of the NZ story may well conclude that the last writ was most probably the recent Review of Accountability Documents, released in November 2007. This involved a break in the integrated performance story for Departments – the short term performance information was included in the Estimates while the Departmental SOI is relegated to a secondary medium term document. There were lesser changes for Crown Entities as the requirement for an SOI is embodied in Statute as the centrepiece of the entire governance regime.

In summary what this account brings out is that while the move to robust financial measurement based on output budgeting and accounting⁶ was achieved quite quickly

⁶ It is important to both recognise the size and limits of this achievement. NZ was a true pioneer doing what no other jurisdiction had done before. It is also important to recognise the limits of achievement – the systems introduced produced macro costings that were adequate for external reporting purposes. Even in

over 3-4 years, the shift to a greater outcomes focussed management, first through Section 9(2A) (f) of the PFA then through the SRA/KRA framework and subsequently MFO, have not proved durable. Why has New Zealand largely failed to make progress on agency level outcome performance management apart from financial measurement? Was it a failure of implementation and change management?

The contrast between the rollout of output management and managing for outcomes is marked. The former was led by a central agency at the height of its power, whose senior management was concerned to avoid repeating the mistakes of the implementation of Programme Based Budgeting which permitted sloppy specification. The Managing for Outcomes initiative, by contrast, was a joint approach led by two agencies (Treasury and SSC) but also including Department of Prime Minister and Cabinet (DPM&C) and Te Puni Kokiri. While considerable care went into the design of MFO, the implementation is widely regarded as a failure leading to degeneration into compliance. In part implementation was a failure because, like most collaboration, it was everyone's and hence no-one's responsibility. It was something that was fitted in around business as usual and often fell between the cracks. The Controller and Auditor General describes this as a 'lack of clear professional responsibility for leadership and oversight.'

In addition to change management, the move to MFO was hampered by professional capability constraints. The move to output budgeting and accounting (and the associated introduction of accrual accounting) could be supported by the accounting profession and underpinned by accounting standards. Where those did not exist, there were buttressed from peer review processes. The Controller and Auditor General in NZ (unlike almost all other jurisdictions) undertook audits of Statements of Service Performance. To address the challenge of costing Government outputs, while the context was different, agencies could access the experience and expertise of management accounting from the private sector. This was often backed by standard accounting packages.

The move to outcomes faced serious capability shortages as, even within the larger agencies, there was only a handful of staff who understood these issues and only a small pool of consultants and few standard measurement packages to draw on. By contrast there is no equivalent for outcomes of the accounting profession and accounting standards.⁷ As a result the role of the external audit was confined largely to process (looking for evidence to support the representations) rather than judgement on the quality of the representations.

The other contrast was in the availability of information on effectiveness. The poor history of PPBS in NZ meant that there was a lack of the sort of quality programme information on programme effectiveness available in Australia at federal level at least. Some agencies were readily able to access bodies of research about 'what works', but

2008, other than third party revenue funded activities, few government agencies have adequate micro costing systems at, say, the project level. For example only one agency could provide information on the cost of participating in a value for money reviews announced as part of the 2006 Budget. Ironically it is not possible to assess directly whether value for money reviews represented value for money.

⁷ The only accounting guidance was issued in 2002 – Technical Practice Aid No. 9 on Service Reporting

often this evidence simply doesn't exist. Unsurprising where this evidence doesn't exist, progress on managing for outcomes was slower. Underpinning this, the specification and measurement of outcomes is fundamentally harder than outputs. As is discussed below, unlike outputs, outcomes are not directly controllable.

Problems with capability can be addressed as effective demand, in the end, will bring forward supply. The question this begs is why after nearly 20 years is better non-financial performance information not available? Is it related to implementation, capability and technical issues?

The suggestion in this paper is that the issue is a deeper one than developing better guidance, building capability through training and installing improved systems. The length of time that has elapsed suggests the issue is more than one of a lack of will, commitment, systems or capability. It suggests that the issue may also have a demand side dimension relating to the uses that the information is put to and the pressures and incentives that lead public sector leaders to produce "glossy....and public relations focussed" documentation according to the recent Review of Accountability Documents (RoADs). The evidence base for this is speculative but it is the speculation of an insider who has been exposed to the developments in a range of roles. The merit of these speculations will be explored further in a VUW project on performance management that is commencing in mid 2008.

Part of the lack of effective demand pressure is the lack of incentives for bureaucrats. The reforms of the 80s offered managers a bargain – greater delegated power and freedom from control in return for greater responsibility for outputs and efficiency. MFO, by contrast, aimed to harness the professionalism, public spiritedness and passion of public sector staff to achieve results. In effect MFO requires public servants to become outcome managers - so what is the quid pro quo? In New Zealand at least they are still bound by the conventions of Westminster. Being a results manager takes one from the 'blue' zone of bureaucracy into the 'red' zone of politics.

MFO requires managers to front the hard questions. The easy course is to take the path of least resistance – faced with a choice between criticism from the Treasury for less than consummate compliance and publicly embarrassing the agency (or worse still the Minister) - the choice is a no brainer. This does not adequately explain the lack of development of the systems and information on non-financial performance for internal decision-making identified by the C&AG. This gap remains something of a puzzle.

What is clear is that government agencies in NZ will only tend to give meaningful external answers to these hard questions if it helps them manage their authorising environment. The casual examination of annual reports of public and private sector organisations reveal that in telling a performance story, there is a natural tendency to tell a positive story. In the words of the song 'accentuate the positive eliminate the negative don't mess with Mr. in between'. This was focus of the criticism in the recent the Review of Accountability Documents (RoADs) about the production of "glossy....and public relations focussed" documentation.

The challenge is to understand not only the formal system (inputs, outputs, outcomes etc.) but also the real systems that drive behaviour. The Department of Corrections was one of the leaders in implementing MFO and one of the participants in the Pathfinder project. The department's experience with the Select Committee experience in 2006 is instructive. Corrections faced criticism from the Opposition for cancelling programmes that evaluations had been demonstrated were ineffective. The criticism from Select Committee was along the lines - why didn't you act sooner to cancel the programmes. This is instructive – it suggests 'damned if you do damned if you don't.' Gathering information and acting on it still results in criticism - it just comes in a different form. Note also it was the Department that faced the criticism and not the Minister who supposedly purchased the outputs.

Another instructive example is the Rankin Case (Rankin v Attorney-General 2001). The Chief Executive of Work and Income case was based upon three propositions:

- that the State Services Commissioner (SSCer) had given her an 'expectation of ongoing employment' within the Public Service and then failed to deliver on that promise;
- that the SSCer had succumbed to unreasonable political pressure in dealings with her during her three years as chief executive and, in particular, when deciding not to recommend her reappointment; and
- that the SSCer did not do enough to support her through the troubles that plagued both her and the department during her term as chief executive.

The court ruled reappointment was not automatic. The key point is not the points of law. What is germane is the decision relative to the facts of the case. No-one suggested that Work and Income was not a high performing agency. Indeed they were widely regarded as a world leader in the field, innovators in service delivery with a good track record of delivering against performance targets. The lesson that Wellington insiders took away from the case was that there are two 'front lines' that need to be successfully managed: the 'front line facing clients' and the 'front line engaging with the authorising environment' in Wellington. Managing the client interface and delivering outputs extremely well was a necessary but not sufficient condition for survival. The sufficient conditions also included managing the 'authorising environment' (in Moore's terminology).

The public management reforms gave Ministers a number of 'levers' to set strategy, articulate outcomes, and choose whether to purchase the outputs required and to shape the process for holding CE's to account for delivering those through the CE performance agreements and review process. The reality is that Ministers tend not to be comfortable with the use of formal levers and find it useful for outcomes to be left fuzzy and open. Purchase agreements or output plans were largely treated as an exercise in bureaucratic compliance. Ministers are reluctant to provide feedback on performance. Ministers in successive government have been reluctant to articulate measurable outcomes (with the

exception of the SRA networks) and support for MFO was at best luke warm. MFO was a bureaucrat led initiative to articulate outcomes from the agency level up.

The position of senior bureaucrats & Ministers on outcomes has not been adequately explored in NZ but may reflect both technical and political factors. The technical reasons are that, unlike outputs, outcomes are not controllable. The linkages between outputs and outcomes are separated in time and space and the lags are long and variable. In the face of that uncertainty and the inability to achieve control, Ministers are reluctant to be answerable for results as envisaged by the designers of the 1989 PFA.

The Ministers and the senior bureaucrats who advise them are also conscious of the role of Parliament. This is not a court of justice where the language is that of organisational performance and the outcome is justice. This is a political contest in a star chamber in which Government agencies are pawns in a bigger contest for political power. In this context it is not surprising that documentation is “glossy.....and public relations focussed” and outcomes are fuzzy and shift frequently.

Application to the rest of the Public Sector

For the sake of simplicity the story so far has largely focussed on Ministerial Departments and has not covered State Owned Enterprises (SOEs) i.e. commercial companies where the Government is a shareholder (such as NZ Post), Local Government (relatively small as NZ is a very centralised jurisdiction) and Crown Entities (i.e. central government controlled public bodies that are neither SOEs or departments). The reason for excluding State Owned Enterprises is that they are charged with operating as successful businesses and their reporting requirements, with one or two additions, mirror those of a privately owned corporation. The best analogue for outcome is profitability. Local Government was not covered as it is relatively small in NZ (10-12% of total public sector employment) and it is subject to different governing legislation which would complicate the story. In future, research on this area may want to include Local Government as since 2001 they are subject to more demanding legislative requirements for outcome articulation and reporting than central government and the authorising environment is quite different.

The other area only dealt with in passing was Crown Entities. This is not because they were unimportant, (they represent 65% of public sector employment) but because they faced virtually identical reporting requirements and the journey has been a very similar one.

Conclusion

This paper has explored the New Zealand central government's journey with Output & Outcome Performance Management systems since the introduction of the pioneering reforms of the late 1980s. It showed that, contrary to some accounts, the original design of the New Zealand model was for an output and outcome performance system but in the implementation the financial dimension of outputs was better developed and has proved more resilient. By contrast, both from the top down or the bottom up, attempts have failed to develop more systemic non-financial measures including outcome oriented performance systems.

The paper has explored a range of barriers – path dependencies, capability, measurement difficulties, and the lack of an evidence base. It suggests that none of these barriers were 'show stoppers' and all these barriers could potentially have been overcome with sufficient time, commitment, political will and the incentives to move to managing for performance. It raises as a hypothesis that the key to understanding the New Zealand experience is to look beyond the formal system to the real system that shapes behaviour such as the internal & external demand and the use that is made of performance information. The degree of senior bureaucratic and ministerial reluctance to engage in performance management may reflect the reality of how the bureaucracy interfaces with the political system.

The proposition in this paper is that making progress on managing for performance requires more than technical solutions to supply side problems of information, systems design and capability. At its heart performance management is as much an exercise in understanding how bureaucrats manage within their organisations and attempt to manage the external authorising environment. The latter can only be understood in the political context of the country concerned. Consider for example, the contrast between the Blair Labour Government top down performance targets through the system of Public Service Agreements and the virtual absence of a strategic management system in New Zealand under the Clark Labour Government over the same period. How different political contexts shape the demand for and development of performance management is a rich but complex topic that is well worth further exploration.

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