

The Iron Cage Recreated

The performance management of state organisations in New Zealand

Edited by

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Foreword

The New Zealand model of public management, which was forged during a period of unprecedented policy radicalism between the mid 1980s and the early 1990s, has been much celebrated internationally. During the 1990s, numerous delegations of officials from many parts of the world journeyed to Wellington to investigate the model first hand and to consider whether, and to what extent, key elements of the reforms might be applicable in their own jurisdictions. Likewise, the New Zealand model attracted the close attention of many local and overseas academics, prompting the publication of scores of conference papers, articles and book chapters.

Despite this high level of interest, detailed, original research on core elements of the reforms – such as the State Sector Act 1988 and Public Finance Act 1989 – has been remarkably modest. Indeed, in some areas, robust empirical research has been utterly lacking. For instance, there has been little independent analysis of the performance management system instituted in the late 1980s. Hence, not much has been known about how the copious performance information – both financial and non-financial – generated as a result of the reforms is actually used, whether by public sector managers or by governmental policy-makers and the wider public. Equally, it has been unclear whether the currently available performance information is useful for decision-making and to what extent it influences the nature of the choices made by those holding public office. Related to this, of course, is the question of whether there is a good alignment between the formal system created by legislation and what happens in practice – and, if not, what should be done about it.

This substantial volume aims to remedy some of these deficiencies. As with many other recent publications of the Institute of Policy Studies, the research on which this book is based was sponsored by the Emerging Issues Programme. This programme is a collaborative exercise between public service chief executives and Victoria University of Wellington, through the Institute of Policy Studies and the School of Government. The programme aims to generate policy-relevant research and analysis on important medium- to -long-term issues of concern to the public sector. Since 2006, over a dozen separate projects have been funded through the programme, covering a wide variety of policy issues –constitutional, environmental, social and international. Not surprisingly, public management issues have also figured prominently in this list. Among other things, public service chief executives have been keen for the Institute of Policy Studies to explore the direction for public management reform, including how the New Zealand model might be reinvigorated and refreshed and how the public

sector can best meet the many and varied challenges – economic, environmental, demographic and so forth – that will be encountered over the coming decades. In short, how can we improve the public management system so that it is fit for purpose?

Against this background, the research undertaken for this book arose from a specific request by the Emerging Issues Programme Steering Committee to consider how the performance information system in the public sector could be better aligned with the needs of key users and achieve a greater focus on outcomes. Underpinning this question was a perception that the information produced by the current formal performance information system was little valued by key stakeholders – parliamentarians, ministers, the public and, indeed, many state servants. To address such issues, the contributors to this volume undertook a major survey of public sector managers and detailed case studies of the performance management system in seven departments and agencies. The results are fascinating, important and authoritative. They deserve wide circulation, careful scrutiny and, I hope, positive action.

As readers will discover, this book contains a wealth of information about how the current performance management system works in practice, together with evidence-based analysis and thoughtful reflections on how the system might be improved. Not merely is this book rich in data and insight, but it also has the unusual, yet critical, virtue of being written by a project team comprising a mix of academics and practitioners. It thus brings together scholars with an abiding interest in the theory and craft of comparative government and practitioners with years of hands-on experience as public sector managers and policy advisers. As such, it represents an excellent example of collaboration between ‘town and gown’ – collaboration that enables academic learning to inform practice and vice versa. This, of course, is precisely what the Emerging Issues Programme was designed to achieve, and I am delighted with the success of this particular venture.

As to the particular findings and recommendations of this study, several deserve particular comment. The title of this volume, *The Iron Cage Recreated*, is instructive. It reflects how pervasive the ‘iron cage’ of control has been within public sector organisations in New Zealand, despite the reforms initiated in the mid to late 1980s and the strong emphasis on management discretion. One plausible reason for this outcome is the role played by the authorising environment (ie, the system of parliamentary and media scrutiny) in driving a risk-averse managerial culture.

Another key finding has been the widespread and pervasive use of formal performance information by *internal decision-makers* from ministers to front-line managers. This is in marked contrast to other jurisdictions where performance

information either has not been used or is used predominately for *external* window-dressing purposes.

On a different front, Bob Behn of Harvard's John F Kennedy School of Government has argued that one of the three big questions that public management needs to address is how public managers can measure the achievement of their agencies in order to increase those achievements. One of the striking findings of this research project is the lack of progress on managing for outcomes. To paraphrase a perceptive Wellington commentator, "agencies either don't have the outcomes data; have the data, but lack the ability to interpret it; or have the data and capability but never tried". This volume significantly increases our understanding of the use and non-use of performance information in New Zealand's state sector. In so doing, it should help move forward the debate on how to produce better performance.

Finally, I would like to commend all those who have laboured long and hard to complete this elegant volume, especially Derek Gill, who led the project, supervised the research and kept the team on target. It has certainly been a job well worth doing and commendably concluded.

Jonathan Boston
Director, Institute of Policy Studies
Victoria University of Wellington
November 2010

Preface

The initiative for this project, the Managing for Performance Project, came from public service chief executives as part of the Strategic Alliance between the Public Service and the School of Government at Victoria University of Wellington. The general concern among the chief executives was that, although the New Zealand model for performance management in state organisations was ground breaking when it was introduced in early 1990, it is no longer fit for the issues facing the state of the 21st century. The research commissioned from the Institute of Policy Studies aimed to develop an understanding of why the information produced by the formal government performance information system appears to have such little value for parliament, ministers, many state servants and the wider public.

The authors thank the chief executives for their vision in commissioning the research and their support and patience in allowing the research the time to reach completion. The project team for this research was drawn from university, departmental and other backgrounds. It was an excellent example of collaboration between ‘town and gown’ enabling academic learning to inform practice and vice versa.

This partnership approach allowed the project to access the deep knowledge of the interdisciplinary project team that oversaw the research. Some of the team members are listed as authors – others are acknowledged below. The team brought a variety of skills and experiences. We were able to draw on research undertaken by Rodney Dormer for his recently completed PhD as well as the work of other academics from Victoria University of Wellington. We also had input from a former Controller and Auditor-General, a former departmental chief executive, two former departmental chief financial officers and senior staff who had lead responsibility for public management in the State Services Commission, Treasury and the Office of Auditor-General. We would like to acknowledge the passion and perseverance of colleagues who contributed time, effort, support, wisdom and insight to the project.

The resulting volume has several authors. In a sense, it is neither an edited piece nor a series of authored chapters. All of the papers emerged from the project deliberations, several are co-authored and all benefited from the discussion debates and comments received from the project team and others over the course of the project. The authors who constituted the core of the project team over its life are listed in the contributors section. Alec Mladenovic production managed the preparation of this volume. Michael Di Francesco (senior lecturer in the School of Government, Victoria University of

Wellington) made a significant contribution from the time he joined the later stage of the project. The team also benefited from the assistance of David MacDonald, now adjunct professor, School of Accounting and Commercial Law, Victoria University of Wellington, but formerly the Controller and Auditor-General; Tyson Schmitt, who prepared the initial draft of the literature review and was a significant contributor to the early phase of the project; Richard Norman, senior lecturer in human resources management and industrial relations, Victoria Management School; Rose Anne McLeod, senior fellow, accounting, Victoria University of Wellington and a former departmental chief financial officer; and Ann Webster from the Office of the Auditor-General and Jonathan Ayto from Treasury, who provided time, comments, wisdom and constructive challenges to the project.

The project team also drew on the specialist knowledge and skills of Tania Rother, who provided capable project management in the project's middle phase; Denise Grealish, who helped design the survey; Lucas Kengmana, who analysed the survey results; Buzz Channel online research company for its great help with survey execution; Janet Tyson for her assistance in improving the presentation of case studies; and Belinda Hill for perseverance with editing.

We also benefited from the opportunity to bounce our thinking off the members of a departmental reference group. In particular, we would like to provide special thanks to Roger Waite and Ken Warren (Treasury), Neil McInnes (Ministry of Agriculture and Forestry), Rosalind Plimmer (Department of Internal Affairs) and Jim Olsen (Ministry of Defence).

The project would not have been possible if it had not been commissioned and supported by the chief executives. Lastly and most importantly, we are indebted to the hundreds of state sector managers and staff who contributed in many ways including through interviews, by completing the survey questionnaire and attending workshops. Without their active and positive support and cooperation, the project would never have been possible.

Contributors

Rodney Dormer is a lecturer at the School of Accounting and Commercial Law at Victoria University of Wellington. He has also held senior operational and financial management positions in the hospitality, manufacturing, retail and banking industries in the private sector. In the public sector, he has worked for several organisations including the Ministry of Fisheries, Te Puni Kōkiri and the Ministry of Social Development. He has also provided advice on accounting and performance management to overseas governments. Rodney's doctoral research was about performance measurement and management practices in a variety of New Zealand public service agencies.

Derek Gill is a senior fellow at the Institute of Policy Studies, School of Government, Victoria University of Wellington. While at the institute, he has led major research projects on inter-agency collaboration and New Zealand's future state, as well as this project on organisational performance measurement. Before joining the Institute of Policy Studies, Derek held a variety of senior public service roles with Child, Youth and Family, the State Services Commission and Treasury, and had been based with the OECD and New Zealand Embassy in Washington DC. He has also undertaken consulting assignments on public governance issues in a variety of developing countries. Derek is a graduate from Victoria University and George Mason University in Virginia and has degrees in economics, politics and accounting.

Susan Hitchiner is an independent consultant and has held senior roles in various public sector organisations. Susan worked in Treasury in the 'eye of the reforms' (1986–1992) and then in several senior organisational roles to 'put the theory into practice' with a focus on organisational performance management. Her consultancy work in the broad public management area has ranged across whole-of-government and organisational levels, across a variety of sectors and technical areas; in New Zealand and international reform projects; and in the public and not-for-profit sectors..

Lynley Hutton is a principal adviser at the Ministry of Transport and a research fellow at the Institute of Policy Studies, School of Government, Victoria University of Wellington. Lynley has held various senior roles in the education sector and in business advisory services. She is engaged in research on performance and organisational learning in the public sector as part of her PhD studies at Victoria University. Lynley has previously led research projects in

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Rob Laking is a senior associate at the Institute of Policy Studies, School of Government, Victoria University of Wellington. He had a career in the New Zealand public service from 1964 to 1995, including at Treasury, the Department of Social Welfare, the State Services Commission and the Ministry of Housing (where he was the chief executive). After retiring from the public service, Rob taught public management and public policy at Victoria University and was the first director of the master of public management programme. He retired in 2010. Rob has combined his teaching with consulting on public management and public finance in developing countries. He has degrees in economics and public administration from Victoria University and Harvard University.

Dr Bill Ryan is an associate professor in the School of Government, Victoria University of Wellington. Among other things, he teaches on public management, implementation and service delivery, and strategic management in the master of public management programme. Bill has researched and published on public sector reform in Australia and New Zealand over several years, particularly in the field of monitoring and evaluation.

Tyson Schmidt has been involved in several state sector performance improvement initiatives as part of his roles at the Office of the Auditor-General, Treasury and, most recently, the Department of Building and Housing. He was a member of the teams responsible for implementing the Managing for Outcomes initiative, Crown Entities Act 2004, 2004 amendments to the Public Finance Act 1989, Review of Accountability Documents, and the early development of the Performance Improvement Framework. Tyson is a graduate of Massey University and Victoria University of Wellington and holds degrees in classical studies, religious studies, defence and strategic studies, and architecture.

Introduction

Derek Gill

Context

In respect of non-financial information, in my 2008 observations report I described the overall quality of non-financial performance reporting by public entities as poor and disappointing. In fact, many of you will have heard me be blunter in the past, calling it “crap”. (OAG, 2009d, p 1)

Politicians don’t use performance information; citizens don’t understand it and don’t bother with it; and public managers don’t trust it or don’t take it seriously. (Van Dooren and Van de Walle, 2008, p 2)

New Zealand’s public sector has been widely regarded as a pioneer in the development of comprehensive and rigorous systems for planning, managing and accounting for government performance. A major innovation has been the bringing together of the reporting of financial and non-financial performance information, a move expected to underpin both external accountability and internal management decision-making.

The first quotation above, from a former Auditor-General,¹ makes the point that after 20 years of experience, non-financial performance information was at best uneven and at worst “crap”. In contrast, effective financial reporting systems were established within three years.²

The other quotation makes the point that the improved *availability* of performance information has not automatically resulted in corresponding growth in its *use*.

Despite 20 years of experience, there is a surprising lack of research in New Zealand into how external stakeholders and decision-makers within public organisations use performance information. If formally reported information is

1 The more familiar title of ‘Auditor-General’ rather than the formal ‘Controller and Auditor-General’ is used in this chapter.

2 Following the passing of the Public Finance Act 1989, the first audited consolidated Crown accounts on an accruals basis received an unqualified audit opinion in 1992.

“crap” and “public managers don’t trust it or don’t take it seriously”, what information is used to make decisions?

Concerns about the quality of performance information have surfaced periodically since the introduction of the current New Zealand public management system in the late 1980s. Developing non-financial indicators and information about the achievement of outcomes in particular, proved to be a significant challenge. Evidence about the limited use value of the current formal system includes the following.

- Information is of limited value for ministers in making allocation decisions (Schick, 1996).
- Innovation intended to enhance the strategic value of the information system by focusing it more on results of value to decision-makers has either been scrapped or not progressed past the status of a pilot project. Such innovations include strategic result areas in the 1990s and the Managing for Outcomes initiative after 2003.
- Widespread apathy exists among parliamentarians and ministers about the products of the system: the chair of the Public Expenditure Committee has commented that the output measures are too unstable to be useful for his committee’s scrutiny; a former senior Cabinet minister reportedly commented that “no one in their right mind” would rely on management reporting (Dormer, 2010, p 15).
- Information in external accountability documents is rarely used in the media and public discourse and seems to have little impact on public trust or understanding of departmental performance. Performance controversies have tended to focus on personalities and politics, with formal performance information rarely used to support one case or another.
- The quality of reporting or measured performance has little effect on public or political perceptions of departments. Public sector chief executives may appear to have achieved all their measured objectives but nevertheless find themselves headed for the exit door in the face of public scandals.
- The Auditor-General concluded that despite statutory requirements for nearly 20 years for information on outcomes and non-financial performance measures, overall “the poor quality of non-financial performance reporting ... by public entities is disappointing” (OAG, 2008a, p 3); the published measures often seem flabby, unstable, irrelevant to purpose and self-serving.

The seeming irrelevance of much performance information for decision-makers seems to have contributed to a vicious cycle in which low-quality information results in its limited use, which leads to the production of performance information becoming a low-priority compliance task for officials, which leads to a further devaluation of the performance information in the minds of users.

The Managing for Performance Project, on which this book is based, set out to investigate the effect the reforms had on both research and policy objectives.

The research was commissioned by public service chief executives who were concerned that the New Zealand model of organisational performance management was past its 'use-by date'. The policy objective of the research project was to develop proposals for the direction for reform that would better align the wants and experiences of key users and achieve a greater focus on outcomes. The research objective was to fill the gap in knowledge about how managers, front-line workers and other decision-makers in New Zealand public sector organisations used performance information.

This book presents research evidence on how performance information is actually used in public organisations in New Zealand. This research assesses the gap between the *formal or espoused* system and how actors operate in the *real* system. The research finds decision-makers at all levels of executive government actively using performance information for control purposes, rather than solely as an exercise in compliance (which in part it is). What emerged in public agencies was the picture of an 'iron cage' of control based on performance measurement; hence the title of the book.

The iron cage is the metaphor for Max Weber's (1953, p 181) concept that modern society is "bound to the technical and economic conditions of machine production", of which a rational and technically ordered, but at the same time rigid and dehumanising, bureaucracy would be the main mode of organisation, in both public and private sectors. Among the many claims for the New Zealand public management reforms was that they would free public managers from the constraints of rules for inputs and procedures, and empower them to seek results of public value. This book tests that idealist view of the aims of public management. Have the reforms of the last two decades met their ideals to set public managers free to innovate in pursuit of outcomes? Or have they succeeded only in creating a new iron cage to replace the old, where conformity and rules and a single set of values and view of reality are imposed from the centre of government; where an old wine of bureaucratic order has simply been poured into new and flashier bottles?

Context of the project

Public sector management reforms in New Zealand in the late 1980s and early 1990s were part of a wide-ranging and comprehensive reform programme that included macroeconomic strategy and stabilisation, commercialisation and privatisation, liberalisation through reduced protection, and regulatory reform. Public sector reform per se was never the intended goal. The reforms to the public sector were introduced to improve the efficiency and effectiveness of the state sector as part of an overall programme of structural adjustment.

The New Zealand model for public sector management reform introduced in the late 1980s and early 1990s has been extensively studied, resulting in enthusiastic reviews and critical commentaries. The extent of the interest reflects the comprehensiveness of the reforms and the conceptual rigour and coherence of the thinking underpinning the earlier reforms. Farmer (2006, p 1,213) describes New Zealand “as the poster child of New Public Management”.

New Zealand is striking for its intention to set up a coherent system of mutually reinforcing components. New Zealand, along with Australia and the United Kingdom, took a top-down and total systems approach to public sector reform rather than an agency-up approach such that taken by Finland where agencies had fewer top controls. In contrast to the incremental reforms in other jurisdictions, New Zealand moved rapidly across a wide front to replace the old legislation covering the public service and public finances with new legislation. The old and new testaments of the old public service, Treasury Instructions and the Public Service Manual, were repealed in toto with only the former replaced with new instructions.

The changes to New Zealand’s public management systems in the late 1980s and early 1990s are one of the most comprehensive public sector reforms undertaken. Boston et al (1996, p 382) note that since the mid 1980s, “virtually every aspect of public management in New Zealand has been redesigned, reorganised, or reconfigured in some way”. The consistency with which the changes were applied has led commentators such as Allen Schick (2001) to comment that, “taking away a critical element, such as the output orientation, would strip the system of its magnificent conceptual architecture”.

This book does not traverse the political or technical origins of these reforms since these have been well covered (Boston, 1995; Boston et al, 1996; Duncan and Chapman, 2010; Norman, 2003); nor does it review the overall New Zealand public management system. Instead, this book explores the key feature of the New Zealand reforms – the formal organisational performance management system. We explore how the system for managing and developing public

organisations has changed over time. The focus is on the system for reporting performance rather than policy decisions about performance or how ‘the state’ is organised. The project examined ‘organisational performance management’ for New Zealand public service departments at the level of the *system as a whole* as well as performance management *within the system* at an individual departmental level. We include in the term ‘organisational management’ a variety of management functions – objective setting, the development of performance information systems to measure achievement against those objectives, the monitoring of actual performance, performance reporting and the allocation of decision rights to enable planning and delivery.

Research techniques

We used a variety of research techniques to reach our conclusions. These techniques included the literature review commissioned at the outset of the project, seven case studies and a survey sent to 60% managers employed in the public service. The methods adopted are discussed in the relevant chapters.

We also accessed the deep knowledge of the interdisciplinary project team that oversaw the research. Some team members are listed as authors and others are acknowledged in the preface.

Scope of the project

The scope of the project was limited to the main institutions of central government (ie, public service departments and other non-trading entities, including statutory Crown entities). The research primarily focused on public service departments, but the survey did also include five statutory Crown entities. Although the legal context for arm’s length public bodies such as Crown entities differs from that of departments, the survey results suggest that the conclusions from our research are equally applicable in the wider state sector.

Local government was not part of the project because the formal management framework under which it operates is different from the public management system in central government. However, this is not a significant omission as New Zealand is the most centralised state in the OECD. Over 90% of public employees are employed by central government. Functions such as fire, police and social services that local government commonly runs in other jurisdictions are all functions of central government in New Zealand.

Structure of the book

This book is organised around the main strands of the research in four main parts. The project started with a scan of the literature. Part One (chapter 2) reviews the available international empirical evidence on how performance information is used and the main themes that emerged from that literature. These themes are then explored in the rest of the research. This sets the scene in Part Two (chapters 3–5), which discusses the formal system – the espoused system that is formalised in documents such as legislation or administrative guidance. Thereafter, the focus shifts to the real system in use in public organisations.

Part Three starts by summarising the themes from the case studies (chapter 6). Chapters 7–11, respectively, contain the results from the seven representative case studies from five organisations (Child, Youth and Family, the Department of Conservation, the Department of Corrections, Work and Income, and the Ministry of Women’s Affairs). Chapters 12–14 introduce and then discuss two networks (in the transport and justice sectors). The final chapter in this part (chapter 15) presents the results of a survey sent to 3,000 managers operating in the system, covering more than 60% of the managers in the public service as well as five organisations in the wider state sector. Therefore, the results are a representative portrait of the information managers use to assess and manage performance within state sector organisations in New Zealand.

Part Four brings together research findings *on* the system and *in* the system. Chapter 16 summarises the conclusions from the research on the uses of performance information. In light of those conclusions, the chapter highlights the challenges to be addressed in any further reforms. It draws out the roles of the different actors within the system – parliament, ministers, central agencies and managers within departments. It explores options to close the gap between the formal system (Part Two) and the system in use (Part Three). Chapter 17 pulls together the findings and themes about how staff manage in organisations and within the overall system. It explores how paradigms become prisons as a way to understand New Zealand agencies’ lack of progress towards non-financial performance information. Chapter 18 sets out options for the directions for reform. It explores options to close the gap between the formal system and the system in use. It then explores options for reform both within the system and at the system level. It responds to public service chief executives’ request to develop proposals that would better align key users wants and experiences and achieve a greater focus on outcomes.

Part One

Organisational Performance Management: Concepts and themes from the literature

Introduction to Part One

Derek Gill

This part provides the starting point for considering the formal performance management system described in Part Two and the case studies and survey results in Part Three.

This project started with a review of the literature, which is discussed in the sole chapter in this part (chapter 2). The review looked at key concepts such as performance information and performance management. It also explored the evidence from empirical studies on the uses made of performance information by different stakeholders in public organisations. The review found that although there is a large disparate theoretical literature on the use of performance information by internal decision-makers in public organisations, research has only relatively recently focused on its use by parliamentarians, citizens and other stakeholders. In the case of public organisations in New Zealand, little research has been done on the internal or external uses of performance information.

Exploring what the literature says about the use of performance information in public organisations proved daunting. It was difficult to draw together the multiple strands and threads running through the disparate literatures into a short coherent summary. This is because the literature draws on different perspectives and strands from a wide variety of disciplines, including management studies, accountancy, economics, institutional sociology, political science, public administration and public management. The project team had access to these

disciplines because its members brought the literatures with which they were familiar into the project. The references are collated at the end of the book.

Along the way, we found existing surveys of the literature, which are listed in the further reading section at the end of chapter 2. For the interested reader, Moynihan and Pandey (2010) and Van Dooren et al (2010) have published accessible surveys of the empirical evidence on the use of performance information.

As a result of the availability of these recent references, chapter 2 does not attempt to synthesise all the literatures into a comprehensive review; instead, it defines the main terms such as performance, performance management and performance information as they are used in this book. It then reviews the international empirical evidence on how different stakeholders use performance information. The chapter concludes with a summary of three themes that emerged from the various literatures that were explored in the rest of the research presented in this book.

Organisational Performance Management: Concepts and themes

Derek Gill and Tyson Schmidt

Introduction

This chapter starts by setting out the main concepts used in this book: organisational performance, performance information and the relationship between these two concepts. Stated like that the task seems straightforward. However, the task is complicated once we start to explore these concepts; scratching below the surface quickly reveals the diverse and competing assumptions underpinning the concepts. The chapter then reviews the limited empirical evidence on how different groups – parliamentarians, ministers, managers within public organisations and the public – use organisational performance information. It concludes with a discussion of the key themes from the literature on organisational performance management that have been explored further in the research covered in this book: the origin and nature of organisational management control, the use of performance information, and the notion of a ‘golden thread’ or a consistent chain linking external accountability to local performance measures that guided the New Zealand public sector management reforms.

Allen Schick (2003, p 73) observed that public sector performance is a deceptively simple idea, “simple because it is easy to express key concepts and objectives; deceptive because it is hard to apply these ideas in government”. A previous Auditor-General in New Zealand defined public sector performance as “results – what a public entity achieves, the level and quality of the entity’s interactions with the public, and the costs of these results and interactions” (2001b, p 5).³ There is broad agreement that governments are elected to achieve something of value for their citizens and that governments should be accountable for the results they have achieved. But beyond this broad generalisation, nothing much goes uncontested: the idea of public sector performance is open to debate, in both concept and application.

3 The more familiar title of ‘Auditor-General’ rather than the formal ‘Controller and Auditor-General’ is used in this chapter.

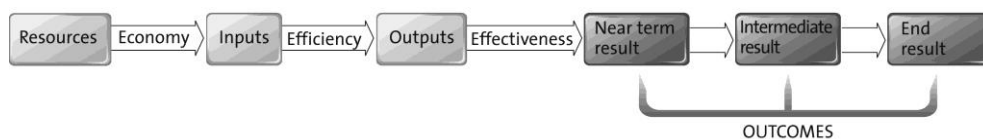
Explanations of the main concepts

This section discusses the meaning of the main concepts used throughout this book: performance, performance information and organisational performance management. It then discusses the goals of organisational performance measurement and the take-up of performance management in the public sector.

Performance: The production model and its critics

‘Performance’ is a practitioner’s term that is usually based on the industrial model of the public production process. This has triggered a debate among both academics and practitioners about the relevance of a small set of fundamental concepts that represent the ‘cause and effect’ relationships of the public production process. This process is shown diagrammatically in Figure 2.1.

Figure 2.1: Public production process – key performance concepts



Source: Adapted from SSC et al (2008).

The concepts in the figure cover both the stages in the production chain – the inputs, outputs and outcomes – and the linkages (or performance relationships) between these stages – economy (the conversion of financial and other resources into inputs), efficiency (relating to the conversion of inputs into outputs) and effectiveness (resources converted into products or services representing near term results, which, in turn, influence intermediate and final results).

The production model of performance is derived from the managerial literature relating to how factories produce goods. By contrast, the public sector primarily produces services and regulates private activities. Services management emphasises that services are produced and consumed simultaneously (inseparability) with the client, either passively or actively, consuming the service as a part of the production process (co-production). With public sector services – such as case management – the effectiveness of the output depends on both the capacity and willingness of clients to use the service as well as the quality of the outputs of the service provider. Although outputs are often interventions that seek to bring about change in individuals, social conditions or the physical environment, the eventual change is often also subject to external factors outside the control of the service being delivered.

The production definition of organisational performance has attracted several criticisms, including:

- how well the effectiveness dimension of the ‘production model’ accounts for the distribution of benefits and rights between citizens (some accounts add the notion of equity, for example, Johnsen (2005) and Pollitt (1986), although this overlaps with effectiveness)
- the lack of account of citizens’ perceptions of the ‘legitimacy’ of public action, which is an important aspect of the public value of action (Moore, 1995)
- the need for a more multidimensional view of performance that brings in the views of customers and stakeholders, as well as capability concerns (such as Kaplan and Norton’s (1996) balanced scorecard)
- that some dimensions of public performance are largely immeasurable and attempts to put measurable values on them distort the public purpose; the public production process is a simplification of the complexity of the value creation process in the public sector (Gregory, 1995b)
- performance exists at multiple levels, so different approaches need to be taken when applied to whole countries, single organisations or groups of organisations, divisions or teams within organisations, or for individual employees (Bouckaert, 2006)
- that there is no single golden thread of performance measurement – a concept of performance cannot be the same for governments, their organisations and work units, and individuals in organisations; these values are fundamentally incommensurate
- that so-called objective, externalised measures conceal actual understandings or unstated values applied to performance: others suggest that aspects of performance are ‘invisible’ (Boland and Fowler, 2000; Noordegraaf and Amba, 2003).

A common assumption is that “there is an objective reality ‘out there’ called performance just waiting to be discovered” (Thomas, 2008, p 174). In contrast to this rational objective view, the alternative subjectivist perspective suggests that public performance is subjective and negotiated, being influenced by the distribution of power in society and therefore fundamentally political in nature. Some authors take the relativist view that performance should be viewed as institutionally defined since it is those in power who control the interests being pursued, “At its extreme, it can be argued that there is not and can never be any objective measure of performance as it is a purely ideological device” (Talbot, 2008a, p 143).

Throughout our research, we found two stylised, alternative views of how decision-makers make sense of performance information. The views are that:

- the ‘sense’ of performance is given by information that provides objective measures of that performance
- we give significance to performance information based on our own values and preferences and the beliefs and understandings we hold in common with others.

The contrast between the former view above, which underpinned the design of the New Zealand system, and practitioners’ experience of the latter view is a theme that recurs throughout the research discussed in this book.

Meaning of performance information

This section explores the notion of performance information. One can distinguish between data, information and knowledge. Data can be collected and assembled in quantitative and qualitative ways. Data becomes information when a recipient gives meaning to it. This can occur formally by applying analytical tools and research techniques or informally through sense-making.⁴ In public performance management systems, information on the performance of government activities is a combination of data and analysis. Research involves using data systematically to understand the underlying relationships between different variables. This is most commonly equated with evaluation.

Information leads to knowledge when it provides understanding. The reporting of performance information is often linked to single-loop learning through “instrumental learning ... in the performance of organisational tasks” (Argyris and Schön, 1996, p 20). By contrast, the role of research is often linked to double-loop learning, which is characterised by “changes to strategies ... or assumptions” (p 20). The use of performance information is discussed in more depth later in this chapter.

Meaning of organisational performance management

Organisational performance management is a progression from simply measuring performance. Collecting data is, on its own, unlikely to lead to improvements in performance unless the data collected is incorporated into management systems and actively used.

The OECD (2005) views performance management as including corporate management, performance information, and the evaluation, monitoring,

4 Sense-making or meaning construction is discussed in chapter 6.

assessment and reporting of performance information. A variety of management instruments sit alongside performance management: performance-related pay, performance budgeting, and performance reporting, auditing or accountability for performance. These instruments are different lenses through which performance management can be viewed.

Curristine (2005, p 131) also places the concept in terms of a cycle where: programme performance objectives and targets are determined, managers have flexibility to achieve them, actual performance is measured and reported, and this information feeds into decisions about programme funding, design, operations and rewards or penalties.

The OECD's (2005) view of performance management has antecedents in early 20th century management science. The history stretches back at least to Frederick Taylor (1911) and his scientific management methods, through to the quality-focused methods of the post-war Japanese, the growth of 'managing by objectives' and strategic business units and, more recently, to Kaplan and Norton's (1996) models of performance measurement. Each of these approaches viewed what was being managed differently. Taylor looked mostly for efficiency, Drucker (1969) discounted command and control and emphasised decentralisation and simplification. Deming (1986) added quality management to efficiency, and Kaplan and Norton's balanced scorecard is indicative of the move to managing capability. Otley (1994) describes how the changing context of the business environment during the 1980s and 1990s (issues such as increasing uncertainty, the size of organisations and the importance of alliances) challenged the conventional role of financial measures in performance management, creating the need to develop a wider view of performance, of which the balanced scorecard is only a start.

A key contrast in the theoretical literature is between what Feldman and March (1981, p 171) call "information engineers and students of information processing". Information engineers work according to the rational control model whereby investments in information are made up to the point where the value in improved decision-making is offset by the increased cost of measurement and collection. Performance management systems are a form of control, a tool by which management directs or guides the actions of people in their work with the aim of achieving specified objectives of the organisation. Chapter 16 explores in detail performance information as a control device.

The rational control model shaped how public sector management was designed in New Zealand in the 1990s. Resources (inputs) and final goods and services (outputs) are conceived of as being objectively defined and measured so

as to control and optimise the performance of public organisations. A key feature of organisational economics and managerialism is the emphasis placed on performance as an objective reality that can be measured and controlled through the use of scorecards, performance rankings, benchmarking, cost–benefit ratios and the like. In this world of measurement:

First, objectives, causal links and actions are knowable. Clear and uncontested information about objectives, options, decisions and performances can be provided ... Secondly, practices are identifiable. Performance can be captured and made visible, for example, by using numerical labels. In other words, performance can be measured. Thirdly, practices are comparable. (Noordegraaf and Amba, 2003, p 859)

The ideal model of control requires three things: a standard against which performance is measured, the ability to detect deviations from the standard and the capacity to take action to reduce deviations. In the absence of an ideal world, the problem of control arises because objectives can be unclear or not shared by those in the organisation, information about what is happening may be unclear or open to differing interpretations, and the motivations or capacities to achieve the objectives may be lacking or subversive to what the organisation wants, resulting in information being sidelined or ignored.

By contrast, ‘students of information processing’ have tended to be critical of the ‘rational control’ model supported by information engineers and to which most contemporary performance management systems align. The information processing view emphasises that performance measurement and management are more than just a technical (instrumental) issue because they include internal cultural aspects and external political dimensions as public organisation seek to build legitimacy. Kennerley and Mason (2008) note that a lot of research has gone into rebutting the rational decision-making model. Hyndman and Eden (2001) list the following criticisms of the ‘rationalist’ approach to performance management.

- The expectation that managers have the ability in terms of skill and time to operate such a model is misplaced.
- Rationalist models often overemphasise quantitative performance measures and place less emphasis on qualitative and strategic elements as part of decision-making.
- The tendency is to ignore the political and cultural context in which decision-making takes place.

While such scepticism may have been around for a long time, it has not yet managed to overcome the dominance of the rationalist model. As Kennerley and Mason (2008, p 22) have noted, the rationalist model “remains a powerful image

for decision-makers to describe and legitimise their behaviour". It continues the modernist belief that progress can be achieved only through reason (Sanderson, 2002). Being a 'good' manager means describing your decisions within a rational framework and not relying on irrational hunches and guesses.

Goals of organisational performance measurement

Van Dooren et al (2010, p 98) identifies 44 potential uses of performance information. Several authors have attempted to refine Van Dooren et al's list to identify a handful of central uses, but there has been no convergence on which ones are central. A commonly cited reference is Robert Behn (2003). Behn identified that managers might measure performance:

- to evaluate (determine how well things are going)
- to control (ensuring the right things are done)
- for budgeting
- to motivate
- to promote (convincing others)
- to celebrate
- to learn
- to improve.

Behn (2003) suggests that the first seven purposes are means to achieving the ultimate end of performance improvement. The important point that Behn makes, however, is that in any specific instance clarity is needed as to which of the eight purposes for measuring performance is applicable, since no single performance measure will be appropriate for all eight purposes.

Henri (2006) suggests that organisational performance measurement systems can be condensed into four types of uses: monitoring, strategic decision-making, legitimisation and attention focusing.

Monitoring relies on the control logic described above whereby goals are set in advance, outputs are measured, goals and outputs are compared, feedback is provided and corrections are made if necessary. Simons (1995) has described such use as a single-loop, diagnostic control system.

By revealing cause and effect relationships between internal processes and objectives achievement, a performance measurement system is used in strategic decision-making as a learning machine and problem-solving tool.

Legitimation is the justification and validation of current and future actions as well as the assertion of self-interest and the exercise of power.

Attention focusing represents cues top managers send, via performance measures, throughout the organisation. Simons (1995) has suggested that, in this context, managers might use double-loop, interactive control systems to foster organisational dialogue on an issue and thereby potentially change the organisation's related strategies. Managers can use performance information for the purposes of monitoring and control (single-loop learning) from the use for strategic decision-making (double-loop learning).

In the public sector, another key distinction is between performance information for external accountability and internal decision-making purposes. External accountability is generally added to Henri's (2006) list on the basis that performance measures may be designed to assure senior managers and external stakeholders that elements in the organisation are, or the organisation as a whole is, engaging in legitimate activities and meeting the required performance standards.

Some public management literature from the United Kingdom refers to the 'golden thread'. This is the view that a coherent chain cascades from national targets down to the targets and indicators used by local service deliver units (Micheli and Nealy, 2010). It implies that the same set of standards and measures – suitably disaggregated – can support external accountability, organisation-wide business planning, and the assignment of tasks and targets to work units within organisations. In the last 20 years, New Zealand's three agencies at the centre of the public management system – Treasury, the State Services Commission and the Auditor-General – have generally taken this position.

The contrasting view is that performance measurement for external accountability purposes is aimed at answering the question 'was it done right?' while measurement for the purpose of performance development to improve results aims to answer 'was the right thing done?' Performance development requires double-loop learning and a willingness to innovate and, if necessary, depart from approved plans. A focus on accountability and control tends to punish deviations from standards rather than providing an opportunity to learn. This raises the question of whether it is possible to have one set of information that satisfies both accountability and performance needs. Organisations adopt performance measurement systems partly to learn quickly and manage knowledge better. The question to be explored in the research is whether a focus on external accountability, however, restricts organisations from learning and instead leads to conservatism, a focus on following procedures and 'a retreat into rules' to avoid blame. A change from 'punitive accountability' to 'remedial accountability' is necessary if performance measurement is to be useful in developing performance improvement.

Take up of performance management in the public sector

Since the mid 1980s, most countries in the OECD have engaged in wide-ranging public sector reforms, in the process overturning public sector institutional arrangements that have been in place in some jurisdictions for more than a century. After the event, academics labelled this set of developments New Public Management (Hood, 1995b). The OECD (2005) has identified six main strands to the reforms: the spread of open government; the restructuring of organisations; the use of market-type mechanisms; changes to the traditional employment bargain; new requirements for accountability and control and the performance reporting ‘movement’. These reforms involved a switch from “rule following generalist administration” (Pollitt, 1986, p 155) based on input and process control to administration based on results. This required shifting the focus away from ex ante input-based financial information to non-financial information on outputs and outcomes. By giving managers authority to decide how to achieve set expectations, but making them accountable for their performance, the focus was placed on results accomplished. This is the notion of ‘performance accountability’ where accountability is defined as performance achieved to required standards (Lee, 2008, p 120).

The OECD (2005, p 1,324) offers four main reasons why governments introduced results-based performance management: to improve efficiency, improve decision-making, improve transparency and accountability, and achieve cost savings. An OECD survey in 2003 revealed mixed results from the performance management reforms (Curristine, 2007, pp 128–143). The benefits identified included:

- improved setting of objectives, particularly in terms of short- and medium-term results set out in performance plans or reports
- improved monitoring of performance
- greater emphasis on planning, often through the introduction of three-year to five-year strategic plans
- improved management of performance by allowing managers to ask fundamental questions about the activities they undertake
- greater transparency, particularly in terms of accountability to the legislature and the public
- more information given to citizens (eg, in Australia and the United Kingdom citizens have been given information with which to benchmark the provision of local services).

The doctrines of the performance management ‘movement’ have had a considerable impact on practices in several jurisdictions. As Van Dooren and Van de Walle (2008, p 15) observed:

there have been eight performance movements from the end of the nineteenth century to the end of the twentieth century: social surveys, scientific management and the science of administration, cost accounting, performance budgeting, social indicators, quality management, [New Public Management] and evidence based policy.

Notwithstanding the withering away of some of these movements Van Dooren and Van de Walle (2008, p 21) goes on to observe, “[New Public Management] was the first movement that included quantitative information in public management on a government wide scale, on an international scale and in all management functions”. The explanation “is simple. Performance information needs to be used to have an impact” (p 22). New Public Management resulted in the widespread adoption of the measurement of organisational performance. But adoption and incorporation into an organisation’s information management systems is not the same thing as use. It is to the question of ‘use’ that the next section of this chapter now turns.

Users and uses of performance information

Thus far, we have unpacked the concept of performance and traced the role of performance information in organisational performance management in the public sector. In this section, we briefly review what is meant by ‘use of performance information’ and then explore what the literature tells us about how and to what extent different groups use performance information. This section provides a snapshot of the current state of empirical knowledge in the critical area of performance information usage.

Dimensions of the use of performance information

The use of performance information has two important dimensions. The first dimension relates to the distinction between direct or instrumental and indirect or conceptual uses of information. The rational control model discussed earlier is based on direct or instrumental uses of information by decision-makers. Essentially, in this model there is a direct link exists between information provided and decisions made. The second type of utilisation – indirect or conceptual – posits that data, analysis or research is only one among many information sources – formal and informal, qualitative and quantitative – that decision-makers access. From this perspective, performance information may

enlighten decision-makers over time by influencing climates of opinion, but it ultimately depends on the effectiveness of its deployment by advocates. These two opposing views of information use broadly correspond with rational–analytic control and relativist–interpretivist perspectives discussed earlier.

The second dimension to the use of performance information relates to the demand for and supply of performance information. Public sector reforms have increased the capacity of bureaucracies to supply more information about organisational performance. This was based on an implicit underlying assumption that ‘if you measure it, they will use it’.⁵ The link between supply of performance information (incorporated in organisations’ information technology systems) and the demand for this information in performance management is often assumed. However, the information supplied does not always match the needs of users.

In the remainder of this section, we draw the distinction between internal users (public managers and ministers with executive responsibility) and external users such as (the public and non-executive politicians such as legislators). We now turn to the demand for performance information by different internal and external users.

The missing link? Defining use and identifying users

In an important contribution to the analysis of performance management as a component of reform in democratic governance, Pollitt (2006a) reported on a meta-evaluation of the use of performance information by end users including ministers, parliamentarians and the public. Understanding how different users make use of information is a helpful gauge of how formal systems do – or perhaps should – work.

For Pollitt (2006a), the use of performance information by end users is a ‘missing link’ in two ways. First, academic interest in systematically investigating this link has been limited. Second, the design of the formal performance management system assumes a link between the supply of performance information and its use in decision-making.

Pollitt (2006a) notes that the research does not paint a positive picture of how ministers, parliamentarians, local government politicians and citizens use performance information. Such findings raise the question of whether the production of performance management information merits the effort. However, Pollitt (2006a, p 47) reminds us that it can be argued, “the regular production of these various [performance management] reports is more important than their

5 This is analogous to the notion in the 1989 movie *Field of Dreams* that “if you build it, they will come”.

regular consumption by end users”. This is because having such information transparently available is powerful in terms of democratic accountability and promoting legitimacy. In other words, the utility of performance information cannot be assessed only by whether end users directly use and act on the information.

The literature review undertaken for this book generally supports Pollitt’s (2006a) conclusions. While more research has since been published, the studies are too limited in number to conclude that the area has been adequately covered. Most of the studies constrain themselves to a single jurisdiction, although some studies attempt to undertake comparative examinations (eg, Sterck, 2007; Christensen and Yoshimi, 2001; Pollitt, 2006a).

Legislatures’ use of performance information

There is no support from the literature for the proposition that the growth in performance measurement has resulted in increased scrutiny by legislatures or that legislatures want or directly use performance information. Johnson and Talbot (2008, p 141), for instance, summarise OECD survey results:⁶

Data from 27 out of 30 OECD member countries demonstrates that 88 per cent make performance information available to the public. However in only 19 per cent of cases do politicians in the legislative branch use performance information for decision-making and this falls to 8 per cent for budget committees.

In addition to this survey data there have been case studies of the use of performance information by legislatures in jurisdictions comparable to New Zealand, including the United Kingdom (Johnson and Talbot, 2007), Australia (Halligan et al, 2007), the United States (Joyce, 2005), Northern Ireland (Ezzamel et al, 2005), British Columbia (McDavid and Huse, 2008) and Scotland (Marnoch, 2008). Given that the introduction of performance management is often predicated on improving the accountability of the executive to the parliament, examining the extent to which parliaments use performance information for that purpose can help determine the success of implementing performance management. One recent survey of individual country studies on the use of performance information by legislatures stated, “It seems safe to conclude that overall the use of performance information by [members of parliament] did NOT fulfil the expectations of the performance measurement community” (Van Dooren et al, 2010, p 121, emphasis in the original).

6 For a discussion of performance budgeting, see Curristine (2005, pp 128–143).

As an example, McDavid and Huse (2008) undertook a five-year study on the use of performance information by the British Columbia Legislature. They found a pronounced gap between initial expectations of how useful the information would be and its subsequent usefulness. While the gap became less pronounced over time as legislators gained more experience with the information, this was mostly due to reduced expectations about usefulness than to a more positive assessment of usefulness. Cabinet ministers were found to be the most optimistic about the expected benefits, while backbenchers had low expectations to begin with. The study also revealed variability in use. Opposition members in the legislature rated the usefulness of performance information reports lower than members from the government, except in the context of holding the executive to account.

Several ideas are put forward as to why significant change in scrutiny has not occurred. Legislators may have little incentive to use performance information for accountability purposes because using such information for scrutiny did not affect career progress within party political structures (Marnoch, 2008). Time, skill and resource constraints also limited their ability to examine the information (Ezzamel et al, 2005; McDavid and Huse, 2008; Marnoch, 2008). Some parliamentarians thought too much information was irrelevant and it was impossible to deal with all that was available because providers of information tended to use a scattergun approach (Ezzamel et al, 2005). Johnson and Talbot (2007) question the extent to which legislatures can move from their traditional interest in inputs and process-based accountability to match the output- and outcome-based performance information that the formal systems are now producing.

Askim (2007) suggests that parliamentarians tend to adopt three basic positions in relation to performance information. The positions are the:

- plain meaning position, where they take the information at face value and read the performance story in literal terms
- moraliser position, where they buy into the general direction but want new information to reconcile their doubts about the accuracy or completeness of the performance story
- disbeliever position, where they do not accept the legitimacy of the information being presented.

Executive politicians' use of performance information

There is no support in the literature for the view that politicians in legislatures want or directly use performance information, but there is evidence in local

government of more active use of performance information by executive politicians.⁷ By executive politicians, we mean ministers in central government or councillors (or aldermen) in local government who have a direct decision-making role. We have not been able to locate many systematic studies of the use of performance information by ministers in central government. The exceptions were the studies by the OECD and Pollitt (2006b). Pollitt (p 57) summarised:

In a four-country comparison of performance management in executive agencies, active ministerial steering by indicators – or even regular interrogation of measured results – was found to be the exception rather than the rule.

The OECD survey of budgeting found that in nearly 60% of member countries it was common for the minister responsible for the entity to use performance information compared with 8% of politicians on legislative budget committees (Curristine, 2005, p 142). “Do politicians use performance information? The answer, it appears ... is ‘not much’, with the exception of ministers responsible for the department” (p 142).

Table 2.1 summarises the results from the five recent studies into the direct use of performance information by executive politicians that we could locate. The studies all relate to local government. We have classified the findings on a simple scale of low, medium and high direct usage of performance information. The results range across the scale.

The range of findings on the extent of use of performance information by local government politicians can be illustrated by comparing the results from Ter Bogt’s (2004) research into the use of information by Dutch politicians in Dutch municipalities with Askim’s (2007) work on local government politicians in Norway. Ter Bogt’s research was based on Dutch aldermen substantially engaged in the management and control of municipal organisations.

Ter Bogt identified three main categories of sources of performance information. These categories are:

- formal, written information (budgets, annual accounts, interim reports, reports by civil servants and policy notes)
- informal and formal information from face-to-face and other verbal consultations with professional top managers and other civil servants
- other sources of information, formal or informal and verbal or written (signals from and consultations with citizens and companies, news in various information media, and signals from members of the municipal council).

7 The authors are grateful to Mads Kristiansen for his research assistance with this section.

Ter Bogt (2004) found that the most frequent performance information for aldermen came, first, from informal, verbal consultations with professional top managers and, secondly, from formal meetings and consultations with top managers. They made much less use of budgets that contained formal, written, largely numeric information.

Askim's (2007) study in Norway distinguished different phases of the decision-making process: setting the agenda, decision-making (taking a stand) and policy implementation. Politicians reported that performance information was most useful during the policy implementation stage. This stage includes assessing implementation in terms of consistency with rules and regulations and with output and outcome expectations, while in early stages performance information was considered as having high importance but was not crucial. Interestingly, Norwegian politicians used performance information in deciding what issues should be on the political agenda. Askim's (2007) study found that formal performance information was second in importance only to information from citizens in agenda setting and ahead of informal information from senior officials and political colleagues.

Both Ter Bogt (2004) and Askim (2007) considered whether the portfolio that politicians were responsible for influenced their use of performance information. This is based on the assumption that portfolios that cover activities that are inherently more measurable and where the supply of performance information is greater will experience a greater demand for performance information.

Table 2.1: Studies of direct use of performance information by executive politicians

Author¹	Jurisdiction and method	Question	Findings	Direct use
Ho (2006)	Survey of mayors of Midwest US cities	Does performance measurement matter?	Performance measurement is perceived positively. Performance measurement's impact on decision-making depends on whether it is integrated into strategic planning, goal setting and internal communication between city council members and departmental staff and whether major stakeholders are involved in developing performance measures.	Medium
Askim (2009)	Survey of Norwegian councillors	Which factors condition the extent to which councillor's search for performance information when faced with decision dilemmas?	Position: Frontbenchers are more inclined than backbenchers to search for performance information. Education: The best-educated councillors are least inclined to search for performance information. Political experience: inexperienced councillors are most inclined to search for performance information.	High
Askim (2007)	Survey of Norwegian councillors	How important is performance information for councillors? Why do some councillors use performance information more than others?	The results show surprisingly high levels of use. Use is higher among councillors working with elderly care, administrative affairs and educational affairs than among councillors working with other sectors.	High

Author¹	Jurisdiction and method	Question	Findings	Direct use
Ter Bogt (2004)	Survey of aldermen in the Netherlands	Which sources do aldermen use to obtain information about organisational performances?	<p>The aldermen made much use of information obtained during verbal consultations and formal meetings with professional managers.</p> <p>The aldermen did not use greatly use performance information in planning and control documents.</p> <p>The aldermen's opinions on available performance information in planning and control documents and its use slightly differed, depending on the policy fields for which they were responsible. This might be related to differences between policy fields with respect to uncertainty, measurability of outputs, and knowledge of transformation processes, although this relationship is not unambiguous.</p>	Low
Jansen (2008)	Case studies of three municipalities in the Netherlands (Utrecht, Eindhoven and Groningen)	How do the perspectives on performance of politicians and managers in the public sector affect the extent to and the way in which they use the performance information?	<p>New Public Management implies a customer and internal perspective on performance, but the politicians reported that they were interested in receiving performance information about internal processes and outputs, only if it had financial or political implications. Consequently, politicians seem to combine a citizen and financial perspective on performance. In two situations governmental organisations more actively used performance information.</p> <ol style="list-style-type: none"> 1 A crisis in the organisation's internal processes with political and/or financial consequences. Under these circumstances, the citizen and financial perspective and the internal perspective are linked. Nevertheless, the politicians (in two municipalities) hardly used the written performance reports. They obtained the information they needed from meetings with managers. 2 Loose coupling of the performance reports to politicians and to managers, which stimulates information use by both politicians and managers. 	Low-medium

Notes: The authors are grateful to Mads Kristiansen for his research assistance and for preparing the table.

1 See the list of references at the end of the book for bibliographic details.

Ter Bogt's (2004) research provided tentative support for the proposition that the lower the tangibility and measurability of outputs, the lower the possibility of output control, and therefore the higher the chance that aldermen preferred alternative sources of information to control their organisations.

Aldermen responsible for policy fields with less tangible and measurable outputs were less inclined to decentralise output control.

Askim's (2007) results suggest different performance information utilisation rates across portfolios but the findings do not support the view that the use of performance information increases as task difficulty increases. Higher utilisation rates were reported where politicians held portfolios in elderly care, administrative affairs and educational affairs, and lower utilisation rates occurred in portfolios such as cultural affairs, technical services, and planning and commercial development. These differences are stable across the three stages of decision-making that Askim defined.

The findings in Table 2.1 suggest that the extent of direct use of performance information varies by jurisdiction and within jurisdictions by portfolio type and according to the preferences of individuals. There are two caveats to these conclusions.

The first caveat is that we could find only a limited number of studies of local government politicians; patterns in the use of performance information should become clearer once more studies are completed. The second caveat is that we focused on direct use of performance information. Askim (2007, p 457) warns against conclusions based on too narrow a view of what 'information use' means and lists five potential indirect types of use of performance information by politicians: opportunistic, disguised, unknowing, clean-up and circumstantial.

Opportunistic use occurs when politicians use performance information as a rhetorical device and only when it supports pre-existing policy positions (Moynihan and Pandey, 2005). They will disregard or discredit performance information that contradicts their policy position. Some call this type of utilisation "spasmodic" and "eccentric" (Pollitt, 2006b), but it can be fully rational. Put differently, politicians are not slaves to the information they are given but use it strategically.

Disguised use occurs when politicians draw policy ideas from performance information but do not convey this as the source of ideation. Drawing ideas from oneself appears more an act of genuine leadership.

Unknowing use occurs when politicians, rather than making explicit, conscious use of performance information, use it without knowing or recalling it. This can exemplify what Weiss (1980) calls "knowledge creep" – a gradual

awareness and incorporation of information. The possibility of unknowing use has led some to argue that performance evaluations can be seen as important per se, even regardless of their consumption by politicians (Pollitt, 2006b).

Clean-up use occurs when politicians use performance information only when disasters, scandals, or breakdowns arise (Ingraham, 2005; Pollitt, 2006a).

Circumstantial use occurs when politicians use performance information to different extents and in different ways under different circumstances.

The public's use of performance information

Pollitt does not include studies on the use that members of the public make of performance information in their capacity as citizens.⁸ Pollitt (2006a, p 47) notes:

When in 1999 ministers put 100,000 copies of their results-oriented annual report into British supermarkets only 12,000 were purchased (at £2.99 each) and the government was obliged to buy back many thousands of copies (BBC News, 1999, 2000). After another failure the following year the whole idea of a popular annual report was scrapped.

We have been able to identify only one study that directly addresses the issue of how citizens directly use performance information. Applying focus group methodology on local government services in the United Kingdom, Darlow et al (2008) found that the majority of respondents were unaware of targets set by local authorities and their reporting of performance.

However, research does address the issue indirectly. In particular, a variety of studies has looked at how citizens use performance information in relation to services delivered to them. The studies we have located generally show a negative picture. For example, Marshall et al (2002, p 145) compared the use of health report cards in the United States and United Kingdom and concluded that “a consistent finding in both countries is the lack of public interest in reports”. Similarly, Propper and Wilson (2003, p 263) reviewed performance measurement in health and education in the United Kingdom and the United States and concluded that “the small amount of available evidence suggests that while consumers claim to want such information they do not make great use of the data”. The results are not unequivocal, however. For example, studies show school performance data influencing house price and sales data (Van Dooren and Van de Walle, 2008, p 216).

There is also indirect evidence about how involving citizens affects the design of the performance information that is reported (Ho, 2006). Table 2.2

8 The authors are grateful to Mads Kristiansen for his research assistance with this section.

shows different styles of performance management. In a top-down performance management model with a supply-push approach, citizen engagement and usage is limited. In a bottom-up model involving co-production, there is more demand-pull as citizens and business may be involved in designing performance information so that different information is provided in ways users want.

Table 2.2: Models of public engagement and performance management

Model	Description
Performance management model	Public managers dominant, public role is minimal.
Partnership model	Citizens and officials are in charge, public role is that of co-decision-maker.
Community indicators model	Community leaders, multiple public roles in initiating, setting agenda and decision-making.
Co-production model	A more limited form of public engagement confined to contributions to service production, but with broader implications.

Source: Van Dooren et al (2010, p 124).

The previous sections discussed how, while citizens and legislatures make little direct use of performance information, there is empirical evidence of greater use by executive politicians. The tentative conclusion drawn from the limited range of studies was that while executive politicians generally appear to directly use performance information, use varied considerably. This variation depends on the jurisdiction and within jurisdictions by portfolio and according to the preferences of the individual politician. The next section explores the extent to which managers in public organisations also make direct use of performance information.

Public managers’ use of performance information

A large and growing theoretical literature draws on a variety of disciplines on the use (and non-use) of performance information in public organisations.⁹ A recent article reviewing this literature concluded that this “has not resulted in a common or overarching theory of performance information use” (Moynihan and Pandey, 2010, pp 850–851). Moreover, as is the case for the use of performance information by legislatures and the public, there are relatively few quantitative

9 For a recent survey of the new institutional sociology literature on performance management in the public sector, see Modell (2009).

empirical studies on the use of performance information by public managers, and those that have been completed are reasonably recent. An unpublished literature review for a doctoral thesis cites only 13 papers focused on explaining the use and non-use of performance information by public managers, and all but one of these papers were published on or after 2004 (Kroll, 2010).¹⁰ There are more qualitative case studies, but these studies do not readily permit generalisation and discrimination between different factors.

The most striking and almost unanimous finding from the empirical studies on the use of formal performance information by public managers is that use varies considerably among managers. One typical study (of managers in German municipalities) found an index of use of performance information ranging from power users (16.5%) to extensive users (51%), fair users (30%) and low users (2%) (Proeller et al, 2010, p 8).

To understand why the use of performance information by public managers is so variable, it is useful to distinguish the levels of explanation – from external, cultural and legal factors operating at the macro-level (societal) to specific factors operating at the meso-level (organisational) of the individual organisation to the internal factors operating at the micro-level (sub-organisational), and finally to individualised factors affecting each decision-maker. Each of these is addressed in the following sections.

Factors operating at the societal level

At the societal level, external pressures will encourage public managers to adopt and use performance information. Institutional theory emphasises the need for organisations to sustain their legitimacy with external stakeholders to ensure their continued existence and gain access to resources. Chapter 16 uses WR Scott's (2001) three "pillars" for ensuring organisational legitimacy: regulative, normative and cultural–cognitive controls.

Regulative (formal) controls in public organisations are backed by the authority of laws and regulations. From a regulative perspective, organisational actors achieve legitimacy by compliance with relevant laws and regulations. DiMaggio and Powell (1983) have suggested that this compliance occurs through processes of "coercive isomorphism" that are particularly prevalent in organisational environments with clearly defined legal and technical

10 See Askim (2009), Bourdeaux and Chikoto (2008), Dull (2009), Ho (2006), Johansson and Siverbo (2009), de Lancer Julnes and Holzer (2001), Melkers and Willoughby (2005), Moynihan and Ingraham (2004), Moynihan and Landuyt (2009), Moynihan and Pandey (2005, 2010), Taylor (2009) and Yang and Hsieh (2007).

requirements. Normative or norm-based controls partly reflect stakeholders' moral values about 'how things should be done around here'. Cultural– cognitive controls or self-controls are internalised by staff from sources such as education and professions. This suggests professional bodies such as those pertaining to accountants, auditors and local government managers may play an important role in setting the cognitive frameworks that staff bring to the way they use performance information.

The empirical literature also identifies a variety of political and environmental factors that influence organisational use of performance information. The balance of evidence on the effect of the political authorising environment on the use of performance information is inconclusive. Studies (summarised in Moynihan and Pandey, 2010, p 3) on the impact of political competition on performance information use by executive branch officials have conflicting findings. Some studies found a positive influence, some a negative influence and some no significant influence at all. Similarly, different studies have found positive, neutral and negative effects arising from the extent of legislative influence. Bourdeaux and Chikoto (2008) suggest that it is the quality rather than the extent of legislative involvement that is important. By contrast, Moynihan and Pandey (2010, p 8) cites four studies on citizens and concludes, "Research suggests that perceived citizen demand for performance-based accountability encourages performance information use". This is an intriguing finding in view of the limited evidence of actual use of performance information by citizens, as discussed above.

This section has discussed how societal factors such as pressures from the authorising environment can influence the use of organisational performance measures by public managers. It is to the purposes of the use of performance information at the organisational level that we now turn. The question raised is whether performance information is used predominantly for legitimation, compliance with external accountability requirements, internal decision-making or some other purpose.

Factors operating at the organisational level

One study that directly addressed the use of performance information by organisations used a mixture of questionnaire and semi-structured interviews with respondents from 40 public organisations in eight Australian states and territories to explore the dominant usage of performance information. Taylor's (2009, p 859) results suggest "most agencies tend to use [performance information] more for meeting external demands than for internal decision-making and management". Taylor also found significant decoupling so that agencies use of

performance information for external accountability was not significantly related to internal use. Taylor (at p 864) cited Meyer and Rowan (1977, p 357) who suggest that “decoupling enables organisations to maintain standardised legitimating structures while their activities vary in response to practical considerations”.

Moynihan’s (2006) interactive dialogue theory operates at the interface between the organisation and the external authorising environment. The theory starts from the proposition that that the “numbers never speak for themselves” so the “more diverse the institutional actors involved, the greater the number of interpretations of performance data”¹¹ (from Van Dooren and Van de Walle, 2008, p 29). The theory can be used to explain the varied purposes for using performance information. It suggests that whether performance information is used for advocacy and legitimation or for internal learning depends on the motivation of the users, the usefulness of the information and the degree of political competition. This approach suggests that a variety of internal factors, such as goal conflicts within public organisations, and external factors, such as the degree of political competition, determine the extent to which performance information is used for learning or legitimation. The lower the degree of political salience, the greater the likelihood that performance information can be used for double-loop and performance improvement learning.

In addition to the question of purpose is the issue of the variation; that is, why do some public organisations extensively use performance information and others less so? The literature explaining the use and non-use of performance information at the individual organisational level has identified several supply-side and demand-side factors.¹² On the supply-side, factors that consistently have been found to increase the use of performance information include the:

- amount of performance information available and incorporated into management systems (Moynihan and Ingraham, 2004; Bourdeaux and Chikoto, 2008; Moynihan and Pandey, 2010; de Lancer Julnes and Holzer, 2001)
- provision of adequate resources (budget and staff) (Askim et al, 2008; Moynihan and Landuyt, 2009)
- existence of organisational forums dedicated to learning (Askim et al, 2008; Moynihan and Landuyt, 2009; de Lancer Julnes and Holzer, 2001)

11 As an aside, Moynihan (2006, p 29) also notes, “This is the central reason why performance budgeting struggles to work”.

12 Many of the empirical studies cited in this paper are drawn from the succinct and recent summary of the emerging empirical literature in Moynihan and Pandey (2010, pp 850–857).

- extent of analytical capability within the organisation (Bourdeaux and Chikoto, 2008; Dull, 2009)
- quality of performance information (Ammons and Rivenbark, 2008)
- level of administrative flexibility to adapt processes and redeploy financial and human resources (Moynihan and Pandey, 2010; Moynihan and Landuyt, 2009).

On the demand side, several studies have identified factors consistently found to result in greater use of performance information, including:

- the pivotal role of leadership (Dull, 2009; Moynihan and Ingraham, 2004; Moynihan and Pandey, 2010)
- the role of cultural factors – such as organisational environment and cultural norms that have openness to innovation and allow risk-taking and questioning – in increasing demand (Moynihan and Pandey, 2005; Franklin, 2000; Broadnax and Conway, 2001; Moynihan and Landuyt, 2009; de Lancer Julnes and Holzer, 2001)
- extent to which organisational tasks are compatible with measurement (Radin, 2006; Askim et al, 2008; Dull, 2009)
- the role of budget officials in using performance information to challenge performance (Behn, 2007; Moynihan and Pandey, 2010).

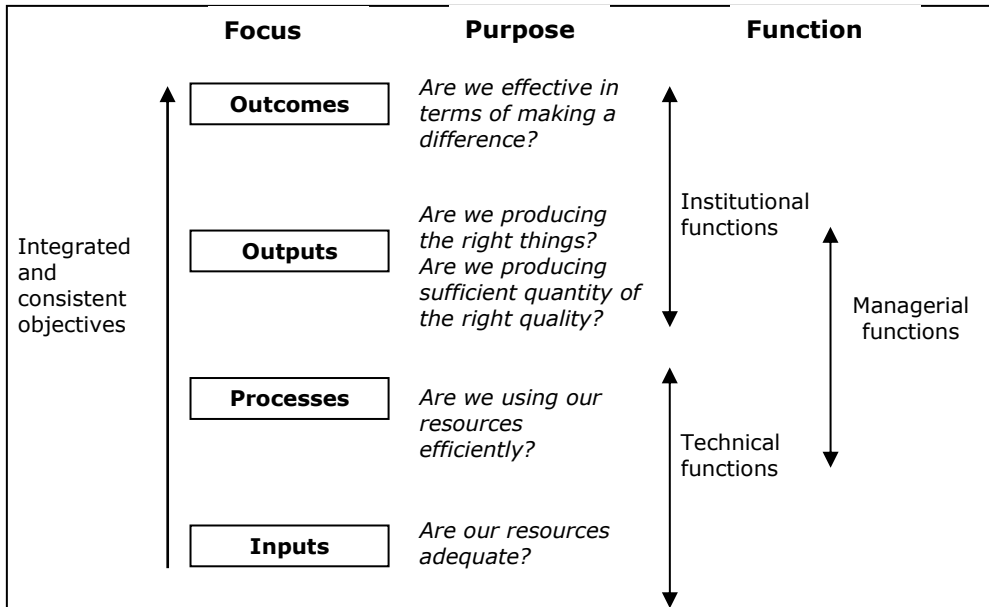
Factors operating at the sub-organisational level

The literature suggests that the use of performance information in individual public organisations varies depending on the level in the hierarchy in the organisation. Since Mintzberg's (1975) original study, there have been several qualitative studies on the use of information in organisations. Mintzberg found that the role of senior management involved judgement rather than analysis and that managers preferred informal discussion to structured performance reporting.

Kanter and Summers (1994) have adopted a more functional approach to explaining differing performance frameworks (Figure 2.2). This approach suggests that organisations tend to be divided into three levels:

- an 'institutional' level concerned with providing evidence that the organisation is legitimately undertaking activities to the extent, and in the manner, expected by those providing resources or by the wider community
- a 'managerial' level concerned with control and coordination activities
- a 'technical' level concerned with the production processes by which the organisation converts inputs into outputs, that is, into goods and services.

Figure 2.2: Performance measurement and function



Source: Dormer and Gill (2010) adapted from Kanter and Summers (1994).

Kanter and Summers' (1994) approach suggests that different organisational functions and levels would have quite different information needs and various performance measures are required, appropriate to different roles, if the information is to be used.

Factors operating at the level of individual public managers

Research has also turned attention to the role of person-specific factors affecting the extent to which individual decision-makers use performance information. Empirical studies have found a significant positive relationship between information use and a range of variables, including:

- the extent of public service motivation (Moynihan and Pandey, 2010)
- the ease of measurability of the task performed in specific roles and job attributes such as the roles of extrinsic motivators in promoting use (Askim et al, 2008, Dull, 2009)
- specialist (rather than general) staff, as they have a greater context to interpret the information (Moynihan and Pandey, 2010)
- staff with a greater task knowledge, who are more likely to be able to interpret performance information (Moynihan and Pandey, 2005, 2010; Lewis, 2008).

Another way to search out explanations for the use of performance information by individual public managers and organisations is to look at the research that provides explanations for the non-use of performance information. Kroll (2009, p 5), for example, distinguished four schools of thought to explain non-use. Each school suggests different reasons for the use of performance information being unlikely:

Realist or Rationalists: ... *unlikely* because transparency with regard to goal achievement causes serious pressure and problems for responsible leaders if targets are not hit.

Behaviorists: ... unlikely because of informational overload and decision-makers' cognitive restrictions.

(New) Institutionalists: ... unlikely because leaders are not interested in actually using the produced information but rather in formally adopting performance management systems to appear as a modern organization (image, legitimisation).

Constructivists: ... possible but the information is ambiguous and gets interpreted subjectively or politicized and therefore seldom leads to organizational improvement.

In a similar vein, Van Dooren et al (2010, pp 133–143) suggest that barriers to the use of performance information exist at three levels:

- individual psychological barriers such as the limited cognitive capabilities of decision-makers (Herbert Simon's (1997) bounded rationality)
- cultural barriers within organisations that vary in extent according to whether the culture is predominantly individualist, hierarchical or egalitarian
- institutional barriers through the role of frameworks used by professions which influence how choice is framed and sense-making is shaped.

Conclusion

Behn (1995, p 321) suggested that one of the three big questions that public management needs to address is "how can public managers use measures of the achievement of public agencies to produce even greater achievements?". Questions on the uses of performance information by end users remain since academic interest in this area is still in its infancy and empirical evidence is only starting to emerge. It seems clear from a variety of studies that public managers do not systematically ignore performance information nor slavishly follow it. Patterns of use are influenced by a complex set of factors that operate at several levels. Regardless of whether the focus is on explaining why the glass is half full

(the use of performance information) or half empty (non-use), what is clear is that both need to be explained. However, both the theoretical and the empirical work are still at an early stage, with researchers trying to untangle the relative importance of the different factors involved.

While fewer studies of use of performance information by ministers were identified, studies exist on the use of performance information by executive politicians in local government. These studies generally show that such politicians access various sources of performance information, including quantitative and qualitative information and formal and informal information. The extent to which formal performance information was used appeared to vary by portfolio, jurisdiction and the characteristics of the person concerned.

There is no support from studies for the proposition that the growth in performance measurement has resulted in increased or higher quality scrutiny by legislatures. Similarly, few studies are available on direct or indirect use by citizens, but those that are available generally suggest a lack of interest by citizens. In summary, the contrast is marked between non-use by external users, such as citizens and parliamentarians, and more active use by managers and executive politicians.

Two other themes that emerged from the review of the literature have been explored as part of the research discussed in this book: the rational control model and the notion of the golden thread that guided the New Zealand reforms.

The rational control model shaped the design of the New Zealand public sector management system in the late 1980s and 1990s. The production process model is based on the view that resources (inputs) and final goods and services (outputs) are objectively defined, measured and controlled to improve each agency's performance. This view of performance as an objective reality, subject to *ex ante* specification and *ex post* measurement, contrasts with an interpretivist view of performance as a socially constructed phenomenon that is subject to explanation on the basis of experience and expectations. This theme recurs throughout this book and is explored further in chapter 16.

A related issue is the golden thread view that the same performance information can be used by different users for different purposes. We return to the notion of the golden thread in chapter 6. The general conclusion, however, from the literature is that a performance measure developed for one purpose, such as organisational learning and performance development, is unlikely to be suitable for other purposes, such as external accountability. Despite this conclusion, both the Australian National Audit Office (2004) and New Zealand's Auditor-General advise government agencies that performance information

reported externally for accountability purposes should be consistent with performance information used by management on the basis that it is part of the same performance management framework (OAG, 2001, 2008a). This golden thread argument is used to counter concerns at the costs of gathering multiple sets of performance measures. Put differently, being able to use one set of performance information for, say, two different purposes is equivalent to a two-for-one deal.

The next part of the book explores how performance measurement was used in the design of the formal system of organisational performance management in New Zealand.

Further reading

- Modell, S (2009) 'Institutional research on performance measurement and management in the public sector accounting literature: A review and assessment.' *Financial Accountability and Management* 25(3): 277–303.
- Moynihan, D, and S Pandey (2010) 'The big question for performance management: Why do managers use performance information.' *Journal of Public Administration Research and Theory* doi: 10.1093/jopart/muq004.
- Pollitt, C (2006) 'Performance information for democracy: The missing link?' *Evaluation* 12(1): 38–55.
- Van Dooren, W, G Bouckaert and J Halligan (2010) *Performance Management in the Public Sector*. New York: Routledge.
- Van Dooren, W, and S Van de Walle (2008) *Performance Information in the Public Sector: How it is used*. Basingstoke England: Palgrave.

Part Two

The Formal System for Organisational Performance Management in the State Sector

Introduction to Part Two

Susan Hitchiner and Derek Gill

Focus of Part Two

Part Two discusses the characteristics of the formal organisational performance management system in the state sector in New Zealand (chapter 3) and the evolution of that system over the past 20 years (chapter 4), and draws out specific themes in relation to that system (chapter 5). By the ‘state sector’, we mean the main institutions of central government (public service departments and other non-trading entities, including statutory Crown entities). At the end of chapter 3 we also comment on the implications of the formal system for local government.

Although earlier surveys looked at the New Zealand public management model as a whole (Boston et al, 1996; Scott, G, 2001), this is a study of the formal organisational performance management system within that wider model. Little research is available about some components of the system, such as chief executive performance management and review. Perhaps unsurprisingly, therefore, despite the formal system being heralded as having a unified design, it has been remarkably difficult to develop a comprehensive description of the formal organisational performance management system and its components. By necessity, therefore, we have been selective.

Structure of Part Two

In chapter 3, we describe the main premises and principles underpinning the design of the formal organisational performance management system in the New Zealand state sector, the main components of the formal system, and the primary legislation (the legislative pillars) in which the design of the formal system is largely encapsulated.

The chapter draws on guidance material that the ‘agencies at the centre’¹³ of the system have formally promulgated to support the legislative pillars, which we have taken at face value. We focus on those components of the formal system that provide a context for understanding the survey results, case studies, and research themes presented in Part Three. We also comment on the formal organisational performance management system that applies to the wider state sector and summarise the related arrangements in the local government sector.

In chapter 4, we describe how the implementation of the formal system in practice has evolved over the past two decades. We do this by considering how the agencies at the centre of the system have interpreted and carried out their roles in the formal system. We also consider the relationships between the primary actors – parliament, the executive and those agencies at the centre.

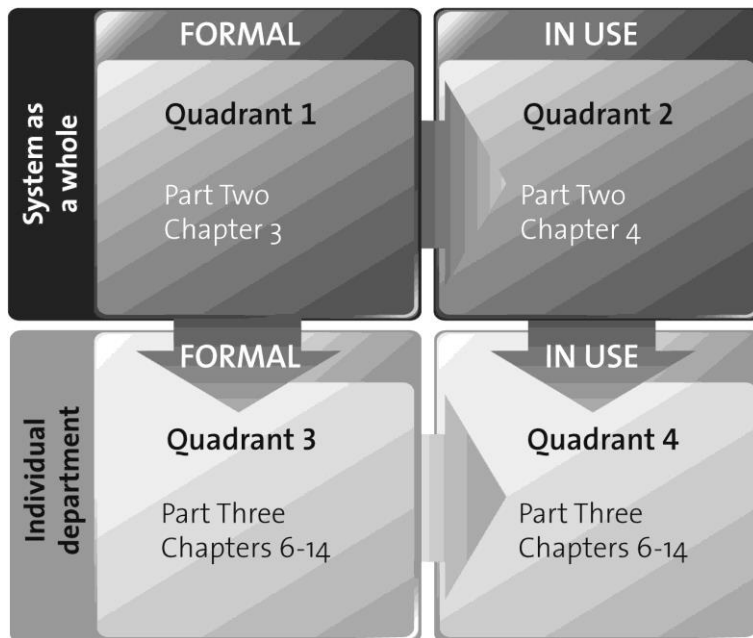
In the final chapter of this part, chapter 5, we use the premises we introduced in chapter 3 to analyse the main themes relating to the formal system that have emerged over the past 20 years. We examine whether the roles of the primary actors as implemented have, over time, modified the formal system in use. We end this chapter with a brief conclusion and refer to some ‘system upgrades’ that have been implemented since our research.

Thus, in Part Two, we address two of the four broad areas set out as quadrants in the figure on p 39. Chapter 3 considers the formal design at the level of the system as a whole (quadrant 1). Chapter 4 discusses the evolving system in use (quadrant 2), reflecting how interpretation of the requirements of the formal system at this level has changed over the past 20 years. Departmental chief executives have interpreted and tailored the whole-of-system legislation, policies and guidance for application within their organisations (quadrant 3). Part Three

13 In New Zealand the term ‘central agencies’ is generally used to mean the group comprising the State Services Commission, Treasury and the Department of the Prime Minister and Cabinet. Our focus is, however, on the roles of and relationships between the ‘agencies at the centre’ in overseeing the formal system. These agencies are the State Services Commission, Treasury and the OAG. Although representing the interests of parliament rather than those of the executive, the Auditor-General’s role is also pivotal to the formal system more generally, hence that office’s inclusion as one of the agencies at the centre. The Department of the Prime Minister and Cabinet has a less direct role in relation to the formal system (see the introduction to chapter 3).

explores the formal system as intended for application at a departmental level and how chief executives have carried out their roles in practice, including specifying, measuring and reporting performance information internally. Part Three also discusses how managers within those organisations have used performance information (quadrant 4).

Figure: Elements of the organisational performance management system



Our approach

The predominant source of input for this part is the extensive experience of the two authors in various roles in central agencies and other public organisations in New Zealand. The part also draws on the available research, literature, commentary and official publications, as well as interviews with selected people who are or have been important players in the development and implementation of the system in New Zealand.¹⁴

In preparing this part, we have adopted an approach drawn from the evaluation literature on systemic change (eg, Pollitt, 1995; Boston, 2010).

¹⁴ The views expressed in Part Two are ours alone, as the authors. We thank the members of the project team who peer reviewed the part, especially Jonathan Ayto and Ann Webster; Ken Warren for commenting on drafts; and Ian Ball, Jim Olson, Phillippa Smith and Michael Wintringham for making time available to discuss various aspects with us.

The Formal System as Designed

Susan Hitchiner and Derek Gill

Introduction

The formal system for managing the performance of public sector organisations in New Zealand sits within the larger context of a Westminster-derived system of cabinet government based on the consent of the people and the rule of law. Westminster systems operate under a light-handed approach, allowing considerable scope for judge-made law and the potential for a high degree of administrative discretion by government employees in fulfilling their functions.¹⁵ This democratic political system is deeply embedded and stable in New Zealand, which is one of only a handful of countries that have experienced an unbroken period of democratically elected government over the past 150 years.

In this chapter, we describe the formal organisational performance management system in New Zealand as it was originally designed and officially documented and as it has evolved over the past 20 years. As discussed in Part One, the New Zealand economic and public management reforms from the late 1980s to the early 1990s were wide ranging and comprehensive. These reforms included changes to macroeconomic strategy through the introduction of monetary stabilisation policies, commercialisation through the establishment of state-owned enterprises and privatisation through the sale of other state assets; the liberalisation of markets through reduced protection and regulatory reform; and financial management reform of the state sector. This chapter focuses on those state sector reforms that relate to the role of performance information in organisational performance management in the public service.

Organisational performance management

In this chapter, we look at the organisational performance management of the public service departments at the level of the system as a whole. (Part Three considers organisational performance management from the perspective of individual departments.) We focus on the formal system as it has been

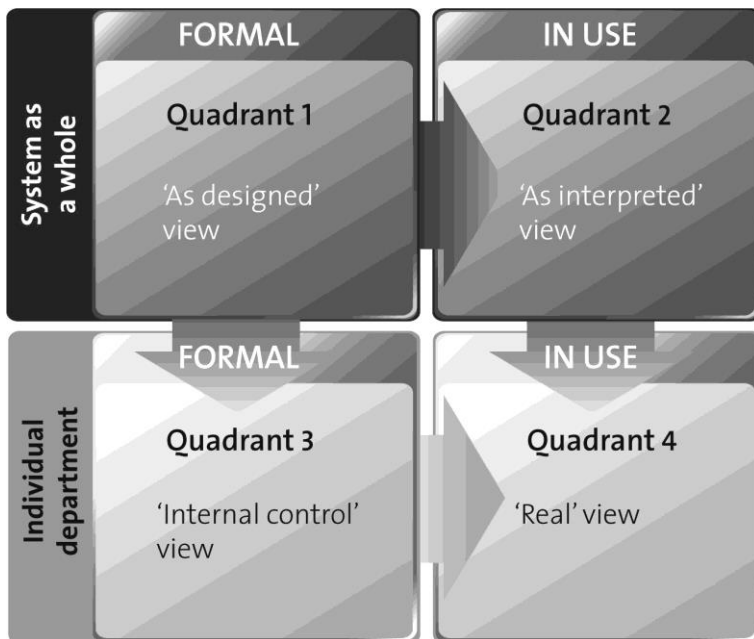
¹⁵ In contrast, countries that have developed their legal systems from the Napoleonic code have highly prescriptive control regimes. See, for example, Pollitt and Bouckaert (2000).

documented in legislation, the *Cabinet Manual* (DPMC, 2008), authoritative cross-agency government expectations (such as government strategies and priorities) and published guidance from agencies at the centre of the system. As our focus is on the formal system as a whole, we do not examine how government strategy and priorities are set, how ‘the state’ is organised and the nature of management systems in individual organisations. Thus, the perspective we have taken in Part Two is the organisational performance management of the system rather than *within* the system.

This focus on the formal system as a whole provides a basis from which to analyse the environment within which departmental performance management occurs, which is at the heart of the research undertaken through the case studies and survey presented in Part Three.

These two perspectives, depicted in the two levels of Figure 3.1, provide a platform from which we can analyse the differences between the design and interpretation of the system as a whole over the past 20 years, and how the system has been applied by chief executives and practitioners in departments over that time – the ‘in-use’ system. We have drawn on this platform to identify the suggested directions for reform discussed in chapter 18.

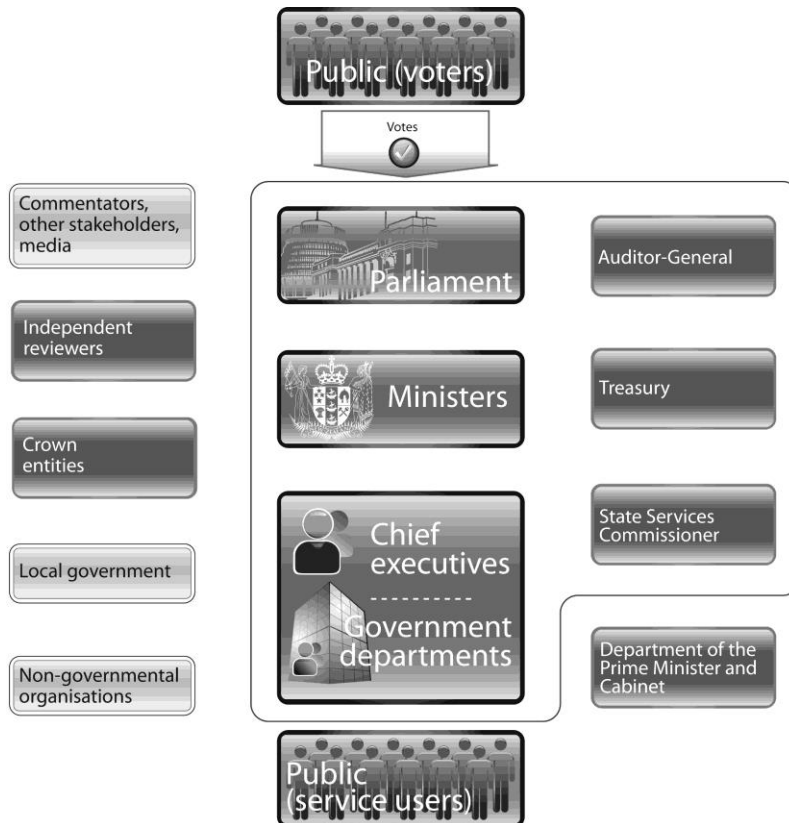
Figure 3.1: Elements of the organisational performance management system



Our scope

Part Two is necessarily selective in its scope, given the breadth of the state sector. We have focused on certain actors at the centre of the organisational performance management system, namely parliament, ministers and departmental chief executives, and on the three agencies at the centre of the system (shown on the right-hand side of Figure 3.2), namely the Auditor-General,¹⁶ Treasury and the State Services Commission. We make limited reference to the Department of the Prime Minister and Cabinet, based on that department’s role as an ‘honest broker’ with a small advisory function.¹⁷

Figure 3.2: Actors and agencies in the organisational performance management system



16 The more familiar title of ‘Auditor-General’ rather than the formal ‘Controller and Auditor-General’ is used in this chapter.

17 The Department of the Prime Minister and Cabinet’s policy advisory group has consistently had fewer than 10 advisers. Of greatest relevance for our purpose is the role of the Cabinet Office within the department as the ‘keeper of the faith’ in relation to the *Cabinet Manual* (DPMC, 2008).

This chapter, therefore, includes only limited consideration of the role of the public as voters or participants in governance activities (such as through school boards of trustees) or as service users or citizens generally – shown at the top and bottom of Figure 3.2, respectively. Similarly, we do not focus on the actors and agencies shown on the left-hand side of the figure, other than to highlight points of difference or commonality. We comment briefly on some independent reviewers through the differing roles of offices of parliament¹⁸ and briefly consider Crown entities in chapter 5.

Our premises

As Schick (1996, p 9) observed, “Accountability has not been an afterthought in New Zealand, as it has in other countries that have implemented reform. Instead it has been robustly designed as an integral feature of the reformed public service”.¹⁹ The overriding premise, on which the reforms relied, was that with effective accountability systems in place, unambiguous and relevant ex ante and ex post performance information would drive actual performance to match expected performance.

We have identified more specific premises based on our understanding of the design of the formal system. These premises relate to the roles of parliament, ministers and departmental chief executives and to theories of organisations.

Parliament will:

- use departmental performance information to scrutinise the performance of the executive
- be supported in its scrutiny of the executive by independent assurance of departmental performance information.

Ministers will:

- have clearly defined roles that are distinct from the roles of chief executives and thus provide a strong platform for distinguishing politics and administration
- focus on determining desired outcomes and selecting interventions, while chief executives focus on delivering the services selected (outputs) and managing people and other resources (inputs)

18 The three offices of parliament are the OAG, Office of the Parliamentary Commissioner for the Environment and Office of the Ombudsmen. For more information, see footnote 60.

19 Chapter 2 identified other possible drivers for the New Zealand reforms, including ‘organisational learning’ and improved management decision-making.

- use performance information that is supported by independent assurance to shape or otherwise influence and scrutinise the performance of chief executives and their departments.

Central agencies will operate chief executive accountability processes, including rewards and sanctions, informed by departmental performance information.

Chief executives will lead and manage input selection and use and shape output delivery approaches in ways aimed at optimising effectiveness in contributing to the government's desired outcomes.

The theories of organisations are that:

- although government organisations differ from each other, they are sufficiently similar from a control perspective that their activities can be meaningfully expressed as outputs and these can be used as the basis for budgeting, controlling operations, and accountability for performance
- there is a hierarchy of performance information within which higher-level information for external accountability purposes is an aggregation of more specific levels of information for internal organisational performance management purposes – the information is objective and consistent.

We have also explored two propositions drawn from the academic literature:

- the New Zealand public management model was predicated on principal–agent relationships drawn from agency theory (Boston et al, 1996, p 18)
- a sea-change in the public management system followed the election of a Labour-led government in 1999 with a move away from neo-liberalism economics and New Public Management (Norman, 2003; Boston and Eichbaum, 2007).

We also use these premises and propositions in chapter 5 as the basis from which to draw out themes and assess how the reforms were implemented, and in chapter 18 when considering directions for reform.

Principles underpinning the formal system

Before the reforms, the government budgeting and financial control system in New Zealand was based on:

- spending limits set against various categories of inputs
- selective and limited reporting at an organisational level
- ad hoc, event-driven assessment by the State Services Commission of organisational performance.

The performance of permanent heads (as chief executives were then known) was not formally assessed.²⁰ Regular reviews of performance were “probably hampered by the inability of the [State Services Commission], in the current environment, to obtain appropriate information to enable regular, balanced, routine assessments to be made” (Treasury, 1987, p 85).

The origin of the wider public management reforms is generally traced back to a 1978 report by the Auditor-General, Fred Shailes, in which one of the concluding statements was that (OAG, 1978, para 2.5):

Accountability to Parliament is inadequate. The Estimates and departmental reports do not contain sufficient information on the objectives and functions of departmental programmes [outputs], achievement of goals, [outcomes] or the full costs involved [total cost of outputs].²¹

Scott et al (1997, p 358) state that the purpose of the public sector changes was “to get the Government out of activities it was inherently poor at managing and to improve those functions which remained the core responsibilities of government”. Ussher and Kibblewhite (2005, p 2) summarise the aims of the reforms as they applied in the public service as being to shift “the focus from how much was spent, to what it was spent on and why”. The reforms were also undoubtedly a response to the ongoing dissatisfaction of ministers seeking to understand who within the public service was responsible for what. Treasury oral history suggests that the final straw may have been a minister’s frustration with the inability to locate responsibility for the poor quality of lawn mowing at a particular ministerial residence!

The principles

In its 1984 briefing to the new government, Treasury (1984, p 290) raised misgivings about the public management system in New Zealand. Treasury set out its concerns about:

- the lack of clearly defined goals for departments and few clearly specified departmental management or business plans

20 Under section 12(1)(b) of the State Services Act 1962, the State Services Commission was responsible for “reviewing the efficiency and economy of each Department, including the discharge by the permanent head of the responsibilities placed on him [sic] by section 25”, the equivalent of section 32(d) of the State Sector Act 1988 (the current Act).

21 See OAG (1978, para 2.5). The review was undertaken by a team of senior Audit Office staff with two “Experienced chartered accountants in private practice” (para 1.1). It is also interesting to note that the review was supported by research undertaken by Ian Ball, who later became one of the main architects in Treasury for the design and initial implementation of the reforms.

- the few effective control mechanisms to monitor or review organisational performance against what was required
- too much focus on the control of inputs, with departmental managers having little operational freedom to choose the best mixture of ‘inputs’ to deliver the agreed ‘outputs’ and lacking the autonomy they need, within an overall expenditure limit, to use their judgement to achieve the best performance, including meeting their goals
- the need for appropriate incentives to encourage effective performance and the lack of effective mechanisms to deal with poor performance in the public sector, especially at senior levels.

Treasury (1984, p 287) concluded that:

an effective management system [for advising government objectively and rigorously on the policy issues and implementing decisions effectively] requires the following main attributes – clear objectives, appropriate incentives for performance, clear accountability, delegation of authority and responsibility to the most appropriate level.

Treasury (1984, p 288) also suggested features of an “ideal management system in the public service”. In addition to the departmental perspective taken in the concerns and principles noted above, Treasury suggested that an effective public management system would include ministers having access to as much relevant information as possible to support decision-making and being involved, with chief executives, in setting and approving the objectives each department would pursue.

Three years later, in *Government Management: Brief to the incoming government 1987*, Treasury again expressed its concerns about the public management system, building on its 1984 conclusions. This time Treasury (1987, pp 55–56) referred to five mutually reinforcing criteria or principles likely to be found in any effective management system:

- clarity of objectives – “as clear a specification as possible of the objectives managers ... are responsible for achieving[, avoiding] conflicting objectives”
- freedom to manage – “the power to make [the objectives’] achievement possible[, including the] freedom to make resource allocate decisions”
- accountability – “incentives and sanctions [for managers] to meet established objectives[;] managers must be accountable for the decisions they make, and those on whose behalf they act must have the means to make that accountability ‘stick’”

- effective assessment of performance – the means to establish how well managers have met the stated objectives
- adequate information flows – “a sufficient quantity and quality of information concerning performance”.

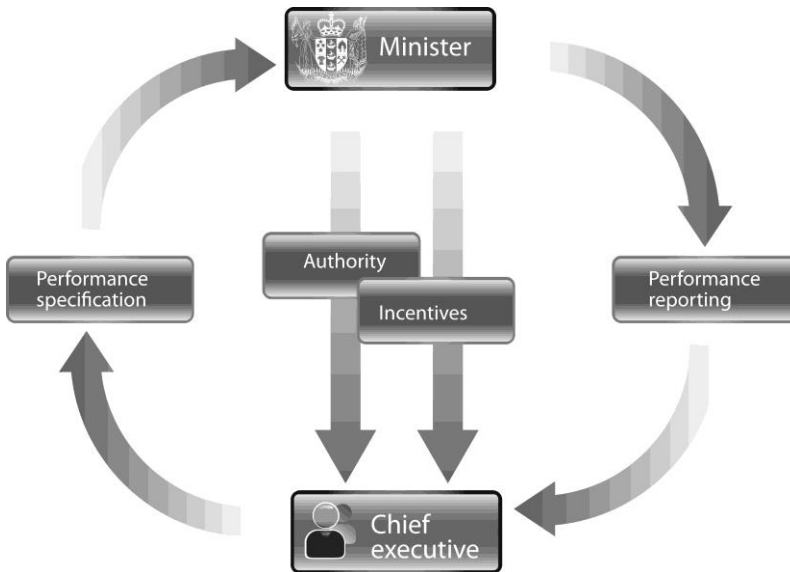
In 1989, Treasury captured these ideas in *Putting it Simply*, its first major publication following the enactment of the public finance legislation. In this guidance publication, Treasury stated that, “The principle of accountability is at the heart of Financial Management Reform”, which Schick (1996, p 9) later emphasised in his review of the New Zealand public management system. In *Putting it Simply*, Treasury (1989, p 12) also referred to a “chain of accountability” flowing down through the organisation in a series of relationships between each minister and chief executive, each chief executive and senior manager, and so on.

Effective accountability relationships are underpinned by four essential elements (Treasury, 1996, p 17). The elements, shown in Figure 3.3, are:

- ex ante specification of performance
- delegation of decision-making authority
- rewards and sanctions (incentives for performance)
- ex post information on actual performance.

The most noticeable change since *Government Management* (Treasury, 1987) is in the treatment of accountability. Accountability changed from being one of the criteria for effective management systems to being the over-riding principle.

A decade later, in its 2008 briefing to the incoming Minister of Finance, Treasury (2008, p 25) stressed the need to “reinforce the principles of public sector management: clear specification of objectives; freedom to manage; incentives to perform; and provision of information on results”. Thus, the principles on which the reforms were based have proved enduring in Treasury’s thinking, with this articulation remarkably similar to that set out in *Putting it Simply* (Treasury, 1989), despite the passage of 20 years and several changes of government.

Figure 3.3: Effective accountability relationships

Source: Adapted from Treasury (1989, p 14).

Design choices to give effect to the principles

Information flows

The New Zealand public management reforms of the late 1980s operated at the interface between the executive and the legislature and at the executive level. The modified roles of the organisations at the centre of the system and the information flows between all of the central actors are represented in Figure 3.4. Documents required by the government budget process or chief executive employment matters generated direct, formal information flows, which were to be augmented by flows of less formal, frequently ad hoc information.

The solid arrows in Figure 3.4 represent information flows that are explicit elements of the formal system and are within the scope of this study. These information flows are between:

- parliament and the Office of the Auditor-General (OAG) – independent reports from the OAG to parliament, and parliament’s comment on the Auditor-General’s draft Annual Plan
- parliament and ministers – documents related to the government’s annual Budget, the Estimates of Appropriations and supporting information,

including departmental Statements of Intent²² and Annual Reports; questions in the House of Representatives; and select committee examinations

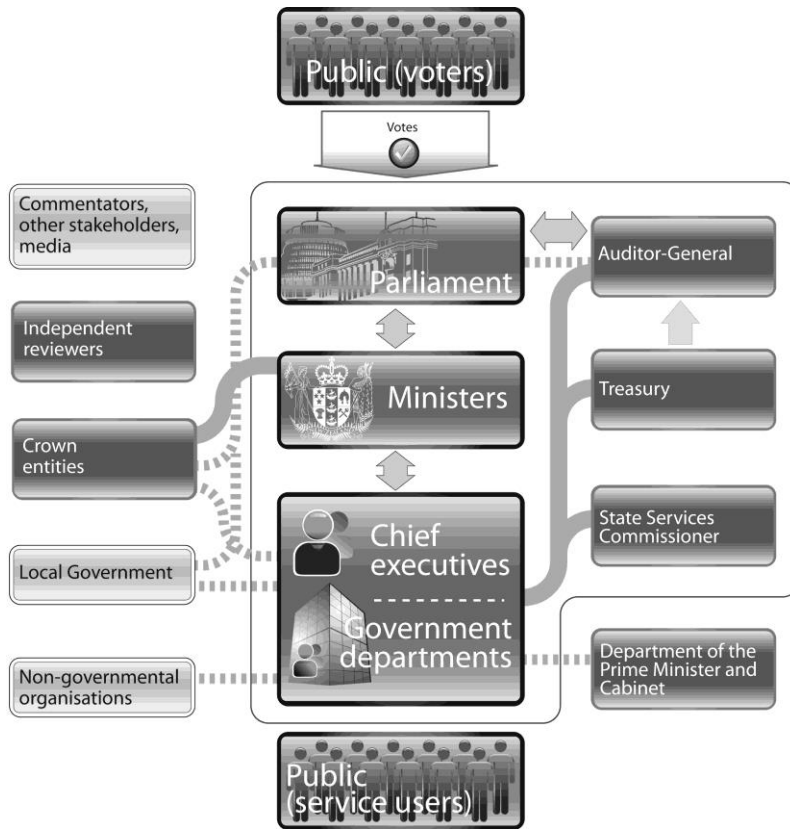
- ministers and departmental chief executives – in addition to the above budget-related documents, Output Plans²³ and regular formal departmental performance reports
- chief executives and the OAG – annual statutory audit processes and formal attest audit opinions
- chief executives and Treasury – monthly financial information and information to support the annual budget process
- chief executives and the State Services Commissioner – performance expectations and formal performance reviews, and parameters relating to collective employment agreement negotiations
- Treasury and the OAG – monthly reports relating to expenditure against appropriations.

Additional information flows, represented by the dotted arrows in Figure 3.4, that are not addressed directly in this study are those between:

- chief executives and the Department of the Prime Minister and Cabinet – leadership of the government strategic management approach across departments, coordination of strategic policy advice, and Cabinet processes
- ministers and Crown entity boards – accountability documents (Statements of Intent, more detailed output agreements, Annual Reports, and regular formal organisational performance reports – see chapter 5)
- boards and chief executives and the OAG – annual statutory audit processes and formal attest audit opinions for Crown entities, local government, and other public sector organisations
- departments and Crown entities – where departments are acting as monitoring agents on behalf of their ministers
- departments and non-governmental organisations – primarily through funding arrangements, either contracts for service or grants.

22 In the early stages of the reforms, the counterpart document was known as the Departmental Forecast Report.

23 In the early stages of the reforms, the counterpart document was known as a Purchase Agreement.

Figure 3.4: Performance information flows

Design choices: Giving effect to the principles at the interface between the executive and the legislature

Figure 3.4 brings out the relationships between the public (as voters and service users), parliament, ministers and chief executives. Although the reforms were intended to change the relationship between ministers and chief executives, they also had a consequential effect on the interface between the executive and the legislature.

Within the executive, greater role distinction was sought through:

- the roles of chief executives (discussed below) being more clearly distinguished from the roles and responsibilities of ministers
- ministers being more clearly accountable to parliament for state sector performance within the parameters of the above responsibilities

- parliament actively scrutinising ministers' choices, priorities and resource allocation decisions
- parliamentary scrutiny being informed by independent assurance.

Before the reforms, the respective roles of parliament, ministers and permanent heads were muddled. The difficulties this created can be illustrated by 'sentinel events' such as serious performance failures. The position of the Minister of Works, Bob Semple, in defending his position in response to the Turakina-Fordell tunnel disaster of 1944 was boiled down by the newspapers to "I am responsible but not to blame". In the Maniototo Irrigation Scheme affair the minister of the department concerned publicly criticised the project's cost escalation and "Despite the serious nature of the mistakes, it seems that no one was responsible" (Treasury, 1987, p 60). Treasury went on to conclude that "Responsibility for administration goes constitutionally to the Minister; legally to [the] Minister and [State Services Commission] together; practically it tends to disappear" (Treasury, 1987, p 60).

Officials crafting the framework presumed that ministers would be 'active purchasers' and parliament would provide systematic scrutiny of the executive's performance, in addition to the 'political' probing inherent in Westminster systems. In promoting the framework in legislation, ministers of the day also appear to have presumed that future ministers would act in the way current ministers wanted to act in scrutinising departmental performance.²⁴

As a result of the reforms, it was expected that ministers would be (relatively) clearly responsible for:

- deciding on high-level strategic directions, outcomes and priorities
- selecting the range and balance of interventions (outputs and other policy instruments) ministers considered would best contribute to achieving those outcomes
- allocating resources to departments (and third parties) to implement decisions on the selection of interventions
- negotiating measurable volume, quality and other relevant standards, including price (or, at least, cost) within total budget constraints, to be used for assessing progress towards output delivery expectations

24 The reforms also pre-dated the introduction of proportional representation (1996) as the electoral system, which appears to have permanently removed single-party majority governments from the landscape.

- having greater flexibility to respond to changing circumstances by moving resources and associated performance expectations between appropriations during the financial year, within prescribed thresholds.

The designers of the reforms envisaged that ministers, in exercising these formal responsibilities, would continue to rely heavily on discussions with and recommendations presented by chief executives. Ministers, nonetheless, would be required to give an account to parliament for their selection of desired outcomes and the interventions that would best contribute to them. Further, the shift from cash to accrual accounting at the departmental level and for the Crown as a whole, consistent with generally accepted accounting practice, would enable increased focus on the Crown's ongoing ownership interest in the capability of public organisations. The improved transparency achieved through accrual accounting would help to avoid unplanned running down of capability. Before the reforms parliament was provided limited information about the level of public money to be spent in the year ahead only. That information related to particular inputs that were organised by 'standard expenditure groups' (including remuneration, other intermediate inputs, grants and capital works). No information was presented on what would be provided or was intended to be achieved with the funding, projected costs for out-years, or the capability required.

Before the reforms, the focus of scrutiny in the House of Representatives and in select committees was on inputs, with considerable time spent on input and process matters. The reforms introduced an expectation of more robust debate on substantive matters of policy choices and high-level resource allocation decisions by ministers, with a focus on the quality of ministers' decision-making, as well as on implementation of those decisions by departments.

Parliamentary scrutiny would be informed by independent assurance from the OAG about the performance of departments in implementing ministers' decisions and, at least in financial terms, the performance of the Crown as a whole. Before the reforms, parliament received annual Estimates of Appropriations, the budget speech from the Minister of Finance, including budget tables presented on a cash accounting basis for the current year, and the public accounts, including an audit opinion, for the previous year. The reforms required changes in the form and content of reporting by the Crown to reflect the areas of responsibility discussed above, including the introduction of 'service performance reporting' for departments.

Design choices: Giving effect to the principles within the executive

Pursuing effective accountability relationships between chief executives and their ministers could also lead to design choices ‘in the executive’. Departments would continue to operate in the name of their minister(s). The new system sought, however, to distinguish the roles and accountabilities of ministers from those of departmental chief executives, boards of Crown entities, and other public organisations. To complement the above ministerial responsibilities, therefore, departmental chief executives became responsible for controlling the selection, mix and use of resources within budgeted limits and for determining the delivery or production processes that would best achieve the service performance expected by ministers (thus providing a focus on economy and efficiency). Chief executives’ responsibilities also included the provision of policy advice on how to achieve the government’s desired outcomes (with a focus on effectiveness). The overall intent of this clarification of respective responsibilities was to remove undue political considerations from managerial decision-making and to separate ministers from operational matters (other than where they had a statutory role).

Although the reform principles were assumed to apply at the individual organisational level, the formal system is relatively silent on how they would be applied in practice in departments and how chief executives and departments would perform their work.

Design choices: Public management system overall

The main effects of the seemingly simple and compelling logic guiding the design choices for the formal system were that the:

- dominant purpose for performance information became external accountability with greater transparency required about the expected and actual performance of departments
- locus of control (where or with whom control resides) shifted from central agencies to departments individually
- focus of control over the performance of departments shifted from inputs to outputs
- concept of ‘performance’ broadened to include the effects of departmental activities (outcomes) and the ability of departments to continue to operate at current or higher levels in the medium term (organisational capability)
- nature of the ‘bargain’ struck between politicians and senior public service managers (chief executives) changed.

The reforms introduced requirements for ‘greater transparency about the expected and actual performance’ of departments in their operational decision-

making and implementation of ministerial decisions. The requirements rested on the premise that in effective accountability systems, clear performance information will drive actual performance towards expected performance.²⁵ The design presumed that the requirement to report actual performance, with the report subject to external scrutiny, would provide an incentive for managers to meet (or exceed) expected performance. The form and content of departmental performance reporting (and reporting by the Crown) changed from limited information on inputs to the specification of expected outputs and outcomes, and the subsequent reporting of actual performance against those expectations. Under the new system, departmental managers were required to describe their actual performance and the reasons for any material divergence between actual and expected performance. These changes were also an attempt to compel departments to address the previous and, at times extreme, imbalance in the information available between ministers and departments (and between parliament and ministers). Performance information was now required ex ante, in the form of forecast statements covering the year ahead and a minimum of three out-years, and ex post, focusing on actual performance. The information relating to the financial year ahead was to be set in the context of the medium-term focus for each department and aligned to the government's strategic direction and priorities, as reflected in desired (and stated) outcomes.

The 'locus of control across the public service' shifted from the centre and a longstanding emphasis on the public service as a whole to individual departments and decision-making by the chief executives responsible for their performance. Before the reforms, the public management system was based on a multifaceted web of centrally provided services and supplies to departments and public service-wide controls. For instance, employment terms and conditions for employees were set centrally for application across the public service, and payroll services, full computing services, travel services and consumables, along with capital works were all centrally supplied to individual departments. Financial limits were set for each department across specified categories of expenditure, and 'rules' over the mix, selection, and use of inputs were set out in the Public Service Manuals²⁶ and *Treasury Instructions* (Treasury, 2010), leaving managers little discretion. The reforms unbundled these monopoly services and supply

25 In a letter to chief executives in December 2009, the recently appointed Auditor-General stated, "In my view, there is a clear link between improving service performance information and reporting and improving the effectiveness and efficiency of the public sector – both in actual performance and in demonstrating it through better accountability".

26 The State Services Commission was responsible for three manuals until 1988: *The Public Service Manual of Instructions*, *Manual of Occupational Classes* and *Accommodation Manual*.

systems, and centralised controls, by delegating significant authority to individual chief executives and shifting a considerable amount of control to individual departments.

The ‘focus of control over departments’ also shifted from being about the use of inputs to the delivery of agreed outputs. Before the reforms, managers oversaw the day-to-day operations of their departments in implementing government policy decisions. Their scope of authority was within budget limits based on input categories, with minimal discretion over either inputs or processes. The reforms introduced a system in which managers explicitly became responsible for meeting a broader set of performance expectations, primarily the delivery of a set of services within budget limits and performance expectations agreed for each. Managers also had considerably greater authority and discretion over the mix, selection and use of inputs and the nature of the processes and approaches used for delivering the services. The expectation on managers was that, within appropriation limits and more specific constraints agreed with ministers through Purchase Agreements (later called Output Plans),²⁷ managers would deliver outputs in ways aimed at best achieving the ministers’ and government’s stated goals (outcomes). Departments would influence the selection of interventions to achieve outcomes by providing policy advice to ministers (a role now largely separated from the service delivery role).

The broadened ‘concept of performance’ distinguished the interests of ministers as purchasers of goods and services from their departments, from their interests as ‘owners’ of public organisations. ‘Performance’ now included an increased focus on organisational capability and sustaining or building that capability for the medium term. The shift from cash to accrual accounting supported this longer-term interest as the owner in the ongoing capability of public organisations. New mechanisms were developed to increase the attention given to medium to longer-term organisational capability, mostly relating to financial management. For instance, the introduction of a capital charge on departmental assets was intended to improve departmental decision-making and increase the efficiency of asset utilisation and balance sheet management generally. Departments were also required to provide non-financial performance information about their medium-term operations, including human resources capability, technological capability, and asset and risk management. This new information, both financial and non-financial, was required to be reported in

27 In the Crown entity sector, this document is referred to as the ‘output agreement’, reflecting the differences in the relationships between ministers and Crown entity boards compared with departmental chief executives.

departmental Forecast Reports (later, Statements of Intent) and was expected to reflect the department's approach to managing organisational capability.

Under this broader concept of performance, chief executives (and managers generally) would be assessed on how well they met the performance objectives (relating to annual output delivery, financial performance, medium-term organisational capability management, and contributions to outcomes). These assessments would inform performance-based remuneration decisions, with managers receiving meaningful rewards for good performance and facing equally meaningful sanctions for poor performance. The personal incentives regime was intended to guide managers to modify their performance if they did not achieve stated objectives. A rigorous external performance assessment approach operated by the State Services Commissioner would consider the overall performance of both the department and its chief executive. Assessment of the chief executive's performance would also consider less directly measurable matters such as strategic alignment, relationship management, and political acuity, some of which would be articulated explicitly, and some would be implicit in the general expectations of the role.

The reforms included the deliberate aim of 'modifying aspects of the bargain'.²⁸ The intention of the reforms was to make chief executives more responsive to ministers and sharpen chief executive accountability, with the State Services Commissioner maintaining appropriate standards of behaviour.²⁹ The reforms clarified roles and responsibilities and provided greater authority for managers. The reforms also established new employment arrangements, which saw the end of tenure and generous pensions for permanent heads. In their place, the 'new' bargain introduced a more flexible remuneration system for 'chief executives', including higher salaries, in exchange for 'performance' as assessed by the commissioner. Chief executives' positions were also opened up to the private sector and non-New Zealanders. Importantly, however, the new bargain saw the principle of non-partisanship unchanged, with chief executives remaining "serially loyal" to the government of the day, to use Hood and Lodge's (2006) expression.

28 The seminal characterisation of the bargain that traditionally applied in New Zealand under the Public Service Act 1912 is that "With the political parties the modern [New Zealand] civil service has struck a mutually beneficial bargain. By guaranteeing to public servants a life's career and a pension, parties have foresworn the use of patronage and have guaranteed to the state's employees their tenure of their jobs. In return the parties expect, and the public servants owe, equal loyalty to any government which the people have placed in office" (Lipson, 1948, p 479).

29 For a fuller discussion of the role of the State Services Commissioner, see p 3.

Although beyond the terms of the bargain, independence from ministers on staffing matters and merit-based appointments also remained intact, and the reforms saw the end of a unified public service-wide employment environment. Departmental chief executives became directly responsible for employing their own staff and were freed from the prescription of the Public Service Manuals, Treasury Instructions and other controls over departmental inputs. In exchange for increased control over departmental operations, chief executives became subject to greater accountability for delivering on explicit and implicit performance expectations.

Components of the formal system

The formal organisational performance management system in New Zealand can be usefully characterised through related components, most notably:

- the legislative pillars established through specific legislation
- codified conventions for the operation of parliament and the executive
- formal directions and guidance from the centre, both Cabinet and agencies at the centre of the system
- system-level strategic management mechanisms, which are particular to each administration
- organisational forms.

Legislative pillars

Since public administration is based on convention and the rule of law, legislation provides the foundations for the formal organisational performance management system. The primary statutes for these purposes are the Public Finance Act 1989, State Sector Act 1988, Public Audit Act 2001 and Official Information Act 1982. For the wider state sector, beyond public service departments, the Crown Entities Act 2004 and State-Owned Enterprises Act 1986 are also pivotal. The legislative platform established by the suite of primary statutes has remained relatively stable since their enactment, as discussed in the next section.

Codified conventions and guidance

In a Westminster system, the most important ‘codified conventions’ are the traditions of cabinet government. New Zealand’s constitutional arrangements rely on convention and accepted practice that remain undocumented (and therefore outside the concept of ‘the formal system’ as we have described it for current purposes). Further, viewing convention and accepted practice as forms of

‘common law’ in this area may be a strength rather than a weakness, as it enables the formal system to evolve within the law in response to changing circumstances (such as coalition agreements under New Zealand’s mixed-member proportional representation electoral system³⁰).

In New Zealand, these codified conventions are reflected in Standing Orders³¹ and the *Cabinet Manual*,³² augmented by cabinet directions and guidance such as purchasing guidelines, environmental sustainability reporting (a relatively recent development that has since been withdrawn) and controls on government accommodation. In addition, central agency guidance such as Treasury’s *Putting it Simply* (1989) and *Putting it Together* (1996) established expectations about how the formal system was to operate inside public service departments.

System-level strategic management systems

Administration-specific features, particularly at the strategic level, are also an important dimension of the formal system. There will inevitably be features of any strategic management system that are particular to the prime minister of the day and their particular leadership style. For example, the strategic management system in the 1990s was built around the then National government’s strategic results areas and departmental key results areas. The Department of the Prime Minister and Cabinet played a significant leadership role in the formal system during this era by seeking to increase the linking between strategy and budgeting across the state sector. The government’s strategic results areas were also designed to encourage chief executives to collaborate across organisational boundaries, and individual chief executives developed the key results areas to help achieve the strategic results areas. This system did not, however, prove durable in the face of changes in prime minister. The transition from one National prime minister to another in the late 1990s resulted in modifications to the system; and, on being elected in 1999, the new Labour prime minister abolished the system of strategic results areas and key results areas.

It its first term, the 1999 Labour-led government chose not to continue with a formal strategic management system relying instead on manifesto commitments, which tended to relate to specific policy intentions, and a relatively

30 Mixed-member proportional representation is the electoral system that has been in place in New Zealand since 1996, replacing the former first-past-the-post system.

31 Standing Orders are the rules that parliament sets to govern itself and its committees (New Zealand Parliament, 2008).

32 Previously known as the *Cabinet Office Manual* and revised most recently in 2008 (see DPMC, 2008).

general statement of government goals and priorities. In its second term, the government developed three higher-level government goals for use in the budget process and for communications purposes. The strategic architecture of this approach, however, was never sufficiently well articulated to be effective in shaping organisational performance management.

Organisational forms

The machinery of government (ie, the mix of organisational forms, roles, functions, powers and governance of each organisation) is an important dimension of the formal system. In the 1980s and 1990s, New Zealand actively changed organisational structures with the objective of improving performance. For instance, structural separations were made to distinguish primarily policy departments and operational agencies (departments and Crown entities). This separation was intended to improve clarity for operational agencies and facilitate a ‘specialisation’ effect between those departments concentrating on ‘policy advice’, and those focusing on ‘service delivery’ and ‘regulatory functions’, and to strengthen the quality of policy advice with a resultant increase in the use of formal outcome evaluation and research.

Principles such as ‘clarity’ and ‘non-conflicting objectives’ were also applied in the reform of ‘sectors’, with the science, transport and education sectors each restructured following a three-tier model. The first tier comprised policy ministries. The second tier generally comprised arm’s length Crown entities as funders or regulators. The third tier comprised service providers, both public (operational departments, Crown entities and state-owned enterprises) and private (including the not-for-profit sector).

In the 2000s, although the government moved away from the three-tier model in some sectors, it continued to actively undertake repeated organisational restructuring. It is, however, harder to pin down the rationale underpinning changes in this period as there was no clear pattern of administrative doctrines, other than change being made on a case-by-case basis (see Gill, 2008a).

Departmental chief executives have also used internal restructuring purportedly as a lever to improve performance.³³ A 2007 survey undertaken for the State Services Commission suggests that, in the previous two years, 57% of departmental staff had been involved in a restructuring compared with 18% of government employees in the United States (Ethics Resource Center, 2007, p 50).

33 “The large number of informal studies have been consistently negative” about the effects of restructuring on the performance of public organisations (Downs and Lackey, 1986, p 85, cited in Gill, 2008a, p 31).

Legislative pillars: Design of the system

In this section, we summarise the main legislative pillars of organisational performance management.

The reforms in New Zealand began with the passage of the Official Information Act 1982, which shifted the presumption from secrecy to release of official information. Arguably, this legislation was the most important constitutional development of the last 20 years. Regardless of the accuracy of this claim, the Official Information Act brought about a fundamental shift that has deeply affected the way that public servants approach their work through to the present day.³⁴ This foundation stone of transparency in government also infused much of the design of the formal system that followed. The statutes generally regarded as the main pillars of the public management system, however, which we discuss below, are the State Sector Act 1988, Public Finance Act 1989 and Public Audit Act 2001. These three statutes also provide the formal framework within which the agencies at the centre of the system play out their respective roles.

The focus here is not to suggest that other legislation does not play a fundamental role in setting the context within which the formal system plays out. In particular, in addition to the relevant legislation, performance information must be managed correctly, which means that it must be collected and used in ways consistent with the Privacy Act 1993 and Statistics Act 1975 (amongst others), held in ways that comply with the Public Records Act 2005, and released in ways consistent with the Privacy Act.³⁵

State Sector Act 1988

The State Sector Act 1988 sets out roles and responsibilities of public service chief executives,³⁶ the independent role of the State Services Commissioner in appointing and managing those chief executives, and the functions to be retained by the commissioner rather than delegated to chief executives. Although the policy rationale for several provisions in the State Sector Act is unclear, the framers of the Act attempted to strike a balance in retaining the good features of

34 White (2007, pp 97–99) discusses the Official Information Act 1982 and summarises public servants' views on it.

35 Further, although statutes such as the Employment Relations Act 2000 also provide an important part of the overall legal environment, we have not included consideration of general legislation such as this for current purposes.

36 The 'public service' comprises the central government departments listed in Schedule 1 to the State Sector Act 1988.

the old public service while improving chief executive responsiveness and accountability.

The modified bargain between the government and the new public service following the public management reforms had three essential elements.

- The State Services Commissioner would appoint and oversee the performance of chief executives.
- Ministers would refrain from interfering with the day-to-day operations of departments.
- Chief executives would demonstrate consistently and constantly their “serial loyalty” to ministers and the government of the day (Hood and Lodge, 2006).

The two main thrusts of the State Sector Act relevant to this chapter (and Part Two as a whole) are about continuity and change, each of which we discuss below.

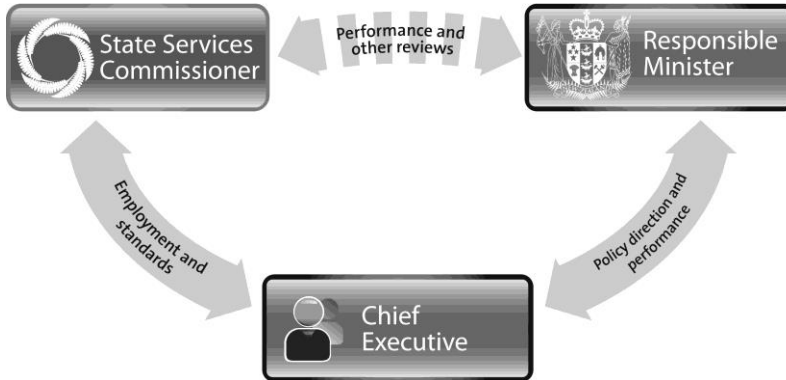
Continuity: State Services Commissioner’s role in employing chief executives

Continuity was provided by retaining the State Services Commissioner as employer of departmental chief executives, as part of retaining the tradition of a non-partisan public service. Section 35 of the State Sector Act 1988 gives statutory protection to the commissioner’s independence in the appointment of chief executives by specifying the process in some detail.³⁷ Although not specific to the State Sector Act, the commissioner’s focus in making appointments was on making certain (to the extent possible) that departments had the leadership capability to perform to the standards expected of them. Once appointed, chief executives were responsible for meeting performance expectations (and in doing so were freed from the Public Service Manual and other input controls).

Beyond the appointment process, the State Sector Act established a complex triangular relationship between departmental chief executives, ministers, and the State Services Commissioner, which is shown in Figure 3.5.³⁸

37 The appointment of chief executives, however, is formally by royal assent of the Governor-General, based on a recommendation by Cabinet.

38 In a broader analysis, the triangular relationship becomes quadrangular and multidimensional to reflect the relationships between ministers and citizens (as both voters and service users) and between chief executives and citizens (as service users). Arguably, the State Services Commissioner also has a relationship with citizens through the more general concern for the performance (quality of service delivery) of the public service as a whole.

Figure 3.5: Triangular accountability relationships

The State Sector Act 1988 is explicit about the general duties and powers of chief executives, and implies a prohibition on ministers' involvement in departmental staffing matters.³⁹ It is clear that an instruction from a minister in relation to staffing matters would be unacceptable and possibly unlawful.⁴⁰

On the other hand, although the Public Finance Act 1989 establishes that chief executives are responsible for the financial management and performance of the department (discussed below),⁴¹ the Act also requires chief executives to comply with "any lawful financial action required" by a minister.

Somewhat unusually, in New Zealand there is no simple relationship between ministers' portfolio responsibilities and departments. Almost all large departments have multiple ministers, one of whom, the responsible minister, has oversight of the performance of the department overall. Further, under the Public Finance Act, chief executives are responsible to the responsible minister for departmental performance, including the "efficient, effective, and economical" running of the department in carrying out its functions and duties, and "those imposed by Act or by the policies of the Government" (which presumably

39 Section 33 of the State Sector Act 1988 establishes a duty on departmental chief executives to act independently of their minister on staffing matters, and section 59 establishes that chief executives have all of the rights, duties and powers as employers. Section 60 requires that chief executives "shall give preference to the person who is best suited to the position", which is known as the merit provision.

40 One chief executive's acceptance that "There have been mistakes made in managing employment situations and communications with the Minister" led directly to the chief executive's resignation (Ministry for the Environment, 2007b), and the minister's handling of events surrounding the appointment led to the minister standing down (ONE News/Newstalk ZB, 2008).

41 Section 34 of the Public Finance Act 1989.

includes the minister's priorities).⁴² Overall, the legislation therefore provides considerable scope for a minister to direct specific organisational activity and performance.

In these operational matters, however, convention as codified in the *Cabinet Manual* imposes greater restrictions on ministers than those set out in legislation. The *Cabinet Manual* (DPMC, 2008, para 3.5) states that:

Ministers decide both the direction and the priorities for their departments. They should not be involved in their departments' day-to-day operations. In general terms, Ministers are responsible for determining and promoting policy, defending policy decisions, and answering in the House [of Representatives] on both policy and operational matters.

The State Services Commissioner, as the employer of departmental chief executives, is also responsible for reviewing their performance on behalf of the responsible minister.⁴³ On issues of probity and standards, distinct from general performance in service delivery and capability management, successive commissioners have taken the view that chief executives are directly accountable to the commissioner. In addition, the commissioner has the power to provide the Minister of State Services with independent advice and support, for example by undertaking reviews, inspections, and investigations into the activities of state service organisations either on the commissioner's initiative or by ministerial request.⁴⁴

The State Services Commissioner, as chief executive of the State Services Commission, is also separately and directly responsible to the Minister of State Services for the efficient and economic running of the commission. In matters relating to individual employees, however, including departmental chief executives, the commissioner has statutory independence.⁴⁵ The extent of this independence in practice, however, depends on the calibre of the commissioner and the Minister of State Services, and the quality of the relationship between them. When an effective partnership exists with a powerful minister, the commissioner can leverage the independence of the position.

42 Section 32 of the Public Finance Act 1989.

43 Section 43 of the State Sector Act 1988.

44 Section 8 of the State Sector Act 1988.

45 Section 5 of the State Sector Act 1988.

Change: Greater delegation of powers to chief executives

A significant change introduced through the State Sector Act 1988 was in establishing the authority of chief executives over the day-to-day operation of their departments, with little input control from ministers and central agencies.⁴⁶ In the early 1990s, the State Services Commissioner also progressively delegated full authority to chief executives for the employment of staff on collective employment agreements, within cabinet-approved ‘bargaining parameters’. Successive commissioners have left this delegation unaltered, which, together with the delegation by Cabinet of financial authority to chief executives,⁴⁷ provides considerable freedom to ‘let the managers manage’. Thus, chief executives have the freedom to manage their departments to achieve the specified performance and will be held to account by an effective assessment of performance.

Recent changes to the State Sector Act 1988

The State Sector Act 1988 was subject to a series of technical amendments in the 1990s and more substantive changes through the State Sector Amendment Act (No 2) 2004. The 2004 amendments aimed to:

- strengthen the leadership development provisions to make the general functions more effective
- expand the State Services Commissioner’s mandate to set minimum standards of integrity and conduct beyond the public service, to include almost all of the state services
- clarify the State Services Commissioner’s mandate in the wider state sector by, for example, making it clear that the State Services Commission may advise ministers on machinery of government matters and undertake reviews if requested by the responsible minister.

Accountability

Interestingly, given the importance of accountability to the formal system, the State Sector Act 1988 does not provide a clear answer to ‘to whom is a departmental chief executive accountable?’ or ‘is the minister accountable to parliament for departmental operations?’. Section 32 of the State Sector Act

46 “The chief executive of a Department shall have the powers necessary to carry out the functions, responsibilities, and duties imposed on that chief executive by or under this Act, as well as the powers necessary to carry out the functions, responsibilities, and duties imposed on that chief executive or that Department by or under any other Act” (section 34(2) of the State Sector Act 1988).

47 See Cabinet Office (1999).

appears to answer the first question by setting out the principal responsibilities of chief executives to their ministers, yet the relationship between these responsibilities and each chief executive's responsibilities to the State Services Commissioner as their employer is unclear. On the second question, the State Sector Act is essentially silent on the responsibilities of ministers, although section 2 'defines' (appropriate) ministers as those "responsible for the department" or a specific function of the department, with no elaboration on the nature of those responsibilities. Reference is required to the *Cabinet Manual* for a clear statement of the responsibilities of ministers relative to chief executives. Standing Orders also set out some aspects of ministers' roles and responsibilities in relation to parliament.

On balance, however, the absence of clarity in this area is in stark contrast to, and inconsistent with, one of the central building blocks for the 'new system' as reflected in the first of our premises: that politics and administration will be separated through the clarity of the respective roles of ministers and chief executives.

Public Finance Act 1989

While the State Sector Act 1988 changed the locus of control from the centre to individual departments, the Public Finance Act 1989 changed the focus of control over performance from inputs to outputs. The Public Finance Act set out the way parliament would 'vote' appropriations (spending authority) to ministers, and specified what and how departments would report to the House of Representatives on their intended and actual performance, including a focus on service performance reporting and accrual-based financial statements prepared consistent with generally accepted accounting practice. Pre-reform arrangements under which appropriations made to ministers were grouped on the basis of 'Votes' were unchanged.

Appropriations: Constitutional cornerstone

Appropriation Bills each year are important elements in the formal relationship between parliament and ministers, reflecting the constitutional requirements for regular authorisation from parliament for expenditure by the executive and the endorsement of the collection of taxes to fund that expenditure.⁴⁸ Under Standing Orders, parliament regulates the spending activities of the executive by receiving and examining information on intentions in support of Appropriation Bills and the information supporting these. Scrutiny of the ex ante information in the main

48 McGee (2005, in particular, chapters 31, 32 and 34).

Appropriation Bill each year is through select committee examination of the Estimates, Statements of Intent and other supporting information. Parliament receives substantially less information on the intended uses of funds through the Supplementary Estimates process and associated legislation, which generally occurs near the end of each year to reflect new commitments made by Cabinet during the year.

Although debate in the House of Representatives on the main Appropriation Bill precedes the making of appropriations, expenditure may nonetheless be incurred under ‘imprest supply’.⁴⁹ Ex post information receives similar treatment, with select committees examining departmental Annual Reports and supporting information, and the House debating the executive’s performance in the previous year under the auspices of the annual Appropriation (Financial Review) Bill – the bill itself is not debated.⁵⁰

The Public Finance Act 1989 changed the basis for operational appropriations from cash and inputs for broad ‘programmes’ of expenditure,⁵¹ such as corporate administration (internal overhead costs) and capital costs, to individual appropriations within six types of appropriation.⁵² ‘Output expenses’ (and capital expenditure on assets to be used over several years) are the appropriation type of greatest relevance to current discussions of organisational performance. The scope of an appropriation sets out the purpose for which and the boundaries within which expenditure may be incurred, as well as the limits provided by the amount and the period (generally annual). Thus, output expense

49 The first Imprest Supply Act each year must be passed before the beginning of the financial year to which it relates. There is generally a second Imprest Supply Bill each year. All supply granted in this way must subsequently be ‘appropriated’ before the end of the financial year to avoid the need for it to be validated. McGee (2005, p 475) defines imprest supply simply as “a general interim authority to spend public money and to incur expense and capital expenditure”. Cabinet authorises the use of imprest supply that has been granted by parliament and formalised through Supplementary Estimates towards the end of the year.

50 The Financial Review Bill seeks approval for unappropriated expenditure. Departments, in their annual reports, provide ex post reports against the amounts of each of the appropriations they administer. Departmental and Crown entity annual reports (and reports provided under section 32A of the Public Finance Act 1989) provide ex post performance reports for each appropriation.

51 The New Zealand system had previously been loosely based on the US Program Performance Budgeting System (known as PPBS), albeit with the concept of a ‘programme’ (in the New Zealand system) not explicitly defined.

52 The six types of appropriation are output expenses (for ‘classes of outputs’ that group similar outputs), capital expenditure, benefits and other unrequited expenses (transfer payments), borrowing expenses (primarily debt servicing), a special appropriation for the security agencies that combines capital and operating expenditure, and a residual category (other expenses) for expenses not covered by the other types of appropriation.

appropriation scopes are short descriptions of the services to be provided by departments (or other organisations), and capital expenditure scopes are short descriptions of the purpose of the investment in new assets whether from the balance or capital injections.

Outputs were adopted as the basis for appropriations covering departmental operations because outputs, in contrast to outcomes, are, by their nature, more directly controllable by a single entity (department, Crown entity or other service provider) and able to be costed on a mutually exclusive basis. Outputs are also generally more readily measured than outcomes. That is not to say, however, that it is always straightforward to describe, measure, and cost expected output performance, particularly in complex departments or in relation to some aspects of quality.

Outcomes: Their place in the formal system

Informal Treasury history tells how the original design of the Public Finance Act 1989 (the so-called Part Zero) had an outcomes architecture to match the outputs architecture, which the then Auditor-General strongly supported (Gill 2008a, p 32). Under the design, ministers would have been responsible for making specific statements of the outcomes they were seeking to achieve.⁵³ Ministers declined to proceed with the outcomes architecture of Part Zero and instead moved to the more modest requirement in section 9(2)(i) of the Public Finance Act 1989 (as originally enacted). Under this provision, the Estimates were required to include information in respect of each Vote on the link between each class of outputs and the government's desired outcomes. The implications of this section were that, although the Estimates were prepared by departments on behalf of portfolio ministers, ministers were required to be explicit about and state the outcomes they required departments to contribute to or achieve. Although this feature of the design was in place until 2004, it was not systematically implemented (and is not even widely recalled).

Subsequent work in Treasury in the mid 1990s to strengthen the place of outcomes in the performance management system failed to yield significant progress. Although chief executives were required "to give significant attention to the department's contribution to the Government's desired outcomes" to support their ministers (Hitchiner, 1998, p 11), the political process did not generate any real pressure for a clear articulation of desired outcomes, and there

53 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 1990s. With changes in the political regime in Fiji since then, this requirement was never operationalised and has since been repealed.

was no discernible increase in ministerial support for greater information on outcomes. Well-known issues relating to the ability to measure aspects of societal outcomes include long time lags, difficulties in observing the societal states or conditions involved, and whether a chief executive has full or reasonable control over the expected changes in those states or conditions (the expected ‘performance’).

Even under an outputs-based system, the elements of an effective accountability framework are relatively weak, with a number of inherent limitations. ... The conditions required for and the additional risks associated with an outcomes-based system further exacerbate those weaknesses. (Hitchiner, 1998, p 12)

Overall, the use of outcomes as a more central element of the system, therefore, is unlikely to be effective without significant changes in other aspects of the system, including narrowing the focus on accountability.⁵⁴

Recent changes to the Public Finance Act

Although the Public Finance Act 1989 has been subject to technical amendments during the last 20 years, the broad principles and main provisions have survived largely unaltered since its enactment. Amendments in 1992 related mainly to Crown entities, and in 1994, technical amendments were made to enact the Fiscal Responsibility Act 1994.

In 2004, amendments were made to repeal and incorporate the Fiscal Responsibility Act into the Public Finance Act 1989 and to enact specific legislation relating to Crown entities. The three substantive amendments of note in 2004, were:

- the clarification (or perhaps softening) of the information required on outcomes through the introduction of ‘impacts’ and ‘objectives’⁵⁵
- an increase in flexibility through mechanisms such as multi-class output expense appropriations
- a shift from a focus on ‘documents’ to a focus on ‘information’ – the notion of a ‘statement of intent’ for departments⁵⁶ is now more explicitly an

54 The changes required to support a system with outcomes at the centre include consideration of: whether accountability is preferred as ‘the heart’ of the system, the focus of the appropriations system for funding departmental operations, and the ongoing role of ‘outputs’. We address these and other issues in chapter 18.

55 Section 2 of the Public Finance Act 1989 defines ‘impacts’ as “the contribution made to an outcome by a specified set of outputs, or actions, or both”; ‘objectives’ is not defined.

56 Under their respective legislation, Crown entities must prepare a Statement of Intent and state-owned enterprises must prepare a Statement of Corporate Intent.

administrative device, established in central agency guidance as part of the information set required to support the Estimates.⁵⁷

The 2004 amendments allow significant flexibility in what information is provided in the Estimates in addition to the specified requirements, and in how the Estimates and supporting information is presented.

Public Audit Act 2001

The Public Audit Act 2001 provides the third legislative pillar of the formal system, albeit one that was enacted more than a decade after the main reform period. The earlier reforms focused on the executive and the relationship of ministers with parliament and chief executives; the Public Audit Act on the other hand focused on parliament. The purpose of this Act was to “reform and restate the law relating to the audit of public sector organisations”.⁵⁸ The main changes the Act brought in were the extension and rationalisation of the public entities subject to audit by the OAG⁵⁹ and clarification of the powers of the Auditor-General to undertake value-for-money (performance) audits and conduct inquiries into specific matters. The Public Audit Act also established the Auditor-General as an officer of parliament.⁶⁰

In many respects, however, the Public Audit Act 2001 is about continuity rather than change, as it simply reflected the practice of the OAG since the mid to late 1980s. As such, some of the following discussion about the statutory audit role is as implied by the Public Finance Act 1989, rather than solely as stated specifically in the Public Audit Act. Indeed, some of the discussion that follows,

57 The Departmental Forecast Report of earlier days and the Statement of Intent (as a whole) are no longer specified. The Public Finance Act 1989 now refers to “Requirements for information on future operating intentions” (section 40) and “Extra information required for [the] first financial year”, which includes a “statement of forecast service performance”.

58 Section 3(b) of the Public Audit Act 2001.

59 The Public Audit Act 2001 continued the Auditor-General’s responsibility for the audits of all public organisations with the same mandate, and removed organisations from that mandate if they fell outside the definition of ‘public sector organisation’. (Public sector organisations include those organisations represented in the financial statements of the Crown and local government organisations.)

60 The three offices of parliament defined in section 2 of the Public Finance Act 1989 are the OAG, Office of the Parliamentary Commissioner for the Environment and Office of the Ombudsmen. The roles and independence of these organisations form an important part of the constitutional arrangements in New Zealand with each providing independent scrutiny of particular activities of the executive government. In particular, the Office of the Ombudsmen investigates complaints about administrative decisions across all levels of government and oversees the application of the Official Information Act 1982.

relates directly to the Public Finance Act, and is included here for greater cohesion.

The Auditor-General is parliament's primary source of independent assurance and advice in specific areas. The statutory audit role focuses on each department's financial management and service delivery performance and reporting. The purpose of this role is to provide assurance that the information that departments provide to parliament fairly reflects the departments' operations, and that departments have complied with relevant statutes. The purpose of the statutory controller role is to provide assurance to parliament that the appropriations it has made in annual Appropriation Acts (the Estimates) to be administered by departments are used for the stated purposes. The Auditor-General also has wide review powers, through which they provide parliament with direct advice on the efficiency and effectiveness of departmental operations.

Points of difference

The organisational performance management system in New Zealand has an explicit focus on service performance. The OAG's statutory audit function specifically provides for ex ante and ex post non-financial aspects of service performance and the audit of both. Further, the OAG is required to express a 'positive' opinion, in that its opinion on each ex post report must positively affirm that the report is 'a true and fair view'. New Zealand is, however, somewhat unusual compared with other supreme audit institutions in the Westminster world in requiring the combination of the three areas just addressed. Although many jurisdictions consider service performance, some focus on ex post information only, and most provide 'negative' assurance.⁶¹

Independent assurance

The desire to provide independent assurance to parliament on whether annual financial statements fairly reflect the operations of each department occurs through a combination of arrangements that is unique to New Zealand.

These arrangements include:

61 'Negative assurance' is an opinion to the effect that nothing reported leads the auditor to consider that the information is not true and fair. The only other supreme audit institution that issues positive opinions on service performance reports is the Office of the Auditor-General for Western Australia. That Auditor-General's mandate includes auditing reports that provide information about service performance and outcome achievement and expressing an opinion as to whether "key performance indicators are relevant and appropriate to assist users to assess the agency's performance and fairly represent indicated performance" (section 15 of the Audit-General Act 2006 (WA)).

- service performance reporting is mandatory
- there is no approved reporting standard for Statements of Service Performance
- the OAG sets auditing standards for the public sector
- the OAG has a statutory monopoly.

Service performance reporting is required in the public sector. Section 45A of the Public Finance Act 1989 sets out the content required in a Statement of Service Performance and section 45D requires the Statement of Service Performance to be prepared in accordance with generally accepted accounting practice. The statements form part of the suite of statements required for departmental annual reports and the “The Auditor-General must ... provide an audit report on them”.

There is no approved reporting standard for the preparation of Statements of Service Performance. Financial reporting standards are approved by the Financial Reporting Standards Board, an independent Crown entity, or, on matters where there is no provision in such standards, accounting policies that are appropriate and have authoritative support. In the absence of an approved standard, the Minister of Finance has the power to “make regulations ... prescribing the non-financial reporting standards that ... departments ... must apply and the form in which they must provide the information”.⁶² This power has not been used; rather, accepted ‘practice’ is inferred primarily from the ‘authoritative support’ provided by Technical Practice Aid 9 *Service Performance Reporting* (NZICA, 2002),⁶³ reporting statements relating to the preparation of financial statements generally, and Treasury and State Services Commission guidance.

The OAG sets the ‘auditing standards’ that it uses by tailoring the ‘authoritative support’ noted above to address matters that are specific to the public sector. The OAG must now publish a report on these auditing standards at least once every three years, including a description of significant changes made during the year covered by the report.⁶⁴ In 2009, the OAG updated its 1996 standard for auditing service performance reports.⁶⁵ Along with reflecting

62 Section 81(1)(ba) of the Public Finance Act 1989.

63 The New Zealand Institute of Chartered Accountants’ Technical Practice Aid 9 drew heavily on the *OECD Outputs Manual* (Hitchiner, 2000) and was revised in 2007 to “acknowledge key changes in the service performance reporting environment for central and local government since the [Technical Practice Aid] was issued” (NZICA, 2002, p 4).

64 Section 23 of the Public Audit Act 2001.

65 *The Auditor-General’s Auditing Standard 4 (Revised): The audit of service performance reports* (OAG, 2009a) is commonly referred to as AG-4.

relatively minor changes to reporting standards, this update introduced “a subtle wording change but an important change to the judgement required by auditors and the reporting required” by departments.⁶⁶ The previous auditing standard had required auditors to attest whether reported service performance fairly reflected service delivery compared with forecast standards. The auditing standard, AG-4, as revised now requires auditors to attest whether the statements fairly reflect *actual service performance*. Although this change does not affect the scope of the information being audited, it does affect the nature of the audit judgement being made.

Consistent with most other jurisdictions, the OAG has a statutory monopoly on providing financial audits of public organisations – departments must have the OAG as their auditor. The OAG is also responsible for auditing the financial statements of other public organisations that fall within the ‘Crown’ reporting entity, as represented in the financial statements of the Crown. In the 1980s, the Auditor-General introduced a limited allocation scheme and full contestability from 1995 to 2002 (except for specified ‘strategic’ departments).⁶⁷ In 2002, the OAG returned to a practice of allocating some of its annual audits to the four major chartered accountancy firms and a range of medium–small audit firms. These arrangements allowed an element of competition between the OAG’s operational business unit – Audit New Zealand – and private sector accountancy firms the Auditor-General had recognised as audit service providers. Audit service providers nonetheless carry out audits on behalf of and to the audit standards and policies set by the Auditor-General. (Policies may be amended from year to year.) Currently, Audit New Zealand audits most public service departments. Five departments, including the OAG, are audited by accountancy firms.

Addressing the absence of service performance reporting standards

The formal system in New Zealand places particular reliance on independent assurance to support parliament’s scrutiny of the executive. The absence of service performance ‘reporting’ standards is, however, a noticeable gap that the OAG’s ‘auditing’ standards have, for practical purposes, addressed. Service

66 Letter from the Auditor-General to departmental chief executives advising them of changes focused on improving service performance information and reporting (December 2009).

67 Allocation and contestability involved public organisations being able to appoint their auditor through a tender process limited to audit service providers approved by the Auditor-General. Selection was from the two or three prospective auditors ‘allocated’ to them by the Auditor-General or on a more open ‘contestable’ basis.

performance reports are audited under reporting expectations that reflect an interpretation of the statutory requirements made by the party conducting the audits, which merges the roles of rule setter and referee.

This diminishing of independence has not, however, generated a major concern in practice, with one area of exception: there is a noticeable degree to which the auditing standards, comments by the OAG, and specific feedback to departments has 'imposed' audit expectations as 'requirements' relating to performance information that may be inconsistent with the messages to departments from other agencies at the centre.

Formal system: Beyond public service departments

In our discussion of the formal system in this chapter, we have focused on public service departments and how they interact with the central agencies, ministers and parliament. In this section we briefly canvass how the formal system affects central government organisations in the wider state sector (beyond public service departments) and in the local government sector.

Formal system: Wider state sector

Defining the 'state sector'

The state sector consists of six main types of public organisation. In addition to the 34 public service departments under the State Sector Act 1988 (as at 1 July 2010) there are:

- 6 'other departments' – departments outside the public service (designated as non-public service departments under the Public Finance Act 1989), including the New Zealand Defence Force and New Zealand Police
- three offices of parliament – the OAG, Office of the Parliamentary Commissioner for the Environment and Office of the Ombudsmen
- 83 statutory Crown entities – all of which are covered by the Crown Entities Act 2004⁶⁸
- 11 Crown entity companies – all of which are covered by the Crown Entities Act 2004
- 54 other public entities – the Reserve Bank of New Zealand and 53 organisations listed in Schedule 4 of the Public Finance Act 1989 (public bodies not covered by other legislation)

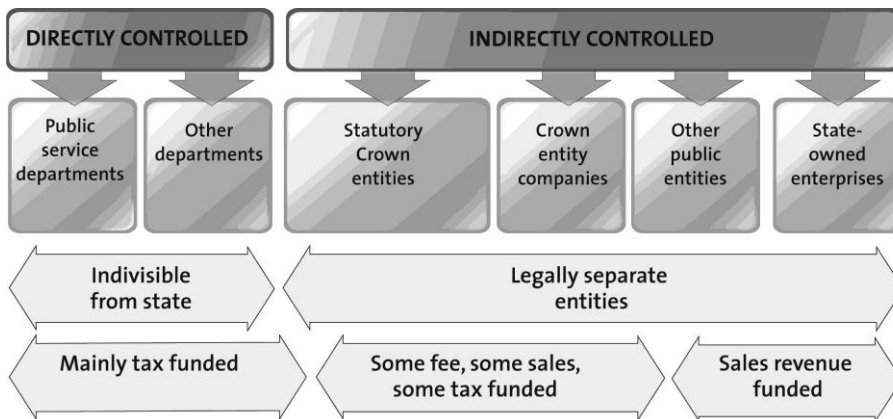
⁶⁸ In addition to the Crown entities included in this total, there are 31 tertiary education institutions, about 200 subsidiaries of Crown entities, and nearly 2,500 school boards of trustees.

- 17 state-owned enterprises – government-owned ‘for-profit’ companies covered by the State-Owned Enterprises Act 1985.

The essence of the earlier discussion of the principles and design choices made was also applied to the other organisations in the state sector that are defined as public entities and form part of the consolidated Crown financial reporting entity under the Public Finance Act 1989. Figure 3.6 provides a stylised view of the composition of the state sector based on three points of difference:

- the degree of control by the executive over the operations of each organisation, with decreasing control from left to right
- whether the organisations form part of the state from a legal perspective or are separate legal entities
- the primary source of funding, ranging from taxation to revenue from sales.

Figure 3.6: Executive government – the shape of the state



The title ‘State Sector’ Act is, therefore, something of a misnomer as it is essentially a ‘public service’ framework with separate statutes covering the other components of the state sector – specific enabling legislation establishes offices of parliament and various other entities; and the Crown Entities Act 2004 and State-Owned Enterprises Act 1986 provide the collective framework for entities in those broad categories.

Institutional differences

Two important institutional differences exist between public service departments and the other public organisations relevant to this chapter. The first difference relates to the role of the State Services Commissioner and the second to the State Services Commissioner’s relationship with the responsible minister.

The ‘State Services’ Commission is largely a ‘public service’ commission other than on a few defined matters. In particular, despite having been asked to appoint the chief executives of non–public service departments, the State Services Commissioner’s statutory role in the appointment of chief executives does not extend beyond public service departments. Therefore, the triangular performance relationship between the commissioner, the chief executive and the minister does not exist in the wider state sector in the way discussed above. The commissioner’s statutory role in the wider state sector is limited to setting minimum standards of integrity, conduct and ethics, providing machinery of government advice, and undertaking reviews if requested by the responsible minister.

The second difference is that Crown entities, organisations listed in Schedule 4 of the Public Finance Act 1989, the New Zealand Reserve Bank and state-owned enterprises have an arm’s length legal relationship with the government and the minister. In respect of Crown entities, the Crown Entities Act 2004 created a unified governance and accountability regime and formally defined the role of the responsible minister.⁶⁹ The legislation limits the minister to indirect mechanisms for influencing the performance of the organisation, such as through the appointment of members of each board. By contrast, the minister has (at least theoretical) control over public service departments on policy and priorities, the outcomes they pursue, and, at a high level, the services they deliver, based on the nature and quality of information available to them. So-called ‘monitoring departments’ undertake the function in the way required by the minister of the day, which, in addition to fulfilling straightforward administrative requirements, may vary considerably in intensity and approach at the minister’s behest.

Gill (2009, p 12) has observed that in practice:

Ministers ... tend not to be comfortable with the use of formal levers. Since the enactment of the Crown Entities Act 2004, successive administrations have been reluctant to use the formal direction powers [and that] from the perspective of managing the political risk faced by Ministers, legal form is largely irrelevant.

69 In respect of Crown entities, “The role of the responsible Minister is to oversee and manage the Crown’s interests in, and relationship with, a statutory entity and to exercise any statutory responsibilities given to the Minister, including functions, and powers” (section 27(1) of the Crown Entities Act 2004). Section 27 lists seven specific areas of responsibility, including appointing and removing board members, engaging in setting an entity’s strategic direction (such as through the Statement of Intent process), and issuing formal directions. Of particular relevance to the current discussion is the power “to review the operations and performance of the entity” (section 27(1)(d)).

Formal system: Local government sector

The Local Government Act 2002 placed local authorities under a considerably more demanding accountability and reporting regime than central government entities faced, especially in relation to outcomes.⁷⁰

The Local Government Act places four areas of ‘well-being’ for local communities (social, economic, environmental and cultural) at the heart of local authority planning and reporting processes. In addition to playing a broad role in contributing to community well-being in these areas, the Local Government Act requires local authorities to take a sustainable development approach and promotes the accountability of local authorities to their communities. As part of the overall performance management process in local government, the Local Government Act requires the formulation of community outcomes through consultation with the public every six years. The role of the local authority is to facilitate the process of identifying outcomes within the four areas of well-being, with the objective of the community ‘owning’ them. The outcomes identified are intended to inform the development of local authority planning, and coordinate the activities and planning of all sectors of the community.

The six-yearly identification of outcomes sits alongside the requirement to develop long-term council community plans (LTCCPs) every three years. The LTCCPs set out 10-year period plans and budgets, which the OAG assesses for consistency and prudence. Reporting against the community outcomes is required at least once every three years, with annual reporting required against shorter-term, operational measures.

Although the requirement for long-term planning is not new to local government,⁷¹ the reforms of local government legislation in 2002 increased the level of complexity required in the new LTCCPs. Further, the legislative requirement to have LTCCPs audited is unique to New Zealand. The Local Government Act 2002 requires local authority auditors to assess the forecast performance information being used in LTCCPs and to consider whether this provides an appropriate framework for later assessing actual performance (defined in the Act as “levels of service provision”).

Six years on, there are areas for improvement in implementing the statutory requirements. In his review of the 2006–2016 LTCCPs, the Auditor-General

70 It is interesting to note that, although the concepts are clearly ‘borrowed’, the development of the legislation relating to the local government sector occurred by the administering department with little direct reference to Treasury as the department responsible for administering the Public Finance Act 1989.

71 See OAG (2007b).

noted that, although local authorities had successfully developed frameworks for their financial information, less progress had been made in relation to the other sets of information required, in particular, the development of performance frameworks (OAG, 2007b, p 7).

The main differences between the performance management system under the Local Government Act 2002 and that in central government are:

- the Local Government Act 2002 is prescriptive (and more demanding) in terms of the requirements and process for defining outcomes – for central government, this process is left to administrative guidance and is highly variable across departments
- the planning timeframe for local government organisations is substantially longer (10 years) than for central government (a minimum of three years)⁷²
- forecast performance information in local government is audited for its suitability in providing a basis for later judging actual performance – there is no comparable requirement in central government
- outcomes provide the central building block in local government, supported by ‘groups of activities’, intended levels of ‘service provision’ for those activities and other related performance information; in central government outputs provide the central building block, with less focus on outcomes and other related matters.

Overall, it is interesting to note that some reform elements in the local government sector are considerably more demanding than the related elements applying in the central government sector, most notably the requirements relating to information on outcomes and the requirement for long-term plans to be reviewed as well as the 10-year planning horizon. It is also interesting to note the OAG’s practice of qualifying audit opinions in the local government sector, based on poor service performance reporting, considerably more often than in central government.

72 An exception to the three-year timeframe in central government is the requirement that Treasury must produce a statement every four years on the long-term fiscal position of the Crown (under section 26N of the Public Finance Act 1989). This statement must cover a 40-year period.

Further reading

Scott, G (2001) *Public Management in New Zealand: Lessons and challenges*. Wellington: New Zealand Business Roundtable. www.nzbr.org.nz/site/nzbr/files/publications/publications-2001/public_management.pdf.

Treasury (1996) *Putting It Together: An explanatory guide to the New Zealand public sector financial management system*. Wellington: Treasury. www.treasury.govt.nz/publications/guidance/publicfinance/pit.

The Formal System as it Evolved

Susan Hitchiner and Derek Gill

Evolution of the system in practice

In chapter 3, we outlined the principles, components and legislative framework that characterise the formal system, which has been relatively stable since the late 1980s (quadrant 1 in Figure 3.1). In this chapter, we discuss the implementation of the design (quadrant 2 in Figure 3.1) and the changing ways in which Treasury, the State Services Commission and the Office of the Auditor-General (OAG) have interpreted their roles over time. The mechanisms that give effect to the core principles have evolved through changes made over the last 20 years. However, these changes have been adaptations as the system has been tweaked and improved to take account of experiences and lessons learned rather than being fundamentally changed.

Role of the State Services Commissioner

The core elements of the State Services Commissioner's role are to appoint public service (departmental) chief executives⁷³ and "review the performance of each Department, including the discharge by the chief executive of his or her functions".⁷⁴

The commissioner has other functions,⁷⁵ some of which appear to remain from before the reforms (especially those functions relating to human resources

73 Section 6(c) of the State Sector Act 1988. The commissioner also manages the appointment process for some chief executives in the wider executive government, including the commissioner of police and chief of defence force, and, if requested, assists with the appointment process for the legislative branch.

74 Section 6(b) of the State Sector Act 1988.

75 Additional functions of the State Services Commissioner are to provide advice on machinery of government matters, management systems, structures, and organisations in the public service and Crown entities; promote, develop, and advise on various human resource management areas, including senior leadership development, conditions of employment, personnel policies, equal employment opportunities, and training and career development for employees in the public service; and provide advice and guidance on integrity and conduct within the wider state services (section 6 of the State Sector Act 1988).

and employment management) and to impinge on the general powers of chief executives established under section 34 of the State Sector Act 1988.

Thus, the first of our premises underpinning the design of the system – that clarifying the respective roles and responsibilities of the minister, chief executives and the commissioner would establish a clear separation between politics and administration – is again not a reality. Rather than providing clarity in this area, the legislation is somewhat confused.

As these additional functions are not central to our purpose, the remainder of this section focuses on the commissioner's role as the employer of chief executives and reviewer of chief executive (and departmental) performance.

Role as employer of chief executives

Under the State Sector Act 1988, the commissioner is the employer of all public service departmental chief executives on behalf of the Crown.

Chief executives have a dual accountability – to the commissioner in respect of their standard of probity and integrity and to their responsible minister in relation to organisational performance. In his Annual Report for the year ended 30 June 2001, the commissioner commented on what we have described as the 'triangular employment relationship' (Figure 3.5), saying that he and his predecessor had both:

taken the view that, under the State Sector Act [1988], the State Services Commissioner is the employer of Public Service chief executives on behalf of the Crown. The chief executive enters into an employment agreement with the State Services Commissioner. However, although the chief executive is *employed by* the State Services Commissioner, he or she *works for* their Responsible Minister. I can think of no other employment relationship where the terms *employed by* and *works for* are not synonymous. (SSC, 2001, p 5, emphasis in original)

In practice, the commissioner's primary focus within this triangular relationship has been to enable the relationships to operate as effectively as possible. The commissioner's role has been on establishing minimum standards of probity, integrity and conduct for chief executives and their staff and reviewing chief executive performance on behalf of the responsible minister.

Public service chief executives are appointed by Cabinet on the recommendation of the commissioner and employed by the commissioner for a fixed term of up to five years. Chief executives may be reappointed for up to a further three years, based on performance. Since the State Sector Act 1988 took

effect, Cabinet has only once not confirmed the commissioner's preferred appointee.⁷⁶

There has been no overt demand for the 'politicisation' of chief executive appointments. Indeed, the opposite appears to have occurred, with the commissioner having been invited to manage the appointment process for some of the chief executives in the wider executive government, including the Commissioner of Police and Chief of Defence Force.

Role as reviewer of chief executive performance

The commissioner also has an ongoing role to 'assist and assess' chief executives by providing general support and implementing a performance management system. The formal rewards and sanctions available to the commissioner are the performance elements of pay and reappointment.

The practice of chief executive performance management has varied with commissioners. In the 1990s under the first commissioner, the initially light-handed approach to chief executive performance review became a more formal departmental and chief executive review process.⁷⁷ There was a formal chief executive performance agreement, which contained general provisions relating to matters such as equal employment opportunities and energy efficiency, as well as provisions tailored to the particular chief executive and organisation.

With a change in commissioner in the late 1990s, there was a change in approach, with greater emphasis on more forward-looking real-time engagement and feedback, and less emphasis on formal documentation of actual performance. The State Services Commission was restructured around deputy commissioner teams that focused on clusters of chief executives. Over time, the performance agreement became overloaded with matters that were added successively during the 1990s by Cabinet mandate. This approach, which was accompanied by a reluctance from some ministers to sign up to specific commitments in the agreement, finally collapsed under its own weight and the formal chief executive performance agreement was abandoned in 2002. Expectations set at appointment and in subsequent performance reviews, and organisational performance undertakings set out in Statements of Intent and Output Plans, began to play a

76 See Norman (2003, p 177) for a discussion of the Hensley case. The government declined to accept the State Services Commissioner's recommendation to appoint Gerald Hensley, a former permanent head of the Department of the Prime Minister and Cabinet, to the position of Secretary of Defence.

77 See Whitcombe (1990) for a review of the first two rounds of chief executive performance reviews under the new State Sector Act. No systematic research of this function appears to have been conducted since then.

more significant role in how the commissioner assessed chief executive performance.

Increasingly, the performance review process became based on qualitative (and subjective) feedback, including material from external stakeholders, staff, and, more importantly, relevant ministers. The second commissioner began to see output performance as part of the ‘bottom line’ – necessary but not in itself a ‘sufficient condition’ to constitute good performance. The ‘sufficient conditions’ for good performance included development of the organisation’s capability for the medium term, a contribution to the collective interest such as leading cross-government initiatives, and strong delivery of agreed priorities.

The second commissioner placed less and less focus on measured output performance, and the third commissioner followed this practice. Output delivery expectations set out in Output Plans have formed an increasingly small part of the chief executive review process in comparison to other matters of interest.⁷⁸ Under the third commissioner, the State Services Commission was re-organised to increase the focus on the Development Goals (SSC, 2007). This approach was reversed under the fourth (and current) commissioner who has de-emphasised the Development Goals and re-emphasised chief executive performance management.⁷⁹

Regardless of the internal structure of the State Services Commission and priorities of the commissioner, sanctions for poor performance by chief executives or their departments (however assessed) have tended to be applied behind the scenes. An inherent tension exists between expectations of accountability and transparency and the requirement for privacy and respect for human dignity. Opaqueness in the employment relationship is inevitable if the commissioner is to behave lawfully as a good employer, and the relationship with chief executives is to be based on trust and respect for the privacy and professionalism of the individual chief executives.

78 See the Annex to chapter 9, which discusses the commissioner’s use of delivery against bottom-line performance measures to protect a chief executive in response to hostile comments from a new Minister of Corrections.

79 There remains no formal chief executive performance agreement. The current commissioner is, however, placing increased effort on the ex ante specification of the general performance and behaviour expected of chief executives, particularly through letters of appointment and more clearly articulated expectations.

Role of Treasury

Treasury's role falls into two broad areas: the macroeconomic and fiscal strategy responsibilities of a 'ministry of economics', and the responsibilities of a 'ministry of finance' as the 'financial controller' for the Crown as a whole.

Treasury also has a regulatory quality role and a medium to longer term 'economics' role under the Fiscal Responsibility Act 1994, which was subsequently absorbed into a new Part 2 of the Public Finance Act 1989 in 2004. The roles most relevant to the current discussion fall within the ministry of finance functions, including supporting the government's control and oversight of expenditure (primarily through the annual budget process), and monitoring and reporting actual performance against the Budget.

Macro-level budget control

Treasury manages the complex annual government budget process, with multiple players, diverse interests and tight timeframes, and a budget machinery that focuses on the need for practical processes and systems.

A feature of public management in New Zealand since the reforms has been the strong emphasis on macro-level budget control, the fruits of which have been reflected in sustained structural government budget surpluses of up to 5 percent of gross domestic product.⁸⁰ This emphasis on control at the macro-level was reinforced with the introduction in the early 1990s of fixed nominal 'baselines' for each Vote for three financial years (extended to four years in 2000). The baselines were brought about by the government establishing a multi-year operating allowance that set the maximum increase in total government expenditure in each year's Budget, excluding demand-driven areas such as benefit expenses. Shifts from this baseline required specific budget proposals. This approach meant the primary considerations during budget discussions became firmly focused on incremental changes at the margins of government expenditure through new policy initiatives and addressing increased costs in specific areas. The baselines approach reflected a commitment to keeping control over expenditure (and minimising revenue reductions) at the macro level. The approach resulted in limited emphasis on expenditure within Votes and

80 For an account of New Zealand fiscal policy since 1990, see Norman and Gill (2010). "New Zealand has achieved a record of having one of the longest runs of continuous budget surpluses among OECD countries, with surpluses in the operating balance recorded in every year since the introduction of consolidated accrual accounts in 1994, with the first significant deficit forecast for 2010–2011, based on the economic slowdown due to the impact of the international financial turbulence in late 2008" (Norman and Gill, 2010, p 12):

performance information relating to existing policy initiatives seldom influencing budget decision-making in a systematic way.

The overriding concern for macro-expenditure control, the drive for practical processes, and the reality of some of the ‘politics’ in government budget processes have affected how the system has worked in practice. For example, in few instances have ministers used performance information to be ‘active purchasers’, deciding to discontinue particular outputs (or specific initiatives delivered within outputs). There has also been limited use of benchmarking or costing systems that deliver meaningful information below the levels at which outputs are aggregated for appropriations.⁸¹ A further gap is the absence of reliable cost information at an output (and sub-output) level on which further analysis could be undertaken. For instance, reliable cost information is required to understand cost drivers and identify opportunities for efficiency gains and to assess effectiveness by understanding trends in costs directed to different outcomes areas.

Non-financial performance information: Rise and fall of output specification

Treasury’s role in managing the budget process (and supporting the controller function, discussed below) suggests a role in providing leadership and support to departments regarding the nature and quality of information and practices required to give best effect to the statutory framework and the principles of the public management system. Treasury’s particular interest in this area is in annual and ongoing financial costs and commitments and in non-financial performance information supporting appropriations. (The State Services Commission arguably has a stronger interest in relation to information addressing the medium-term capability of departments, which is generally presented in Statements of Intent.)

Treasury learned from the poor implementation of the budgeting system derived from the planning, programming and budgeting system in the 1960s and, in the early years after the reforms, resolved to dedicate resources to the clear specification of expected output performance (the ‘rise’ of output specification).

81 See Warren and Barnes (2003, p 37): “Efforts at benchmarking – for example, the policy advice shadow pricing exercise in 1994 – have dropped away and there is little evidence available that similar types of outputs are compared or benchmarked in a way that was thought inevitable at the time the reforms were initiated. Concerns about the usefulness and robustness of costing systems continue and there also remains a concern that the specification of outputs is not at a sufficient standard to ensure high quality government performance”.

It did this by providing a series of guidance publications and promoting debates about issues, such as distinguishing ‘price’ from cost of production.⁸²

Treasury also challenged the quality of non-financial performance information, primarily the specification of outputs (structure, outputs, descriptions and performance measures and standards) as part of its responsibilities to support the Minister of Finance to table meaningful Estimates of Appropriations. Departmental performance expectations would be presented in the Estimates and the information supporting the Estimates, notably departmental Statements of Forecast Service Performance and Statements of Intent. From 1992, this high-level information was augmented through more detailed Output Plans,⁸³ which were established between ministers and chief executives.

Output Plans were to be expressed at the level of outputs (distinct from the classes of outputs that formed the basis for output expenses appropriations), with broad descriptions and specific performance information relating, as appropriate, to the quality, quantity, timeliness, cost and location of the goods and services to be provided. All government services, including policy advice, would be costed in the same way as in the private sector, including through application of a capital charge for each department’s net equity (taxpayers’ funds), in lieu of a return on capital, which would also support benchmarking and price comparisons across providers.

With no form or content prescribed in legislation however, the Output Plan was not a formal part of budget documentation and was not designed to support the executive’s accountability to parliament. (Nonetheless, the standard Estimates questionnaire began to ask ministers to provide copies of Output Plans with their responses as part of the Estimates examination processes.) Rather, the greater detail in (draft) Output Plans was expected to more closely reflect the day-to-day relationship between ministers and chief executives and support ministers in making value-for-money comparisons and other trade-offs in the lead up to finalising the Estimates. There was (and continues to be) however, a broad range in the focus and granularity of Output Plans and their overall quality and fitness for purpose. Some plans do little more than re-state the information supporting

82 In addition to *Putting it Simply: An explanatory guide to financial management reform* (Treasury, 1989), Treasury published a series of guidance booklets in the early 1990s, addressing matters such as output costing.

83 Output Plans, known as ‘output agreements’ in the Crown entity sector, were initially known as Purchase Agreements to emphasise a harder-edged contracting approach.

the Estimates, and others provide work programmes at a level of detail well beyond the interest of most ministers.

By the late 1990s, Treasury had pulled back from its leadership role in specific areas such as pricing and benchmarking outputs, following a small number of resource-intensive exercises such as pricing policy advice and costing the processing of inbound passengers to New Zealand.⁸⁴ Reasons for the withdrawal seem to be the resource intensiveness of the exercises, which failed to deliver all the desired benefits and gained limited traction with ministers.

Treasury also pulled back from its earlier approach of directly supporting (and leading) departments in relation to performance specification more generally. Despite the information being presented in the Estimates in each minister's name, there was departmental (and consequently ministerial) resistance to providing further improvements in output specification. This position reflected an increasing view that determining non-financial performance information was the responsibility of ministers and chief executives, including deciding what constituted meaningful information. From the late 1990s, there has been a progressive decline in the quality of output specification. Although many factors contributed to this 'fall' in output specification, one factor is, undoubtedly, the cessation of Treasury's active role in this area.

In the early 2000s, the priority activities for Treasury relevant to this book were the Managing for Outcomes initiative and the Review of the Centre. Although Treasury backed off its leadership role in relation to output performance information, it did apply it in these related areas. Treasury began to return to a more active role in relation to the quality of output performance specification (focusing on the structure and scopes of appropriations) through the 2007 Review of Accountability Documents initiative, which has continued and broadened into a joint work programme with the OAG.

Nonetheless, departments have been pushing back on what they appear to have seen as excessive specification and intrusion into their decision-making space, despite the significant shifts from input-based controls at the outset of the reforms. In spite of the input controls then in place, it may be that managers had greater discretion over what departments did and how they did it before the reforms, than with the post-reform specification of outputs.

Shifting the focus to outcomes

At the same time as the quality of output specification progressively declined, there was a general shift in central agency focus away from efficiency towards

84 See Warren and Barnes (2003).

outcomes and effectiveness. This shift might also be characterised as a shift from ‘making managers manage’ the delivery of specified services to stepping back and ‘letting managers manage’ the delivery of generally described activities.

The 2001 Review of the Centre presented a concern that the focus on outcomes had been inadequate relative to the focus on outputs. In recommending “more emphasis [be placed] on the achievement of ... outcomes” through the accountability and reporting system (SSC, 2001, p 24), the review endorsed the approach begun by central agencies under the banner of Managing for Outcomes. This approach resulted in several departments shifting the focus of their external reporting from ‘outputs’ to ‘outcomes’. This shift was reflected in a move to output classes comprising dissimilar services (which was inconsistent with the statutory definition that focuses on similarity). The predominant reason for grouping dissimilar services together appeared to be that they contributed to the same outcome. The shift that was perhaps expected from the initiative was for departments to increase their focus on outcomes alongside their output information (as required in the legislation). Had this shift been realised in practice, the new information would have gone some way to filling the strategic information gap. As discussed in chapter 5, this is not to say that the shift to an outcomes focus was successful either.

Reinforced by this shift in focus, the structure and descriptions of ‘outputs’, classes of ‘outputs’ and ‘output’ expense appropriations have increasingly taken on the character of ‘outcomes’ for some departments. Many output expense appropriations no longer meet statutory definitions or fulfil the expectations set out in central agency guidance.⁸⁵

The concerns about output expenses related to more fundamental matters such as dissimilar activities being bundled into output appropriations, failing both the criteria and the statutory definitions; insufficient information to provide certainty that boundaries were mutually exclusive; and concerns about the scope not being comprehensive. (Hitchiner, 2008, p 5)⁸⁶

The progressive shift in the structure of output classes unavoidably flowed on to the quality of associated performance information. Performance measures increasingly addressed the volume of activities, process steps, milestones and

85 In particular, *Scoping the Scope of Appropriations* (Treasury, 2005, p 4), which was superseded by *A Guide to Appropriations* (Treasury, 2008a, p 9).

86 Hitchiner (2008) developed sets of criteria based on statutory definitions and central agency guidance as a basis for assessing appropriation scopes generally (clarity, enabling external judgements of compliance, and balance between authority and constraint), with more specific criteria for each appropriation type.

other internal matters, and, more recently, outcomes, frequently at the exclusion of information on the associated outputs. Performance information about the quality of the services being delivered (other than the ubiquitous and generally meaningless focus on ‘customer satisfaction’) has decreased.

Logically, this shift in practice from outputs to aggregations of activities that contribute to a common outcome means that the reliability of cost information must also be uncertain. By their nature, outcomes (and impacts, although to a lesser degree) are affected by multiple departmental outputs and other interventions, including those of other departments. Departmental costing systems are not robust beneath the output class (appropriation) level, with many not robust at that higher level either.⁸⁷ Output cost information does not provide an adequate building block to enable different packages to be costed accurately.⁸⁸

A further result of the greater focus on outcomes and the ‘rise and fall of output specification’ is that the controls intended through appropriations are more diffused. A flow-on from this change is the almost invariable effect of shifting the locus of control and decision rights around the selection of interventions to ministers (away from parliamentary scrutiny) and then to chief executives. Under appropriations and Output Plans based on outcomes, relative to more clearly bounded outputs, chief executives have greater flexibility in determining the nature, volume and quality of interventions, attenuating ministerial responsibility for the selection of interventions.

Appropriations: Starting point for expenditure by the executive

Performance information was to be captured in the structure and scope of each appropriation and supported by non-financial information pertinent to each of the six appropriation types. The scope and value of each appropriation and the period to which it applied provided the constraints within which chief executives were able to manage. The structure of the appropriations and the associated non-financial performance information was intended to provide the context for

87 For instance, one finding from a survey Treasury commissioned was that 86% of managers reported that the barriers to improving financial management in departments included “inadequate operational performance management and management accounting information on which to base future resource allocation decisions” (Treasury, 2008c, p 7).

88 Despite the ‘known’ softness of departmental costing systems, the OAG has not made specific negative comments about output costing since its 1997/98 annual report, and there have been no qualified audit opinions in respect of cost allocation systems since two in 1995. In 1999, the Auditor-General, in respect of “flexible use by departments of ... changes to cost allocation models, especially at the end of the financial year”, did comment that, “These changes may have the effect of appearing to improve the department’s compliance with Parliament’s appropriations” (OAG, 1999, p 30).

parliament to understand the purpose and limits of the authority for which approval was sought. Through output expense appropriations (in particular), each portfolio minister reported the allocation decisions they had made, along with information on desired contributions to more immediate impacts and/or longer-term desired outcomes.

One of the core building blocks of the formal system was clarity of objectives – relating policy objectives for the medium term to outcomes and delivery expectations for the more immediate period to outputs. Clarity of the output expenses appropriations should provide a strong starting point for the latter. Progress was made in the early years on improving clarity and hence reducing the imbalance of information available to ministers relative to their departments. For instance, in the 1991 budget process, ministers included decisions to discontinue some outputs – they had good output information and they used it (Warren and Barnes, 2003, p 11). This approach is in marked contrast to budget decisions for across-the-board percentage reductions in baseline expenses or, more recently, reductions in or limits on employee numbers.

In practice, New Zealand has moved from the goal of budgets based on costed outputs, to baselines for each output class (output expense appropriation) and then to pseudo baselines operating at the departmental level. Performance expectations presented broadly as a result, guide chief executives in selecting the mix of interventions within these ‘departmental’ baselines.

The major effect of the declining rigour in the structure and scope of appropriations is the challenge that it creates for making confident and repeatable judgements that actual expenditure falls within the scope of each appropriation. The 2004 amendment to the Public Finance Act 1989 formalised reporting requirements for Treasury as the coordinator of information for the OAG on expenditure against the limits established by the appropriations. (The formal controller function remained with the OAG as an independent statutory role to retain an element of protection.) This coordination role has the effect of strengthening Treasury’s role as the financial controller for the Crown. It is, therefore, somewhat surprising that Treasury has not sought to re-establish itself in a leadership role in relation to the quality of the ‘building blocks’ and non-financial performance information (output specification).

Leadership or lacunae?

Overall, leadership from Treasury on matters relating to the quality of information, particularly the building blocks – output expense appropriations and the non-financial performance information to support them – has been variable and has generally decreased since the early years of the reforms. The results of

this decreased leadership from Treasury has been a shift from some of the apparent rigour that began to emerge early on to an approach that has appeal in terms of greater flexibility, even though it may not meet the statutory requirements and guidance as they were intended. The effect of the renewed focus by Treasury in this area beginning with the Review of Accountability Documents was mixed and more diffused than the shift achieved in the structure and presentation of the information.

In reality, however, in practice, parliament and ministers do not reward transparency. We see little evidence of parliament using output-based, capability-focused or outcome performance information to actively scrutinise the executive, and ministers do not appear to seek or rely on comprehensive (or even high-level) performance information. Further, as discussed above, Treasury and the State Services Commission have stepped back from ‘leading’ the debate on what constitutes good performance information, and the OAG is focused on ‘evidence’ of performance as the basis for attesting to financial reports. Departmental reporting is selective, with judgements about the performance information to be reported seemingly based on factors such as loyalty to the minister and the predictable desire to put the agency’s performance in the best possible light. Decisions about what to report are less likely to be informed by the abstract concept of ‘meaningful performance information’. The predominance of the former is inconsistent with the underlying premise that performance information is objective.

Role of the Controller and Auditor-General

The overriding role of the Auditor-General is to provide parliament with assurance on the activities and spending of public organisations.⁸⁹ In this section we consider the Auditor-General’s role in setting audit standards, the effect of the audit role on what departments report, the relevance of medium-term information for general purpose reporting, and we consider the skills required for auditing financial reports and service performance reports.

The Auditor-General is also responsible for the ‘controller’ function. We consider how this function is carried out and its ongoing value, and discuss whether appropriations provide an effective control on expenditure.

89 The more familiar title of ‘Auditor-General’ rather than the formal ‘Controller and Auditor-General’ is used in this chapter.

Auditing standards: What auditors are looking for

The arrangements for setting financial reporting and assurance standards are complex. A recent government discussion document on accounting standards notes that the setting of assurance (auditing) standards is the sole responsibility of the New Zealand Institute of Chartered Accountants.⁹⁰ The document observes that, “These processes are inconsistent with the need for standards to be seen to be designed and approved in ways that are independent of the interests of the accounting [and auditing] profession” (MED, 2009, p 11).

The Auditor-General also has the power to set auditing standards for public sector organisations.⁹¹ Although these auditing standards are based on those the New Zealand Institute of Chartered Accountants has set for application in the private sector and are transparent, the Auditor-General is, nonetheless, involved in setting the standards it applies in issuing statutory attestations (audit opinions). This involvement in setting and applying standards and the resulting potential for ‘back door regulation’ may soften the OAG’s independence. The Auditor-General may potentially set auditing requirements that in practice become ‘rules’ over and above those in legislation or central agency guidance.⁹² An important question in such situations is whether the ‘extended’ requirements increase the value of the information.

The Auditor-General issued the first auditing standard for service performance information in 1996. Under that standard, auditors focused on “the standards of service delivery compared with forecast standards in the statement of service performance”. The Auditor-General issued an updated standard (AG-4 (revised)) in 2009. The standard will be implemented over a three-year period with audit opinions expressed under this standard for 2010/11 reports for many departments and some Crown entities. The ‘subtle yet important change’ in the revised standard, noted earlier, is that despite three Auditors-General since the

90 The discussion document set out proposals to improve the current standard-setting framework by, among other things, making significant changes to the entities involved in setting standards for financial reporting and assurance. “We are proposing to deal with these problems by consolidating all functions, along with the responsibility for making and approving assurance standards within a reconstituted [Accounting Standards Review Board], to be called the [External Reporting Board]” (MED, 2009, p 11).

91 Section 23 of the Public Audit Act 2001.

92 For instance, it is worth considering the role of information on outcomes, impacts, and objectives, including targets. The Auditor-General, including in the auditing standard, appears to expect this information as part of annual statements of service performance, which are directly subject to the annual attest audit report. The legislation, however, establishes this information as part of the broader contextual information that is intended to relate to (at least) the full period covered by the information (a minimum of three years) and is not directly subject to audit opinion.

early 1990s having threatened to and not done so, auditors will now be required to express an opinion on whether the statement of service performance fairly reflects actual service performance for the year. The argument provided to support this shift is that it reflects increased interest in the public sector in improving the quality of external service performance reports, with a focus on having those reports reflect the entity's management of performance and actual achievements.

Tyranny of the easy to measure

In the early 1990s, the OAG (alongside Treasury) promoted a simple approach to performance measures. The expectation appeared to be that there would be one performance measure for each facet of performance – quantity, quality, timeliness and cost – for each output; location was acknowledged as being applicable by exception. Performance information for some output types could, however, be focused on qualitative information only; others could be about volumes and timeliness, and so on.

The OAG implemented the auditing of statements of service performance progressively. This approach allowed capability to develop. Progressive implementation also assuaged chief executives' concerns about receiving a qualified audit opinion or an adverse grading or comment in the management letter from their auditor. The audit approach initially focused on selected standard areas from financial auditing, such as *reliability* and excluded consideration of *appropriateness* (of outputs, output classes, and performance targets) and *relevance* (to strategic objectives).

Despite this progressive implementation of the auditing standard (both the original and revised), departments adopted a keen focus on measurability. In doing so, departments increased the emphasis in their ex ante service performance reporting on those aspects of performance that were relatively straightforward to achieve. These aspects also tended to be those for which the task of providing evidence of actual performance was relatively straightforward. This narrowed approach, perhaps a 'tyranny of the easy to measure', enabled departments to 'do well' under the audit process. Overall, this approach has arguably contributed to the lack of progress in improving the quality of service performance information (or has been unhelpful in preventing the decline).

That said, it is also important to recognise that, unlike Treasury, in particular, and the State Services Commission, which have elected to vary their leadership role in this and related areas, the Auditor-General cannot resile from the statutory requirement to attest to the statement of service performance included in the Annual Reports of government departments. The statutory obligation coupled

with the absence of auditing standards, in particular, has meant that the Auditor-General has had to take a position on filling the gap.

Medium-term context for service performance

The OAG has frequently commented that the quality of medium-term information⁹³ in departmental Statements of Intent, as well as annual service performance information,⁹⁴ is variable and of mixed value for users. Seemingly as part of encouraging departments to lift the quality of this information, Treasury (2008b, p 22) guidance on the preparation of service performance reports (as part of annual reporting) encourages departments to include impact, outcome and information on the achievement of objectives in the statement of service performance.⁹⁵ Although the 2008 guidance advocates the inclusion of outcome information “to provide context for the output information” (Treasury, 2008b, p 22) the approach adds uncertainty.

As a consequence, the audit process has broadened to include an explicit focus on information relating to the nature and achievement of outcomes (and impacts and objectives). The earlier approach was for information on relationships between outcomes and outputs (output classes) to be provided in the Annual Report as a whole, as part of reporting against the medium-term undertakings, risks, and so on in the general operating intentions part of the Statement of Intent and Annual Report.

It is open to debate as to where this contextual information is most usefully presented, and the ‘preferred’ option may vary with circumstances. The emerging approach of requiring a high level of outcome information to be included with the annual output performance information may indeed be the most meaningful approach in some, perhaps all, situations. The issue for the moment however, is that the inclusion of outcome information in the ‘audited’ domain is inconsistent with the formal system.

93 The medium-term information is distinct from the annual information in forecast financial statements, including the Statement of Forecast Service Performance, and focuses on strategic direction, outcomes, impacts and objectives, and organisational capability (section 40 of the Public Finance Act 1989).

94 In a letter to departmental and Crown entity chief executives in December 2009, the new Auditor-General stated, “I admit that I was disappointed to find on returning to this Office that performance reporting has improved very little in the last 15 to 20 years despite a lot of talk and considerable effort by many”.

95 The 2004 amendment to the Public Finance Act 1989 introduced “impacts” and “objectives” to sit alongside “outcomes”. Impacts are defined as “the contribution made to an outcome by a specified set of outputs, or actions, or both” (section 2(1) of the Public Finance Act 1989). ‘Objectives’ are not defined.

Statements of Intent, for which departmental forecast reports were the forerunner, are intended to provide medium-term operating intentions and information on intended contributions to impacts and outcomes for each department. In 2007/08, the OAG began formally reviewing, commenting on and suggesting improvements, and issuing grades for Statements of Intent. The OAG has lamented the poor quality of performance information:

the quality ... was variable and ... government departments had made only small, incremental improvements in quality on the 2004/05 [Statements of Intent]. (OAG, 2007a, para 8.104)

The OAG went on to comment on three areas for improvement. The two most relevant to the current discussion were:

setting out the logic and evidence that links the key outputs produced to the outcomes worked toward; ... and refining the output and outcome indicators and gradually introducing outcome reporting in Statements of Service Performance. (OAG, 2007a, para 8.104)

This recent development, with Treasury's encouragement, has broadened the financial audit process to include an explicit focus on forecast measures and targets relating to the achievement of impacts and outcomes, and information on actual contributions made. Thus, outcome and impact performance information has become subject to the formal attest audit opinion. Although the information is appropriate for inclusion in 'general purpose financial reports', which are intended to provide information to meet the needs of external users who cannot seek special reports to meet specific information needs, there is less certainty as to its preferred location. This information could be part of the contextual information in the general narrative of a Statement of Intent and Annual Report or be part of the specific performance in the reporting year to be attested by the auditor. An unintended flow-on effect of the latter option is the potential that departments will over-simplify the performance information to include only information for which reliable evidence is available (irrespective of whether it is meaningful), in the same way as has occurred for service performance information.

Despite statutory requirements for nearly 20 years for information on outcomes and non-financial performance measures, the Auditor-General's recent review of Statements of Intent (OAG, 2008a, p 3) concluded that:

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.

It is important to note that, even if reporting is reliable, the extent to which ex post reporting is meaningful will always be low when the ex ante specification of performance undertakings to which it relates is low at the outset. The recent change to the auditing standard, means auditors are no longer limited to making comparisons with forecast measures and standards. Indeed, auditors may start to set measures and standards, depending on the degree to which attesting that statements fairly reflect *actual service performance* requires them to be explicit about what information would satisfy this test.

Capability: Mismatch of skills

We recognise that the absence of reporting standards for non-financial performance reports requires more judgement, both for those preparing reports and for auditors in issuing opinions on reports. (OAG, 2010a, p 47)

There is some uncertainty about financial auditors' ability to make some of the judgements required when auditing non-financial information, given their professional training in financial audit methodologies.⁹⁶ Financial auditors, or at least those able to express an audit opinion, are regulated as accountants and are not specialists within the accounting profession, requiring additional or different expertise. In the public sector, this situation creates even greater concerns given the requirement to report and audit service performance as well as traditional financial information. Although a range of skills may be used in financial auditing, there is little experience or expertise internationally in auditing annual service performance (non-financial) information and expressing positive attest opinions since there is limited requirement for it.

Risks of 'audit failure' have, however, been avoided by the conservative approach that the OAG has taken to auditing service performance statements. The narrowed audit focus is a (relatively) comfortable space for financial auditors trained as part of the accounting profession. The nature of evidence to support quantitative and timeliness measures, which are the areas primarily reported, is consistent with the systems-based focus for auditing financial statements. This information is relatively straightforward for departments to report (and evidence) and auditors to audit. The OAG has repeatedly noted concerns about the poor

96 Performance (or value-for-money) auditing considers performance across the three Es – efficiency, effectiveness and economy (extended in some settings to a fourth E – equity). The OAG has a multidisciplinary team for undertaking this function.

quality of information relating to the quality of services.⁹⁷ It is less clear, however, whether the emphasis of those concerns relates to the appropriateness or ‘relevance’ of the measures or to the ‘reliability’ of the evidence supporting reported performance.⁹⁸ The practice of departments reporting little qualitative and subjective information may also relate to the relative difficulty for them to provide evidence and less familiarity of auditors with qualitative measurement and reporting techniques.

The OAG’s shift towards active consideration of relevance and appropriateness explicitly asks something different of the auditors involved as the assessment required takes a significant stride from ‘certification’ towards ‘evaluation’. The revised audit standard implicitly acknowledges concerns about assessing ‘appropriateness’ by indicating that it should be considered from a standard (OAG, 2009a, para 18).

Controller function: Anachronism or critical protection

Although historical and somewhat arcane, the controller function has an important place in New Zealand’s constitutional arrangements, “It shall not be lawful for the Crown, except by or under an Act of Parliament, ... to spend any public money”.⁹⁹ The Public Finance Act 1989 states that, “The Crown or an Office of Parliament must not spend public money, except as expressly authorised by or under an Act (including this Act)”.¹⁰⁰ Thus, the controller function reflects the principle that governments must have the consent of parliament before they can spend, borrow, or impose a tax and provides assurance that government expenditure has “been incurred for purposes that are lawful and within the scope, amount and period¹⁰¹ of the appropriation or other authority” (OAG, 2010b).

97 “The qualitative characteristics of non-financial performance reports are the same as those applying to financial reports” (OAG, 2009a, para 1.8). The standard goes on to refer to the Framework for the Preparation and Presentation of Financial Statements, “The quality of the information presented in the non-financial and supplementary information should be considered with regard to the qualitative characteristics and constraints on those qualitative characteristics discussed in paragraphs 24 to 45 of this NZ Framework” (New Zealand Equivalent to the International Accounting Standard Boards Framework for the Preparation and Presentation of Financial Statement, para NZ 101.3). The effect of this cross-referencing is that the qualitative characteristics defined for financial reporting purposes are now applied to service performance reporting without amendment.

98 Relevance and reliability are two the four qualitative characteristics referred to in the framework for financial reporting, along with understandability and comparability (paras 24–45).

99 Section 22(c) of the Constitution Act 1986.

100 Section 5 of the Public Finance Act 1989.

101 Sections 8–10 of the Public Finance Act 1989 specify the limitations around amount, scope and period, respectively.

The reforms brought two changes to the controller function; one that reduced and one that enhanced the function. Despite the shift to accrual accounting and accrual appropriations, the function initially remained a control on cash payments, with the Auditor-General, acting as controller, retaining an ability to stop payments from a Crown or departmental bank account, based on daily information on aggregate disbursements. The Auditor-General's role in undertaking an audit of appropriations evolved during the 1990s and was formalised in the 2004 amendment of the Public Finance Act 1989. The appropriation audit, which is now undertaken as part of the statutory financial audits of departments,¹⁰² focuses on forming a view that a department has stayed within all of the appropriation limits. This change recognised the meaningless nature of the daily certification process. Although the controller still has the power to stop payments in cases where illegal expenditure has occurred, it is a somewhat symbolic ability to 'control' the lawfulness of public expenditure. On the other hand, formalising Treasury's obligation to provide monthly reports to the Auditor-General to confirm whether expenses and capital expenditure have been incurred in accordance with appropriations,¹⁰³ seems to have improved the quality and timeliness of information relating to the amount of appropriations, including expenditure under imprest supply.

The 2004 amendment also gave the Auditor-General the power to direct a minister to report to the House of Representatives in circumstances in which unlawful expenditure appears to have been incurred that is not within any of the limits of an appropriation.¹⁰⁴ This power has been used only once.¹⁰⁵

102 Within financial audits, the appropriation audit is conducted against the specific auditing standard set by the Auditor-General. The standard requires auditors to test whether expenditure charged against an appropriation has actually been incurred for the specified purposes in order that the Auditor-General may provide assurance "that expenses and capital expenditure of departments have been incurred for purposes that are lawful and within the scope, amount and period of the appropriation or other authority, and that, where this is not the case, the matter is appropriately dealt with" (OAG, 2005a, para 1.4). "Particular areas of interest in an appropriation audit include departmental budgetary procedures, systems and procedures for monitoring performance against appropriation, and cost allocation systems" (OAG, 2005b, para 5.20).

103 Section 65Y of the Public Finance Act 1989.

104 Section 65Z of the Public Finance Act 1989.

105 In 2006, the Auditor-General found that Parliamentary Services allocated funding outside the scope of the relevant appropriation. As required, the Speaker, as the minister responsible for the appropriation, reported to parliament on the nature and extent of the breach of the appropriation, the events that gave rise to it and the remedial action proposed to correct it. The proposed remedial action included validation of the expenditure.

Appropriations as an effective control on expenditure

The monthly Treasury reports and the audits of appropriations tend to focus on the more straightforward limits provided by an appropriation – amount and period. The scope of an appropriation is intended to stand alone in limiting the purpose for which expenditure may be incurred. No additional information should be required in order to understand that purpose. To be effective in limiting expenditure in this way, a scope must enable external judgements to be made that expenditure is within or outside scope, in the same way that judgements are made that expenditure is outside the limit on amount. Treasury guidance on the significance of appropriation scopes makes the point that departments should take care that the scope of appropriations they administer are well specified so as to provide an effective basis for this authority to incur expenditure. The guidance also states that “a poorly defined appropriation scope undermines the effectiveness of Parliamentary approval and scrutiny of expenditure” (Treasury, 2005, p 2).¹⁰⁶

In the report on the 2006/07 central government audits, the Auditor-General cited the Treasury guidance and recommended that:

departments carefully consider the scope of appropriations, in conjunction with the guidance available from the Treasury, before they are included in the Estimates of Appropriation for approval by Parliament. (OAG, 2008b, para 6.05)

Despite such exhortation from both agencies, the quality of appropriation scopes is poorer than in the early years of the reforms. About half of all appropriation scopes in the 2006/07 Estimates were clear about the purpose to which expenditure could be directed and the boundaries within which expenditure could be incurred; those that were clear were mainly for capital expenditure, borrowing, and benefits. The remaining scopes were at best uncertain and many clearly failed in multiple and frequently fundamental ways to meet the statutory definitions and the requirements set out in the guidance. Although this assessment varied considerably across appropriation types, most of the scopes that were inadequate for providing a meaningful form of legal constraint were for output expenses (Hitchiner, 2008).

Further, there almost appears to be an acceptance that poor appropriation scopes are part of the system: “We have seen examples where the scope of an

106 “Scope specification will meet this objective where it: acts as an effective constraint against non-authorised activity; does not inappropriately constrain activity intended to be authorised” (Treasury, 2005, p 2). This guidance was superseded by *A Guide to Appropriations* in 2008 (Treasury, 2008a).

appropriation is so broad that it is not possible to get a clear understanding from the scope description what activities are actually being funded within an appropriation". Although the OAG goes on to say that, "This affects the effectiveness of Parliamentary scrutiny, and approval of expenditure within Votes" (OAG, 2007a, para 6.123), it does not seem to have impeded the OAG in providing assurance that expenditure was lawful.

The question then arises, so what happens when there is a breach of appropriation limits, whether amount, scope, or period?

The Public Finance Act 1989 sets out the requirement to and process for validating expenses or capital expenditure incurred outside the scope or beyond the amount of an appropriation. Breaches of such appropriation limits constitute unlawful expenditure that is usually remedied through an annual Appropriation (Financial Review) Bill under section 26C of the Public Finance Act 1989. This section requires the minister responsible for the expenses or capital expenditure to explain the expenditure. The explanation is reported in the financial statements of the relevant department.

Each year, the Auditor-General also reports the numerous breaches of appropriation controls. In one report, the Auditor-General stated, "the quality of the explanations being provided is variable" (OAG, 2001, p 83). This report went on to note (p 83) that:

There is a significant difference in the gravity of situations where an appropriation breach resulted from an unforeseeable forecast error and where it arose from a conscious decision to disregard the terms of the appropriation.

Although the report does not comment further about the latter point, the statement may have left readers wondering whether they should be concerned that chief executives (and ministers) were consciously disregarding the terms of the appropriations, rather than being comforted that they were not. That said, disregard is in many respects unsurprising given the softness around some of the fundamental building blocks and the lack of meaningful consequences for unlawful expenditure.

Differing positions on the importance of validating expenditure are evident in two events. In 1990, soon after taking office, the new Minister of Finance took some time before she finally acquiesced to completing the formalities and signing the necessary documents to propose legislation to legalise unlawful expenditure based on the audited financial statements for the previous financial year. In the end, it seems she was persuaded to sign simply because not signing would make no difference. A quite different focus was brought to bear in 2006, when the OAG

determined certain expenditure relating to the previous year's general election to be unlawful and required that the matter be reported by the minister responsible to the House of Representatives.¹⁰⁷ In that report, the minister stated:

Without validating legislation, the unlawfulness remains. ...

Appropriation by Parliament is a cornerstone of the New Zealand Parliamentary system and of such importance that I have decided to recommend that validation not await the normal annual validation process. (Minister Responsible for Vote Parliamentary Services, 2006, para 36(a))

Overall, however, the relatively small proportion of government expenditure involved,¹⁰⁸ reflects the efforts that chief executives put in to avoid the need to seek validation. Although variable across years, the frequency of unappropriated expenditure appears to be reducing. This may reflect that it is increasingly difficult to judge whether that expenditure is clearly within or outside scope.

Relationships between the primary actors

This section explores the relationships between the primary actors in the organisational performance management system: firstly, between parliament and the executive; and secondly within the executive between ministers, the State Services Commissioner and chief executives. The section concludes with an examination of whether the roles as implemented have reinforced the system design or undermined it.

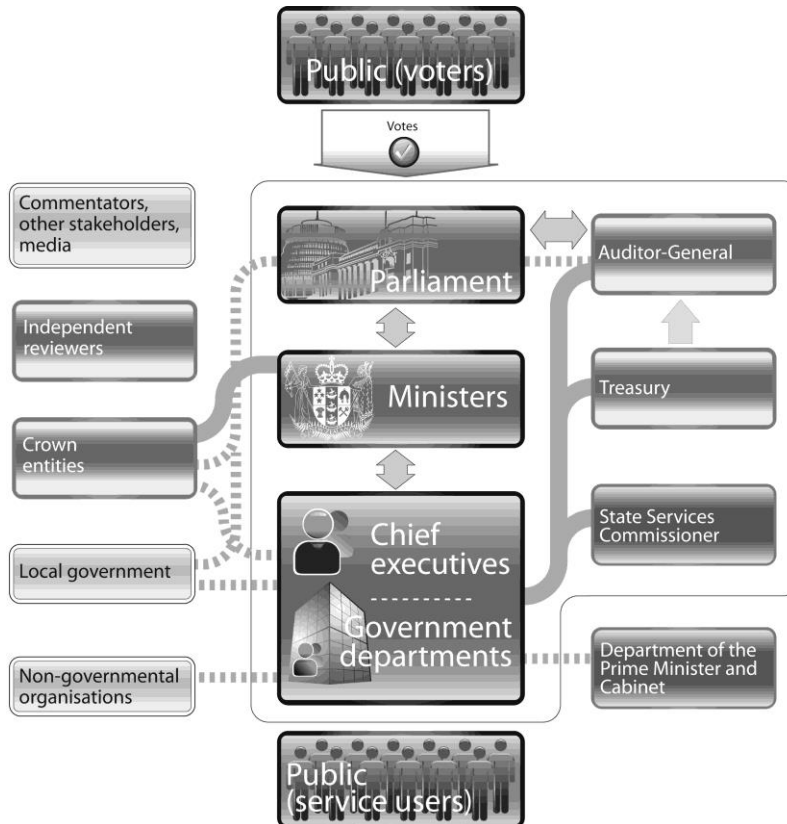
Parliament and the executive

The formal role of parliament is to hold the government of the day to account. This role is more than a formality, as parliament has the power to bring down a government by passing a motion of no confidence. Short of that, parliament authorises the supply of money and scrutinises spending. This scrutiny can occur through a variety of mechanisms, including select committee examinations of the annual Estimates of Expenditure, reviews of departmental annual reports, questions in the House of Representatives, parliamentary inquiries and follow-up of audit office reports. The information flows between parliament and the executive are depicted in Figure 4.1.

107 Section 65Z of the Public Finance Act 1989.

108 In 2008/09, there were 39 instances of expenditure outside the terms of an appropriation and totalling more than \$927 million (OAG, 2010, para 3.5). In 2005/06, the first full year of operation of the Public Finance Act 1989 following its amendment in 2004, 84 breaches of appropriations involving 21 departments were reported (OAG, 2007, para 6.114).

Figure 4.1: Actors and performance information flows between parliament and the executive



It is important to note that these scrutiny activities are not managerial processes searching for efficiency and effectiveness; rather, the activities are political processes in the quest for political power. How parliament institutes these formal review and scrutiny functions is affected by the differences and tensions between management ideas of accountability and the political reality of the contest for power. Consistent with many commentators before him, Mark Prebble (2010, p 187) observed, “The opposition does not criticise the government in order to improve it; it criticises with the hope of replacing the government”. This comment is based on Andrew Ladley’s “iron rule of political contest” (Prebble, 2010, p 113).

The reforms changed the form in which parliament was supplied information and the basis on which appropriations were made to authorise expenditure, which significantly increased the amount and sophistication of the information provided to parliament for consideration. The formal budget documents have become

considerably larger, providing greater transparency through details about outputs (and other appropriation types) and changes in ownership values. Previous Budgets were one volume of narrative and one of the Estimates, which provided minimal cash-based broad ‘programme’ information. For example, as a result of the reforms, 56 programmes were replaced by “a comprehensive schedule of 774 costed outputs” (Warren and Barnes, 2003, p 11).

Review of Accountability Documents

For the nearly 20 years since the reforms until 2009/10, in addition to various high-level documents such as the Budget Policy Statement,¹⁰⁹ budget information included:

- the Estimates, which provided accrual-based analysis of expenses and planned changes in balance sheets, and established the authority for ministers to incur expenditure (through the limits created by individual appropriations)
- departmental Statements of Intent, which assessed strategic issues facing departments in terms of capability and performance, medium-term operating intentions, and forecast financial statements and Statements of Forecast Service Performance.

Following the Review of Accountability Documents,¹¹⁰ significant structural changes were made to the way information was presented to parliament. The Estimates were streamlined to focus on the information required to set out the limits of the appropriations for which authority was sought; information supporting the Estimates was provided separately. Four changes are of particular note (and concern) for the current study.

- The supporting information is presented in ‘sectors’ that were broadly based on the jurisdictions of select committees. This approach is somewhat arbitrary and potentially unhelpful, given the inconsistent and often overlapping scope of select committees and the difficulties in identifying coherent and mutually exclusive ‘sectors’ in government activity.
- Each department’s Statement of Forecast Service Performance is separated from the medium-term information. It is now more difficult for users to link annual performance information with a department’s financial and medium-term performance information.

109 A formal statement of “the broad strategic priorities by which the government will be guided in preparing the Budget” for the next financial year, which is required under section 26M of the Public Finance Act 1989.

110 The only information available on the Treasury website is the mechanical guidance to departments on the changes to the Budget documentation (Treasury, 2008a).

- Statements of Intent now address medium-term operating intentions and capability management only; annual service performance information and forecast financial statements were provided separately. This change reversed the drive under Managing for Outcomes for the Statement of Intent to be used to ‘tell an integrated performance story’.
- There is a renewed focus on the clarity and certainty provided by appropriations as the legal mechanism for ‘limiting’ expenditure. A process for a (relatively) systematic review of the structure and scopes of appropriations was started, which appears to have tailed off.

Although the separation of annual and medium-term information is regarded by some as a loss of integration, the relationship between annual and medium-term information in statements of intent, or even between annual information on financial and service performance, was seldom obvious. One effect of the separation, however, was to highlight the merits of seeking medium-term capability information and an uncertainty about the value of requiring financial statements for all departments (as distinct from the value of reliable output cost information).

Performance information better supports parliament’s scrutiny of ministers

Under input budgeting, it was virtually impossible to debate the results expected from spending, rather than simply the sums allocated for the inputs, or to receive information on departments’ capability to deliver services. Under output-based budgeting supported with information on longer-term trends, impacts and outcomes sought, and medium-term operating intentions, the information base for debate had changed. The reforms did not, however, change the essential reality of the fundamental political contest under way, and debate about the focus of and results expected from spending decisions seldom occurs.

One of the premises underpinning the reforms was that parliament would use departmental performance information to scrutinise the performance of the executive. Despite dramatic increase in the quality and coverage of budget information, however, the considerations by parliament and its select committees have barely changed. The search by the opposition to embarrass the government did not seem to focus on probing into or supporting changes to improve the effectiveness or efficiency of state sector performance. Instead, there was a continued focus on inputs, such as staff numbers (police, corrections officers and health practitioners), processes for selecting consultants (a repeated focus for select committee examinations and questions in the House of Representatives),

and travel and accommodation (including that of ministers), with a limited interest in outputs or outcomes.

The 'political' reality of the relationship between parliament and the executive is vividly illustrated in the Department of Corrections case study (chapter 9). A prisoner rehabilitation programme, demonstrated by a formal evaluation as being ineffective in reducing recidivism, was discontinued. This decision was challenged by the select committee for not having been taken sooner.

Although these examples may highlight areas of waste that would usefully be exposed, the tenor of the discussions was more simply an ongoing search for new grounds to attack the government of the day.

Every department and agency of state prepares an annual report, which is tabled in parliament. The report outlines the achievements for the year, including data on finances and employment. Members use the report in select committee as they conduct the annual review. Senior officials appear before the select committee for questioning, commonly up to one or two hours. Members leaf through annual reports, looking for curly questions. (Prebble, 2010, p 173)

Annual reviews are not always a matter of tedious compliance. Occasionally, the annual review hearings are exciting; perhaps there is some controversy. A normally quiet committee room fills with journalists and television cameras. Members take turns to ask pointed questions; officials slowly turn on the spit. There is an art in such circumstances. For the official, it is a very good day at the office when two hours of questioning with cameras rolling lead to nothing on television that night. Journalists' eyes droop as the bureaucrat gives a series of measured answers, carefully avoiding quotable quotes. (Prebble, 2010, p 174)

New Zealand's adoption of a proportional representation electoral system in 1996 has resulted in a succession of minority governments. One effect of this situation is that, with members from the opposition and government support parties in the majority and often with non-government chairs, governments can no longer rely on select committees being on the side of the executive. Government members typically take a fairly passive role on a committee, while opposition members seek information with which to embarrass the government.

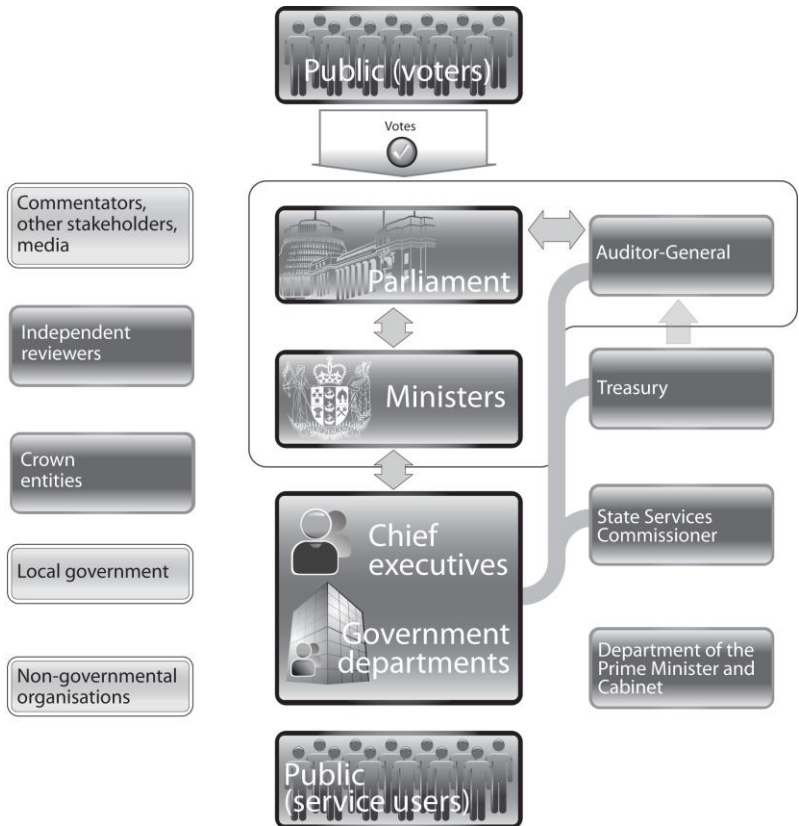
Ministers, State Services Commissioner and chief executives

This section draws out a significant difference between the roles of ministers, the State Services Commissioner and chief executives under the legislative framework and the actual roles that these actors have adopted.

The analysis suggests a far more complex reality than a simple principal–agent model where the agent reaches agreement with the principal on specified performance and the principal then monitors performance against that agreement. Rather, it suggests a world of multiple principals, with ministers facing different imperatives from departmental chief executives, and the commissioner increasingly defining performance in terms of ‘soft’ factors. These soft factors include stakeholder engagement and relationship management with the minister, in particular, that contrast with ‘hard’ factors such as measured output (or outcome) performance against expectations. Although the commissioner may be actively managing chief executive performance, the practice is far from the simple principle of having adequate information to hold players to account.

The information flows between ministers, the State Services Commissioner and chief executives are depicted in Figure 4.2.

Figure 4.2: Actors and performance information flows among ministers, the State Services Commissioner and chief executives



Ministers as purchasers

In theory, the Output Plan (and before that the Purchase Agreement) is used to clarify expected output delivery performance by specifying what is to be delivered in greater detail than in the information supporting the Estimates. Departments report to their ministers against this plan throughout the year (quarterly and increasingly four monthly, and sometimes monthly) to facilitate monitoring, and will often provide a full-year report at the end of the fourth quarter, which also provides the basis for the Annual Report. In formal terms at least, the Output Plan reflects output performance expectations between a minister and a chief executive. The commissioner uses the Output Plan to inform the performance expectations of chief executives in the performance management and review processes.

So what roles did ministers, chief executives and the commissioner perform under the new system? In practice, the minister–chief executive relationship is

not a ‘managerial’ or principal–agent relationship in which ministers set standards and monitor managers’ achievement of those standards. The reality is that “the involvement of Ministers in chief executive accountability documents has been miniscule” (Norman, 2003 p 152). Further, there is (as there has always been) a degree to which it is advantageous for chief executives – and ministers – to tell the most favourable performance story possible, especially in formal documents.

In practice, the minister–chief executive relationship is more of a ménage à trios with the commissioner. The minister’s interest generally appears limited to a subset of what the department does. The chief executive is responsible for leading day-to-day operations with some focus on the medium term. The commissioner safeguards the tradition of non-partisanship by being available to offer support if (when) the relationship comes under strain. As one chief executive observed, “having the [State Services Commission] come in is like having a marriage counsellor in the bedroom; it takes away the magic” (Lodge and Gill, 2011).

Experience suggests and the case studies in Part Three show that individual ministers approach the responsible minister role quite differently. In general, ministers do not play an active role as purchasers. As a former Minister of Corrections in the case study in chapter 9 observed:

there is often a disconnect between Ministers and agencies and it’s just hard to know how you actually ultimately resolve that around performance. In fact, most of the time – once you’ve been through the first term, you get your portfolios changed – I knew nothing about my new portfolio.

This minister went on to describe how:

by and large, the only way that I managed to try and make some sense and keep your sanity was to identify one or two key policy areas that I was keen on developing and just chip away on that, while trying to keep the rest of the ship kind of afloat. That was the way I managed that.

It was more generally contended by Simon Upton, the Minister of State Services in the National-led government in the late 1990s, that it was unrealistic to assume that ministers “cheerfully fulfil all of the requirements of the current public management system” (Upton, 1999, p 11). As he went on to put it (p 12):

The theory ... relies heavily upon Ministers playing their role as principals in a contractual regime comparable to a marketplace. We are expected to be energetic and well-informed purchasers, monitoring output delivery and bringing particular sanctions and pressures to bear as required. The reality is far from a market model. It is characterised

more by monopoly supply, compliant demand, arbitrary prices and asymmetry of information. ... The simple reality is that Ministers do not stop purchasing from one department and actively look to purchase the same service from another ... Ministers [do not] religiously adjust quantity and quality dimensions in their Purchase Agreement in response to changing resource levels and changing third party demand.

State Services Commissioner as employer

The State Sector Act 1988 perpetuated the triangular relationship between the responsible minister, chief executive and State Services Commissioner. The commissioner was the employer of chief executives and undertook the performance review on behalf of the responsible minister. The formal chief executive performance agreement as a standalone, annually agreed document was abolished in 2002 and, over time, the commissioner's performance reviews downplayed formal ex post performance information. The performance review process placed increased emphasis on subjective feedback from internal and external stakeholders with the relationship with the minister firmly at the heart of the review. As one chief executive observed, "they get 10–20 references. What matters is the view of the Minister. You either have the confidence of the Minister or not" (Lodge and Gill, 2011).

More recently, the commissioner has moved to shift the balance away from so much reliance on stakeholder feedback.

Non-partisanship

Loyalty remained 'serial' in that chief executives were to serve the ministers of the government of the day. Loyalty is described as serial because most ministers hold a particular portfolio for two to three years, while for most chief executives their initial term of appointment is for five years with many remaining in their positions for up to eight years.

[G]ood public servants will not complain about the government or the minister. They will not leak information to the media and will not withhold advice that could strengthen the government's policy. In particular, they will not pass secrets to the opposition, even when the polls all predict an imminent change of government. But when the government does change, they will immediately transfer the same loyalty to the new team.

Politicians also give loyalty to the government, but with important differences. They are fiercely loyal to the government they are in. And if they are not in government, they are loyal to the government they hope

to be part of in the future. This strong and defensive team loyalty can make it hard for some ministers to believe in the public servant's loyalty to the government of the day.

At best, such ministers can behave like a wary spouse considering her partner's record of serial monogamy. At worst, an untrusting minister will aim to have very little to do with the department, will avoid discussing plans, and will see any departmental problems as signs of a conspiracy against the government. This paranoia can be mirrored by the naivety of some public servants who cannot understand that a new government is looking at them with fresh eyes and has fresh plans, and will not be impressed by reports of continued brilliant management of the previous agenda.

As always, the biggest strains can occur at times of stress when the public servant is under attack from the opposition. The public servant would generally like the minister to step forward and offer a defence. Ministers, however, find it hard to take the blame for public service mistakes. (Prebble, 2010, pp 54–55)

Managing for outcomes: Next big thing or yesterday's news?

In the discussion above, outcomes were notable largely for their absence. When the Public Finance Act 1989 was enacted, a legislative requirement for outcomes was included along with that for outputs. The requirements around outcomes were however, much less well developed, and ministers proved reluctant to engage in the specification of outcomes. Some progress was made under the National administration in the 1990s with the system of strategic results areas and key results areas, although this system did not survive a change in prime minister. In response to this continued unfinished business, in the early 2000s the central agencies launched an initiative called Managing for Outcomes to fill the gap.

The Managing for Outcomes steering group¹¹¹ explains the implications of seeking more and better information on outcomes for 'accountability':

Previous departmental planning and reporting has largely focused on financial performance and outputs within a one-year timeframe. Managing for 'outcomes' requires departments to adopt a longer term, outcome-focused approach to management, planning and reporting and

111 The steering group was established in 2002 and comprised deputy secretaries of the two central agencies, Treasury and the State Services Commission, as well as the Department of the Prime Minister and Cabinet and Te Puni Kōkiri.

can be particularly challenging for departments that have an indirect influence on the outcomes.

As chief executive, you will still be held accountable for delivering outputs and for altering your mix of outputs as circumstances dictate. While you will not be held accountable for achieving outcomes, you will be held accountable for ‘managing for outcomes’. This includes providing a clear account in your [Statement of Intent] of what you’re doing (and what you plan to do) to pursue your outcomes. (DPMC et al, 2002)

Doctoral research covering the five years from 2003/04 suggests that although Managing for Outcomes resulted in an initial step change in the availability of outcome information in the first year, there was little improvement thereafter (Murwanto et al, 2010, p 15). The combined effect of the tyranny of the easy to measure and this greater active focus on outcomes meant that the quality of output information was stable or deteriorating during the same period.

Karen Baehler (2003, p 24) argues that, despite comments such as those from the steering group, one effect of the Managing for Outcomes initiative was to modify the public service bargain by adding an additional “layer of accountability for chief executives on top of the now familiar accountability for delivering outputs”; namely, accountability for managing for outcomes. The phrasing here is quite important, particularly the word “for”, which emphasises direction rather than procedures or results. In Baehler’s view (p 24):

the new arrangements departed from the original reformers’ commitment to expressing performance as a ‘deliverable’ for which estimates of cost and assessments in terms of quality and volume could be made.

Alongside concrete deliverables, central agencies are now defining performance to include:

[the quality of a manager’s] account of current and future output–outcome links. This approach does not appear to fit either of the [New Public Management] principles of letting managers manage (via decentralisation of authority) or making managers manage (via contracts). (Baehler, 2003, p 24)

On the other hand, this approach may have created a movement towards greater richness in management decision-making and performance reporting.

In practice, chief executives would not be held accountable for achieving outcomes, something they had resisted on the grounds that the achievement of outcomes did not fall within their ability to control, which the legislation

recognised, and something that the steering group specifically reinforced. Chief executives would however, be accountable for the clarity of information that demonstrated the intended or likely links between outputs and outcomes. Thus, this initiative seems to have stated more clearly the expectation initially indicated by the original statutory requirement that chief executives actively consider the likely effect on impacts and outcomes of their management decisions, particularly around delivery approaches for their outputs.

The role of ministers in the Managing for Outcomes initiative was largely limited to signing the resulting document. With a few notable exceptions, ministers showed little interest in clearly specifying the outcomes to be achieved or identifying the indicators of results to be used to assess achievement against those outcomes.¹¹²

The Managing for Outcomes initiative proved to have a relatively short shelf-life. By 2005, new references to Managing for Outcomes are almost non-existent on Treasury's website, which led one observer to suggest that although there was "no official 'death notice' Managing for Outcomes was 'missing in action'" (Gill, 2008b, p 34).

It is clear that the formal trappings of the Managing for Outcomes initiative have disappeared. It is also clear from central agency websites that the notion of managing outputs in terms of their contribution to outcome achievement remains current, which, importantly, is consistent with the design expectations of the formal system. Departments continue to place attention on articulating 'outcome frameworks' in their Statements of Intent, consistent with the Public Finance Act 1989, and auditors continue to review and comment on information on outcomes (and impacts) and associated measures. The degree to which outcomes are a central focus in departmental planning and management is explored in the next part of this book.

Role of the centre

Agencies at the centre of the public management system in several countries have been a source of reforms but they, in turn, have had to reform themselves (Norman, 2008, p 17). In New Zealand's case, Treasury was the dominant agent of change in the reforms, supported by the OAG; the State Services Commission was a 'reluctant starter'; and the Department of the Prime Minister and Cabinet

112 "Stakeholder interest in the performance information reported in the accountability documents appears to be minimal. All interviewees stated that only the auditors consistently pressured them to provide better information" (Murwanto et al, 2010, p 21).

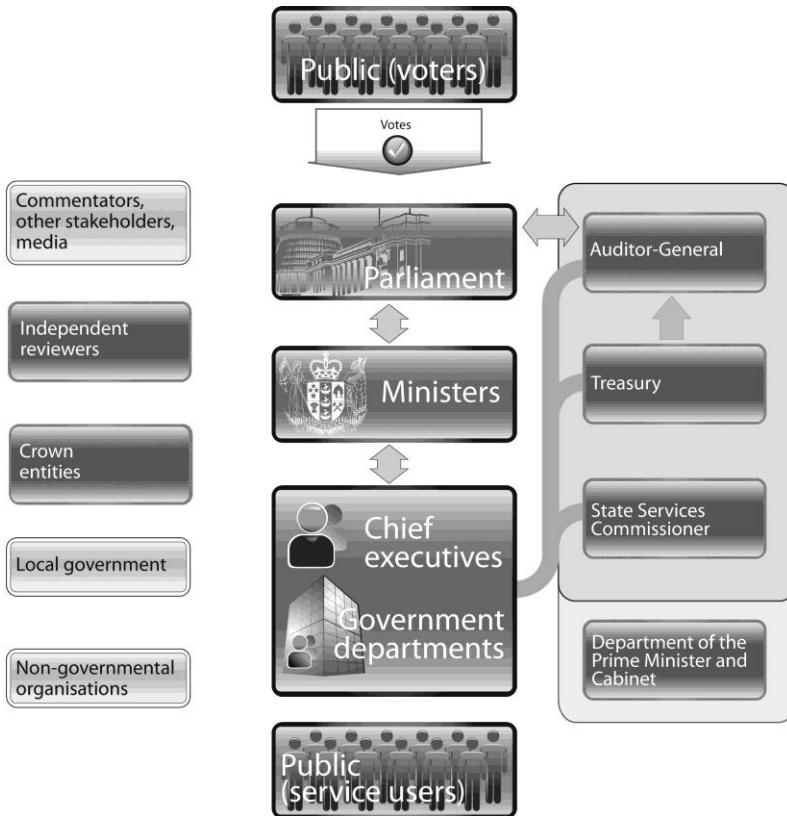
played a limited ‘honest broker’ role.¹¹³ What has emerged is a formal system with the roles of central agencies as implemented a long way from the simple principles for ‘making the managers manage’ in a system where there is no formal chief executive performance agreement and no performance monitoring review. What has emerged is a system of ‘letting the managers manage’. The information flows between the agencies at the centre are depicted in Figure 4.3.

Treasury was the most powerful department in the New Zealand public service through the late 1970 and early 1980s, and was the predominant change agent in the lead-up to and early years of the public sector reforms. The political and economic imperatives facing the government were of a nature that caused it to look to Treasury (more than the other central agencies) for advice on how best to secure a significant change. Treasury had an ally in the OAG in most matters, particularly those relating to accountability for performance. The early stage design framework was largely developed by Treasury economists, with detailed design relating to matters such as accrual accounting and output definitions completed by Treasury accountants (and others) assisted by some OAG staff who transferred to Treasury. Other OAG staff worked closely with Treasury to implement the reforms.

Although Treasury does not have a specific statutory role under the Public Finance Act 1989 in the way that the State Services Commissioner has under the State Sector Act 1988 and the Auditor-General has under the Public Audit Act 2001, the reforms enhanced rather than reduced Treasury’s power. Through the reforms, Treasury increased its focus on its core businesses of economic and financial management and shed responsibility for non-core operational functions, such as centralised purchasing through the Government Stores Board, administration of the Government Superannuation Fund (for public servants, distinct from National Superannuation for all New Zealanders), and preparation of cheques for signing by the Auditor-General. Treasury gave up the control of the little numbers to get control of the big numbers. Treasury’s influence, however, is largely derived from the power of its minister, the Minister of Finance. Successive Ministers of Finance over the past 20 years have been one of the top four Cabinet ministers, and the role Treasury undertakes is highly dependent on the relationship it has with its minister.

113 The Department of the Prime Minister and Cabinet is also now playing a coordinating role in relation to the prime minister’s annual priority-setting process.

Figure 4.3: Actors and performance information flows between the agencies at the centre



The State Services Commission was a “reluctant starter” (Norman, 2008, p 33) having unsuccessfully opposed the Treasury-led 1985 state-owned enterprises initiative. In contrast to Treasury, the public sector reforms constituted a significant change for the commission. The commission’s traditional core business areas, such as using inspectors to review and control staff numbers and terms and conditions of employment, was delegated to departments under the State Sector Act 1988. The new core business – supporting the appointment and performance management of departmental chief executives – required fewer staff and staff with different skill sets and of a different calibre than in the past. The failure of the senior executive service,¹¹⁴ intended as a counter-balance to decentralisation, was (in part) an illustration of the keenness of departments to create distance from the formerly powerful centralised employer. The message from chief executives to the commission was clear – ‘get out of our way’.

The central agency least affected by the reforms has been the Department of the Prime Minister and Cabinet, which has the same sized policy unit in 2008 as in the 1980s (Norman, 2008, p 34). In the New Zealand system, the department plays an honest broker role with a policy group of about 12, kept small in part by the physical space of the Beehive,¹¹⁵ and in part to avoid creating a parallel empire of advisers, as has happened in Australia and Britain. As a result, the department has a light-handed policy coordination role, with its influence particularly dependent on its relationship with the prime minister.

In the 1990s, with the system of strategic and key results areas under the National government, the Department of the Prime Minister and Cabinet appeared to have contented itself with the honest broker role on public management, as on other policy issues. With the change of government in 2008, the department now plays a coordinating role in relation to the prime minister’s annual priority-setting process (involving an exchange of letters between the prime minister and individual portfolio ministers setting out the prime minister’s priorities for the portfolio) and coordinates the priorities for the prime minister’s statement to the House at the start of each calendar year.

By the early 2000s, the general situation was balanced differently. The new bargain whereby public managers gained greater control in return for greater accountability posed fundamental challenges to the role of agencies at the centre

114 The senior executive service was established under the State Sector Act 1988 and disestablished in 2005. Its purpose had been to develop senior managers below chief executive level.

115 The Beehive is the common name for the Executive Wing of the New Zealand Parliament Buildings. The building’s shape is reminiscent of a traditional beehive.

of government.¹¹⁶ New Zealand now had a relatively weak centre, compared with the federal system in Australia or the system in the United Kingdom. The stronger economy diminished the influence of the economic imperatives and, with a change of government, Treasury for a long time failed to achieve the same rapport with the new minister. Norman (2008) notes it took several years after 1999 before the Minister of Finance would have a Treasury adviser in his office.

The State Services Commission's influence depends on the personal characteristics of the commissioner as well as the effectiveness of their relationship with the minister. The commissioner built a positive relationship with the new Labour administration and the Minister of State Services in particular. As a result, in the early 2000s the State Services Commission was able to assume a greater leadership role, seen primarily through the Managing for Outcomes initiative, Crown entity reform in the wider state sector, and the implementation of the recommendations arising from the Review of the Centre (SSC, 2001). With changes in the commissioner and Minister of State Services, however, that influence ebbed.

During the period of economic stability since 1999 the central agencies have been limited in the extent to which they could play a change agent role. Central agencies have become more process focused and routine ... like soldiers in peacetime or chimneys in summer – capabilities which need to be kept in a state of readiness. (Norman 2008, p 38)

Evolution in context

This chapter has focused on the developments in New Zealand in isolation from developments in comparable jurisdictions. Although not mentioned explicitly, the evolution of the formal system occurs in a political context. In particular, from 1996, New Zealand underwent a significant constitutional change when it moved to mixed-member proportional representation, which resulted in a shift from single-party majority governments to a variety of minority coalition governments.

Duncan and Chapman (2010, pp 310–314) suggest:

this political development did not change the basic structure of relationships between ministers and the public service but it has had an

116 Peters and Savoie (1996, p 281) suggest central agencies face a “coordination and empowerment” conundrum. Norman (2008) suggests that decentralising by empowering managers and front-line employees or by contracting out services contrasts with the requirement to build a central capacity to coordinate responses to around-the-clock media and cross-cutting issues.

effect on the reforms making it less likely rapid experimental reforms could continue to be forced through.

The implications of this shift in political context will be instructive in considering any further reform of the formal system.

In New Zealand, as in many OECD countries, a fiscal imperative drove the public sector reform process. The reforms were developed and implemented against a backdrop of unsustainable fiscal deficits and rapidly escalating public debt, which inevitably placed considerable emphasis on economy and efficiency. Over the next two decades, and in particular from the late 1990s, New Zealand had a long period of fiscal surpluses. As a result, there was less pressure on central agencies to continue to emphasise efficiency, and more scope to engage in discussions on effectiveness. This shift in focus played out in the relaxation of control over the structure of output expense appropriations and the ex ante specification of output performance. Since the recession following the global financial crisis of 2008 and the return to fiscal deficits, the focus is shifting back towards tighter control over outputs and the re-introduction of central controls over some inputs. Following decisions in 2009 to rein in government expenditure and the size of the public service (New Zealand Cabinet, 2009), the Secretary to the Treasury (Whiteside, 2009, p 1) suggested, “at times we’ve hidden behind the focus on outcomes to be less rigorous on output performance than we should”. Cyclical changes in the economic and political context may be inevitable.

The Formal System: Themes and conclusions

Susan Hitchiner and Derek Gill

Introduction

In this final chapter in this discussion of the formal system, we set out our analysis of the themes that have emerged from the journey in the 20 years to 2008 and on to today.

Themes from the journey 1988–2008

For expositional purposes, we use the premises from chapter 3 as the basis for describing the journey from 1988 to 2008 (and on to 2010). We have contrasted the premises embodied in the design of the formal system with the reality of how the formal system works in practice, and given a likely rationale for the differences. We address the premises in groups as they relate to the different roles of parliament, ministers, central agencies and chief executives, and to theories of organisations. We also address the propositions from the academic literature that we set out in chapter 3.

We use these premises and propositions as a basis for drawing out themes and assessing how the reforms were implemented.

Themes as they relate to parliament

The two major themes that have emerged from our analysis relating to parliament focus on parliament's role in scrutinising the performance of the executive and the independent assurance on which parliament should be able to rely.

Parliament's scrutiny of the executive

The first premise we presented was that parliament will use departmental performance information to scrutinise the performance of the executive.

In principle, the reforms were intended to enhance (strengthen) the accountability of ministers to parliament, enabling parliament to effectively scrutinise the performance of individual ministers, their departments and the executive as a whole. Greater accountability was expected as a result of clarifying the respective roles of ministers and chief executives, and having parliament

actively scrutinise ministerial decision-making, with more meaningful (and independently reviewed) information available to it than was previously provided.

In practice, the New Zealand parliament, in line with other Westminster parliaments, has made little systematic use of organisational information on either service or financial performance (although some members of parliament or select committees have occasionally done so). It may simply be that parliament (and each minister) assumes that central agencies, including the Office of the Auditor-General (OAG), have considered matters of organisational performance as part of their respective leadership and assurance roles, leaving members free to focus on matters of particular interest to them.

The OAG is the principal adviser to select committees in relation to examinations of the Estimates (and Statements of Intent) and Annual Reports. The OAG prepares standard questions that each department must answer and advises committees on particular issues that may merit further scrutiny. Select committee members also receive advice from their political party research units in parliament. This advice is generally reflected in the number and focus of supplementary questions for Estimates examinations and financial reviews for each department, which often relate to operational matters (frequently at a micro-level such as specific events and detailed processes and inputs) and to aspects of political decision-making. In practice, however, select committee examinations seldom focus on substantive matters such as ministerial judgement and decision-making, strategic direction or high-level selection of interventions and priorities, or the associated allocation of resources. Select committees also seldom seek assurance that departments (and ministers) understand the reasons for areas of material divergence from plans and budgets, or have in place appropriate responses to address those areas of divergence. This gap in the focus of 'scrutiny' exists despite this capacity 'to account' for actual performance against expected performance being essential to 'accountability'.

Our suggested explanation for the difference between the expectation and the reality lies in the role and essential political character of parliament. Rather than using organisational performance information to review performance, such as whether the outputs and other interventions selected by ministers have achieved the stated outcomes, the focus is on matters of detail with the aim, in practice, of embarrassing the minister and the government. The opposition's objective is not to "improve the performance of the government but to replace it" (Prebble, 2010, p 35). Although this approach provides little focus on higher-level objectives relating to the performance of the public service, it is nonetheless quite proper within the important constitutional role of the opposition in parliament. The

singularity of the focus on political point scoring is, however, the undoing (in practice) of this premise.

Independent assurance

The second premise was that parliament will be supported in its scrutiny of the executive by independent assurance of departmental performance information.

In principle, parliament will be able to rely on timely, robust, and meaningful independent assurance about the quality of the information reported by departments on their performance each year. These reports, both *ex ante* and *ex post*, cover departmental financial management and service delivery performance; the context for annual performance is provided through medium-term information relating to organisational capability and contribution to outcomes. Independent assurance will be formally provided through an audit opinion expressed on each department's financial statements, including statements of service performance. This statutory assurance will be supported by additional (and discretionary) independent reports presented to the House on particular matters (including inquiries and performance audit reports) and to select committees, particularly in relation to Estimates examinations and financial reviews.

In practice, although blunt instruments, there have been 13 qualified audit opinions on the financial statements of public service departments over the last 20 years.¹¹⁷ The Auditor-General has issued two qualified opinions relating to cost allocation,¹¹⁸ four relating to technical matters such as accounting treatments and asset valuations, and seven relating to service performance reporting. The qualifications of service performance reports occurred between 1993/94 and 1996/97,¹¹⁹ with no qualified opinions issued since despite this being the same extended period in which successive Auditors-General lamented the poor quality of service performance reporting. The absence of qualified opinions was largely a result of the Auditor-General's policy of excluding the service performance report from the attestation opinion for much of that time. Further, the audit standard that applied for most of this period required auditors to attest whether

117 There may also be a few instances each year of qualified audit opinions in the private sector, especially among medium to large companies. The different information sets and mechanisms available along with the role of independent analysts provide additional and broader assurance or insight into company performance. In the public sector, central agencies and the media provide some additional analysis of performance information and act as conduits for influencing decision-makers (to varying degrees and with varying effect).

118 The more familiar title of 'Auditor-General' rather than the formal 'Controller and Auditor-General' is used in this chapter.

119 Information was not readily available for the earlier post-reform years.

reported performance fairly reflected service delivery compared with forecast standards. The standard as revised in 2009 now requires auditors to attest whether the service performance statements fairly reflect actual service performance. It is likely that the revised standard will mean that some departments will receive qualified opinions. The Auditor-General has advised, however, that she will, as a matter of policy, introduce the standard progressively.

Gradings and management letters from auditors to their departments over this time have repeatedly raised concerns about the quality of the information reported by some departments, and by most departments in some areas. Areas of endemically poorer quality information include output costs and service performance (output delivery), both fundamental building blocks for achieving meaningful appropriation control.

Overall, enabling parliament to have clear sight (at a high level) of how ministers are directing departmental expenditure requires strong independent assurance. When the quality of the base information is poor and the attestation test is against a standard of doubtful value, the extent to which independent assurance on performance reports can be meaningful is inherently limited.

The primary underlying reason for this situation may be as simple as a cycle of low demand for high-quality information from parliamentary users and ministers leading to low-quality information being provided by departments, in turn reinforcing low demand. The quality of the reports and the meaningfulness of the assurance given on them are largely untested. There is little evidence that these reports are used, either by parliament or the executive. Performance information has not been an area of active interest in select committee examinations and reviews (politics has preference over performance); there has been reduced and inconsistent leadership from central agencies in the area of service performance specification and measurement; and there is a mismatch of skills to the task and lower than required capability among those providing the assurance. The latter point does not, however, account for poor output costing and cost allocation systems that have also been 'unqualified' yet are well recognised as such anecdotally.

Themes as they relate to ministers

Three major themes emerged from our analysis relating to ministers: issues in distinguishing between politics and administration; ministerial responsibilities generally; and ministers' roles in scrutinising the performance of chief executives.

Distinguishing politics and administration

The first premise relating to ministers was that ministers will have clearly defined roles that are distinct from the roles of chief executives and thus, provide a strong platform for distinguishing politics and administration.

In principle, the reforms would enhance ministerial and chief executive accountability by clarifying the respective roles of each and narrowing the scope of ministerial responsibility to things the minister really can control (eg, their decision-making about strategic direction and priorities, policy-making, and high-level allocation of resources). “Ministers decide the direction and the priorities for their departments. They should not be involved in their departments’ day-to-day operations” (DPMC, 2008, para 3.5). Chief executives would be responsive to their responsible and vote ministers and be accountable to them for the conduct and running of their department. Many activities where performance was measurable and outputs comparable with those provided in the private sector have been privatised or contracted out.

In practice, the roles proved difficult to separate. As Jonathan Boston (1996, p 7) put it:

ministers are politically responsible (to Parliament and the public) for what their departments do, while chief executives are managerially responsible for the operations of their departments. Necessarily, these respective responsibilities overlap; they cannot be precisely delineated, as if chief executives’ responsibilities begin only where those of ministers’ end (or vice versa).

The suggested explanation for this situation seems to lie in the long tradition of scholarly literature demolishing the separation of politics and administration. As Schick (1996, p 42, cited in Boston, 1996, p 7) put it:

Fuzziness is inherent in an arrangement that assigns political risk to the Minister and managerial discretion to the chief executive ... as long as both the Minister and the chief executive have their hands on the rudder, one or both may be called to account, even when one has limited control over the other’s actions.

Perhaps the real issue is, therefore, that the design of the system may make insufficient allowance for political realities (which was a significant contributor to our being unable to capture a comprehensive description of the system). That said, constitutional considerations nonetheless support the retention of a largely purist design, with softness coming through in the nuances and evolution of interpretation as reflected in the unwritten and less formal elements of the overall system.

Ministerial responsibilities

A further premise was that ministers will focus on determining desired outcomes and selecting interventions, while chief executives focus on delivering the services selected (outputs) and managing people and other resources (inputs).

In principle, the legislative framework enabled ministers to increase their control over their departments since their formal role was focused on determining outcomes to be pursued and actively purchasing the interventions to best achieve them (based on robust information about options, risks, and so on). The focus of departmental chief executives was more on the delivery of outputs, including policy advice to the minister on outcomes, a range of desired goods and services, and other interventions. Chief executives were given autonomy over production processes and the selection, mix, and use of inputs (within the overall purpose and cost limits of appropriations).

The reality, however, is that for political reasons ministers have (always) found ambiguity helpful in respect of roles and responsibilities, desired outcomes, and reporting outcome achievement against explicit targets. The political process leading up to and following the reforms did not generate any real pressure for ministers to clearly articulate desired outcomes. Instead, the drive for outcomes, through the strategic results and key results areas process in the 1990s and Managing for Outcomes initiative in the early 2000s, has come from departments (especially central agencies) over the passive or sometimes active disinterest of ministers. The drive for stronger, clearer information on outcomes was in the context of greater transparency about expected performance in the medium term and seeking to sharpen the focus of departmental performance.

The suggested explanation for the difference between the expectation and the practice lies in the reality of the role of ministers. A minister's role is to provide political leadership to a portfolio, not governance or managerial input to an organisation. From a practical perspective, as the time a minister spends in a portfolio averages two to three years, the focus that they bring within the portfolio tends to be on a small number of select issues that are of particular importance to them. These matters are generally limited to those issues that can be addressed within their term as minister responsible for that portfolio and may relate to inputs and processes as much to outputs, other interventions, and outcomes. One effect of this situation is that when ministers do engage in the process of determining outcomes, the resultant 'outcomes' are frequently related more to their priorities than necessarily to outcomes. The 'outcomes' presented in Statements of Intent may relate more to the emphasis the minister is seeking on specific policy initiatives, the relative emphasis to be given to one output over another, matters of organisational capability, or outcomes.

Ministerial scrutiny of chief executives

The final premise relating to ministers is that they will use performance information that is supported by independent assurance to shape or otherwise influence and scrutinise the performance of chief executives and their departments.

In principle, improved performance information in an effective accountability system will drive improved performance, which is reflected in the statutory requirement for the State Services Commissioner to undertake chief executive performance reviews on behalf of the responsible minister.

In practice, ministers do not act “as energetic and well-informed purchasers, monitoring output delivery and applying sanctions” (Upton, 1999, p 14). The involvement of ministers in chief executive accountability documents has been light, and they are often reluctant to participate in chief executive performance reviews. The design intent of seeking greater transparency and addressing the historical information asymmetry between ministers and chief executives has been achieved in part only. In fact, there is some argument that a decreasing precision in the structure and scope of appropriations over about the past 10 years, especially for output expenses, has further decreased the nature and quality of the performance information available to ministers. The effect of the combination of ministerial reluctance to be involved and chief executive ambivalence about specification is an increase in discretion that chief executives are pleased to have.¹²⁰

As above, the suggested explanation for the difference between the design and practice lies in the reality of the role of ministers. In the relatively short time they have in a portfolio, ministers seem to make sense of their role by relying on a small number of priority areas. With this approach ministers appear to focus on a small proportion of the business and rely on ‘fire alarms’ to signal problems in the rest of the business.

120 The next section discusses how chief executives seek to optimise their discretion and autonomy (not necessarily their ‘empire’) and retain their current revenue base, and are reluctant to take on new functions that would expose them to performance risks (Wilson’s (1989) learned vulnerabilities).

Themes as they relate to central agencies

Chief executive accountability

This premise involved central agencies operating chief executive accountability processes, including decisions about rewards and sanctions, informed by departmental performance information.

The design of the system envisaged that performance information could be used to assess and reward good performance and sanction poor performance of chief executives. Managers would be accountable for the decisions they make and that accountability must be able to be made to 'stick'. Adequate information flows would support the performance assessment process. Together, these elements would enable an effective assessment of performance, which would establish how well managers had met the stated objectives.

In practice, the quality of performance information is frequently poor, and the quality of performance consequently uncertain. Formal performance information appears to attract little weight in chief executive performance reviews, although performance audits and inquiries relating to specific functions (conducted by the State Services Commissioner or OAG) do appear to be considered. Although it is important to note the increased emphasis on departmental performance through the Performance Improvement Framework initiative (discussed later in this section), there is also a question as to whether this initiative is simply the means by which the commissioner is fulfilling the statutory function to review the performance of departments. Irrespective, there is also a niggling question as to how long this initiative will remain in place.

Incentives have been blunted (if they were indeed ever fully developed). Rewards for chief executives relating to remuneration are no longer based on assessments against detailed performance expectations, and systematic departmental performance reviews were undertaken in the early years only. Total chief executive remuneration is reported by the commissioner in bands consistent with the Companies Act 1993. Less obvious rewards (access to ministers, professional opportunities and reputation) are difficult to observe. Sanctions, including focused attention on specific areas requiring development, are part of carefully managed relationships behind the scenes.

The suggested explanation for the difference between the expectation and the practice lies in ambiguity around the notion of 'chief executive performance'. Performance proved to be a variegated, multifaceted and multidimensional concept. Delivery of outputs was at best a necessary condition but never a sufficient condition for good performance. Other more critical dimensions of

performance management included the authorising environment and management of the collective interest.

Under the State Services Commissioner appointed in 2008, increased emphasis was placed on more carefully and tangibly articulating the performance expectations for chief executives, including actively involving the responsible minister in setting those expectations. The Performance Improvement Framework is more a recent development in this area to address a gap in the implementation of the formal system – the review of departmental performance. This gap is in contrast to the situation in other jurisdictions that have built strong departmental review functions into operating practices. The framework is also consistent with the premises underpinning the legislation and, done well, should enable the departmental review function to proceed from an evidence-base rather than subjective stakeholder comment.

The performance review process is also being revamped to reduce the reliance on extensive subjective feedback and increase the use of information on departmental performance gathered through Performance Improvement Framework reviews. To date however, there are no plans to make greater direct use of departmental performance information in the chief executive review process. The framework may need to be extended to enable the commissioner to fulfil their statutory review function comprehensively – most notably through a return to formal performance agreements for chief executives that incorporate responsibility for departmental performance, thus ‘closing the loop’.

Themes as they relate to chief executives

Chief executive responsibilities

The premise involving chief executives was that chief executives will be relied on to lead and manage input selection and use, and output delivery approaches, in ways that seek to optimise effectiveness in meeting the government’s desired outcomes.

The design was predicated on making individual departments the focus for control, with individual chief executives given the freedom to manage as they saw fit. The design appears to have been based more on the corporate model used in the United States in which the chief executive is the visible head, than on the Japanese model of collective leadership in which the chief executive is seldom recognisable. The emphasis on the authority and leadership of individual chief executives also focused on their departments, with little explicit focus on the performance of government as a whole.

Norman (2009, p 2) draws a parallel between the reformed state and the private sector practice of using strategic business units:

The diversified conglomerate, a collection of largely autonomous business units, each expected to contribute to the corporate bottom line. Their performance could be monitored by numbers analysed by specialist staff in a small corporate centre using another breakthrough technology of the era – the spreadsheet.

Over the past five years there has been a subtle yet persistent drawing back to the centre in relation to back-office services and supplies, such as in the use of web-based technologies through e-government, software licence purchasing arrangements, and consumables, such as stationery; limiting direct control over inputs, such as in relation to accommodation; and repeated (and unsuccessful) attempts to develop more shared back-office services among departments. Although most of these changes are promoted as opportunities for departments to benefit, rather than requirements with which they must conform, the effect is a chipping away at the department's autonomy. This effect can best be seen in the light of the perennial tension in public and private organisations between the gains expected from decentralised autonomy and the gains demanded through more centralised coordination.

Themes relating to theories of organisations

Output-based control

The implicit assumption about organisations was that although government organisations differ from each other, they are sufficiently similar from a control perspective that their activities can be meaningfully expressed as outputs and these can be used as the basis for budgeting, control and accountability for performance.

The design of the reforms was predicated on a view that the world was relatively stable and predictable, and that what the government delivered could be adequately specified in advance in terms of quantity, quality, timeliness, cost, and location. The government's annual Budget, including ex ante performance information, established the spending limits (amount, period and purpose) on ministers. Even with the 2004 amendment of the Public Finance Act 1989 and comprehensive reporting at year-end, ministers are constrained by relatively tight thresholds within which they can reallocate resources across appropriations during the year.

In practice, Treasury earnestly set out to execute this design albeit with an expectation of consistent application across departments and outputs with

differing characteristics. Some aspects, such as information on the quality of outputs, have proved hard to execute. The way quality has tended to be measured appears to be driven by concerns about the ease of measurement and not by concerns about what constitutes the most important qualitative aspects of the particular services or the circumstances in which they were being delivered. Further, the formal system is biased towards a concern for or focus on accountability (based on outputs) that has parliamentary scrutiny at its centre. In practice, chief executives have far greater autonomy over the selection of both outcomes and interventions than statute implies.

The suggested explanation for the difference in approach is that although it may be possible to directly measure or assess some aspects of performance, it may not always be efficient to do so. Measuring output performance may be expensive in terms of the time and other costs associated with developing and maintaining the necessary measurement systems. The ease (and cost) of measurement will vary across different types of outputs and different types of performance measures for any outputs. For instance, most aspects of performance for frequently repeated, transactional outputs delivered in an open environment will be more easily measured than situational outputs that require different judgements in different situations and are relatively private to the individuals involved. Similarly, measures that rely on counting or the timing of defined aspects of performance are more easily measured than those that are less tangible and rely on observation. Where measurement is less straightforward, requiring greater commitment to invest in the task, specification of the output may refer to a quality assurance process or the characteristics of critical inputs, such as the qualifications of those providing the service, as proxies or substitutes for direct aspects of output quality (Hitchiner, 2000).

In respect of 'greater than designed' influence over outcomes, undoubtedly chief executives need this information to be of a high quality and at their fingertips if they are to drive performance, irrespective of the statutory requirements – which provides the base reason for chief executives having 'filled the gap' to a significant extent.

The suggested explanation for the difference between the expectation and the practice may lie in differences from other (private sector) contexts. For instance, compared with companies and boards, government budgeting processes may occur earlier relative to the period to which the budgets relate and be fixed more firmly for the budget period; ministers are generally more closely involved than directors and involved to a greater level of detail in some matters; and there are greater restrictions and process requirements for changing even high-level resource allocation decisions to reflect changing circumstances. Further, Cabinets

demonstrate a reluctance to act like boards in taking collective ownership for directing and monitoring performance across government (Wanna, 2006, p 4).

External accountability and internal management

The second premise relating to theories of organisations was that there is a hierarchy of performance information within which higher-level information for external accountability purposes is an aggregation of more specific levels of information for internal organisational performance management purposes – the information is objective and consistent.

The design reflected the presumption that a consistent hierarchy of information, spanning both external reporting and internal management, is a necessary characteristic of a good organisational performance management system. Recent guidance from central agencies states that “it is critical that the same body of data that is used for internal decision-making be used for any external reporting” (SSC and Treasury, 2008, p 9). Similarly, the OAG (2002, para 425) argues that the “Performance measures that are the most useful in showing your achievements to external stakeholders are those ... that are reported consistently internally and externally”.

In some respects, this premise is based on a simple desire to minimise duplication of effort within departments by seeing information for different purposes drawn from the same measurement activities, with the needs of a range of audiences addressed through different analyses and presentations. The more difficult issue that arises is why departments do not appear to want this information or find it useful.

There was also a presumption of a simple cascade of information through the layers of the system, from external accountability requirements to internal management decision-making. The Auditor-General has stated:

Performance measures that are the most useful in showing your achievements to external stakeholders are those ... measures that are reported consistently internally and externally. (OAG, 2002, p 54)

Continuing the theme, the Auditor-General recently reiterated that:

[the] best external accountability reporting draws selectively from a comprehensive set of performance elements to identify, measure, and report those performance elements of interest to stakeholders. (OAG, 2008a, p 38)

The premise, therefore, appears to include the presumption that information most relevant for external accountability purposes is also information that the executive and its agencies require for their own good governance and effective management.

Further, in principle, in a rational control model, resources (inputs) and final goods and services (outputs) are conceived of as being objectively defined and measured so that chief executives can be held to account for the efficient and economical running of a department, based on objective performance information. This premise relies on ‘performance’ being an objective reality, that expected performance can be articulated, specified and agreed in advance, and that actual performance can be measured and compared with variances understood and able to be explained.

In practice, as discussed in other premises above, the clarity of performance information is at best varied and, in some instances, poor – often to the benefit of both ministers and chief executives. In developing measurement systems and preparing ex ante performance information, departments do not appear to have understood the expectation of high-level information to support parliament’s ability to scrutinise the Estimates, more detailed information to provide ministers with a clearer understanding of the full business and to inform various trade-off decisions within a Vote, and operational information (still at varying levels of aggregation) for managers. Output Plans frequently add little additional information to that provided in the Estimates, or add information about internal process steps and milestones. For some departments (and Votes) information supporting the Estimates is too specific for the intended focus of parliamentary scrutiny and for others too highly aggregated, providing no real insight into expected performance.

‘Performance’ has also proved to be a multidimensional concept by articulating specific levels and qualities of expected performance. Measurement of actual performance has proved difficult. Understanding the implications of actual performance and divergence from planned performance is relatively uncharted territory as the numbers (against simplified measures) never speak for themselves, requiring context and interpretation. In the chief executive performance review process, adequate performance in delivering outputs became at best a ‘bottom line’ – a necessary but not sufficient condition to constitute good performance. The sufficient conditions revolved around softer subjective dimensions of performance, such as management of the authorising environment. In some respects, this shift may simply acknowledge the practical reality that chief executives have significant ‘influence’ over ministers through the control they have over organisational information.

The suggested explanation for the general differences between expectations and practice lies in the information that departments are willing and able to provide to parliament, as assured by auditors, and ministers, noting that ministers also have the power to request considerable information from departments. As discussed above, parliamentary attention is frequently focused on matters that put ministers and the government in a poor light, and ministerial attention is frequently focused at the margin. From a departmental perspective, it is, therefore, more straightforward to rely on a single presentation of performance information as much as possible. Drawing from a single body of information is, however, a broader concept than simply reporting the same information in the same way; it requires the reporter to discriminate and to analyse and present selective information in ways that reflect the intended purpose and needs of the primary audience.

The multidimensional nature of ‘performance’ provides a more technical explanation for the differences between the presumption of rational control and practice. The explanation may, however, simply be that performance is not an objective phenomenon but rather is a relative concept or a socially constructed phenomenon. Organisational performance does not exist independently of the rules or frameworks created by those who measure, monitor, and manage it. Perception of ‘organisational performance’ is, therefore, a social construct that emerges from ongoing interactions with major stakeholders. Further, engagement (or not) with the language (concepts and terms) of the formal system is highly variable, especially given that some of it (eg, ‘outputs’, ‘purchasing’, ‘ownership’ and ‘contracting’) may not be recognised by some stakeholders (at the outset of the reforms or now) as valid for ‘public services’. These perceptions are dynamic, and meanings will be reinterpreted in the light of new experiences that challenge existing frameworks. This explanation may not, however, address performance in the context of an accountability framework and distinctions may be required between the two.

Recent developments in this area include a commitment to a three-year joint programme of work between Treasury and the OAG.

My Office and the Treasury have recently established a joint work programme to align our efforts to improve the quality of service performance management and information and to make sure that we provide you with clear and consistent information about our improvement efforts. We envisage that we will deliver and support improvements through our joint work programme during the next three years by:

- continuing to work with departments and agencies through existing and new work streams
- clarifying requirements, tackling some of the challenges within the current system (eg, reporting on policy advice), and looking for ways to reduce compliance costs, for small agencies in particular
- phasing in my revised auditing standard AG-4. (Letter from the Auditor-General to departmental chief executives, December 2009)

Themes addressing propositions from the academic literature

Principal-agent relationships

The first proposition drawn from the academic literature was that the New Zealand model was predicated on principal-agent relationships drawn from agency theory.

Under this proposition, the New Zealand system is based on clarity in the simple essentials of accountability: To whom and for what am I accountable? What means and motivation are necessary to fulfil the obligations and undertakings? What information describes what is done (otherwise known as clarity of objectives, necessary authority, incentives (rewards and sanctions), and information on performance)?

In practice, the legislative framework does not provide a clear answer to the question about to whom a departmental chief executive is accountable, beyond a direct dual accountability to two principals. Further, far from being a managerial relationship in which ministers set performance targets and directed chief executives to achieve them, the relationship in New Zealand is triangular and includes the State Services Commissioner.

The suggested explanation for this complexity is that it was a deliberate part of the design of the formal system to create a triangular employment relationship between the minister, chief executive and State Services Commissioner. The design sought to retain the best features of the 1912 bargain in the relationship between chief executives and the commissioner, while improving the responsiveness of chief executives to ministers.

A sea-change away from New Public Management

The second proposition drawn from the academic literature was that there was a sea-change in the public management system following the election of the fifth Labour government in 1999. Various authors have suggested that a move away

from neoliberalism and New Public Management occurred in the late 1990s (Boston and Eichbaum, 2007; Norman, 2003).¹²¹

The most striking feature of the legislative framework has been the durability and continuity of the central provisions over more than 20 years – the shift in the locus of control to individual departments (and chief executives) and the shift in the focus of control from inputs to outputs.

That is not to say that there were no significant legislative developments over the period. The Public Audit Act was enacted in 2001 and, following the 2001 Review of the Centre, the government introduced an omnibus legislative package. This package included legislation specific to Crown entities and additional amendments to the Public Finance Act 1989 and State Sector Act 1988. Our discussion of these legislative pillars showed however, that the legislation in the mid 2000s was built on the foundations laid by the reforms of the late 1980s and did not represent a major discontinuity or sea-change. The legislative framework has proved durable with few amendments in the face of substantive reviews. The amendments that have been made focused on extending, strengthening, and modernising rather than transforming.

Conclusion: Unfinished business?

New Zealand stands out for its intention to set up a coherent public management system of mutually reinforcing components in which performance information would drive performance.

Assessment against the principles

The implementation of a system of accountability for performance has proved more complex than the designers anticipated. In *Putting it Simply*, Treasury (1989, p 14) suggested that effective accountability relationships are underpinned by four essential elements:

- ex ante specification of performance
- delegation of decision-making authority
- rewards and sanctions (incentives for performance)
- ex post information on actual performance.

This section summarises New Zealand's 20 years of experience with each of these elements of effective accountability relationships.

121 For an assessment, see Duncan and Chapman (2010).

Ex ante performance information

The intensive efforts in the early reform period to clearly specify expected service performance through descriptions of services to be provided and associated performance measures and standards have fallen away over time. Central agencies have made little systematic use of performance information.¹²² Performance information has instead been used primarily as an alarm – ignored until it goes off (and there is, or is likely to be, a major performance failure). The lack of use of performance information by central agencies and other potential users has resulted in a general degradation in the quality of performance information relating to outputs and costs.

Sustained progress on specifying and measuring outcomes has proved elusive. The original design envisaged information on outcomes providing the context for the selection of outputs (and other government policy decisions). In implementing the design however, effort was concentrated on outputs. The Managing for Outcomes initiative was an attempt to redress the lack of focus on outcomes in the early phase of the reforms. This initiative never achieved traction and instead contributed to the degradation in the quality of output performance information.

Delegation of decision-making authority

Decision-making authority over the selection, use and mix of inputs and production processes rests with chief executives, albeit with changes at the margin. Chief executives have discretion over the processes and resources to be used (within a total cost limit) making managers manage to specified performance expectations, including optimising their department's contribution to stated outcomes.

There have been moves at a government policy level to draw aspects of control over resources back to the centre (eg, through e-government, a cap on employee numbers and a push towards shared services across departments). More significantly, however, progressive softening of expenditure control has occurred, with increasingly broad, outcomes-focused output expense appropriations that have had the effect of shifting decision rights over the selection or balance of interventions from ministers towards chief executives. Over time, in effect, the extent to which decision-rights have devolved to chief executives has increased.

122 Some attention is paid to ex ante performance information by central agencies, in particular Treasury, at the initial specification of expected performance for major policy changes and new initiatives.

Rewards and sanctions (incentives for performance)

It has proved difficult to operationalise high-powered incentives for performance. In part, the difficulties reflect some inherent measurement problems. In assessing performance, missing targets (the agreed standards for the delivery of outputs) is not the proper basis for sanctions; just as achieving targets is not, on its own, a basis for rewards. At best, standards relating to output delivery can provide a bottom line for assessing poor performance; they are not a top line for rewarding consummate performance. Assessing performance is a complex judgement across several dimensions, of which how well output delivery matches expected output performance is just one. In addition, not all these dimensions of performance readily lend themselves to quantitative (or even qualitative) measurement.

Ex post information on actual performance

The design was based on supply of performance information creating its own demand – “if you build it, they will come”. Ex post performance reporting appears to have been of limited value to external users of such reports (internal users are discussed in the next part of the book).

Over time organisational performance information has been used decreasingly in the areas in which it was intended to be of most value supporting the accountability of chief executives to their employer and their ministers, and of ministers to parliament in driving improved performance. Further, over time the quality of output performance information has degraded with the shift to broad groupings of activities based on outcomes (rather than strengthening of information on expected performance in relation to outputs and outcomes) and a focus on easily measured standards for which evidence is readily available for satisfying the requirements of the external audit process.

Assessment in terms of 'accountability'

A primary purpose behind the design of the New Zealand reforms was that in an effective accountability system clear performance information will drive actual performance. As noted above, Schick (1996, p 9) observed, “Accountability has not been an afterthought in New Zealand, as it has been robustly designed as an integral feature of the reformed public service”. The primary purpose was external accountability – as a trade-off for providing managers with greater freedom to manage – as opposed to direction setting, improving managerial decision-making, learning, and so on.

The system as implemented has shifted from ‘making the managers manage’ to ‘letting the managers manage’. This shift is reflected in the movement in central agency thinking on the use of performance information. Recent guidance by the State Services Commission and Treasury, states that although external accountability documents are important, “the most intensive demand for performance information should come from Ministers or managers” (SSC and Treasury, 2008, p 11). Decision-making by ministers and managers (and not scrutiny of the executive by parliament) is regarded as the main focus of performance information. The notion of the golden thread discussed in chapter 2 persists in central agency advice – “it is critical that the same body of data that is used for internal decision-making be used for any external reporting” (SSC and Treasury, 2008, p 9). Alas, the guidance does not explain why ministers and managers want this information or how they will use it.

The approach adopted distinguishes performance information requirements and relationships by organisational type alone, with no regard to materiality or context. The reforms established pivotal building blocks (inputs, outputs, and outcomes) as though they are clearly distinguishable when applied in practice. A formal system with these characteristics is too simplistic. *One size does not fit all* and, although the general design continues to seem sound, practice has distorted some fundamental aspects as different actors have sought to perform with this false simplicity.

The likely explanation is that some of the distortion is due to perverse incentives to protect one’s own patch and focus on the areas of high ‘personal’ interest only, and some is due to the sheer simplicity of aspects of the design with no subtlety in interpretation and practice. The last part to this book explores the extent to which some elements of the one-size-fits-all dimension require actors to change their mind-sets, while other elements will be achievable only through statutory change.

Assessment in terms of ‘limitations’

The shift in emphasis from external accountability towards internal management decision-making raises questions about what can be taken from New Zealand’s experience. In that regard, it is important to avoid the ‘grass is always greener’ fallacy and distinguish *limitations specific* to the New Zealand public management system from *constraints faced by any conceivable* public management system.

Limitations specific to the New Zealand public management system include matters that are:

- inherent in the design of the formal system
- reflect incompleteness in the design
- reflect poor implementation (and not design flaws).

These limitations need to be distinguished from the constraints faced by any conceivable public management system that are inherent in:

- politics, specifically in Westminster democracies
- people's limits and bounded rationality
- public services, with limited comparability with services provided in the private sector (and so limited competition for supply) and less direct measurability (or observability).

For example, clarifying ministerial accountability to parliament for the selection of outputs and interventions to achieve outcomes has not changed the underlying political debate. The debate still appears to be focused on matters of input usage and process management. Parliament uses performance information not to improve the executive's performance but to attack the executive. This reality is not a criticism of the New Zealand Parliament – rather, it reflects the valid and important constitutional role played by an opposition. New Zealand's experience with the use of performance information is consistent with the experiences of legislatures in other Westminster systems. An authorising environment dominated by the iron rule of politics, accentuated by problems of measurability and bounded rationality, will, however, affect how performance information is developed and used by departments. It is to these issues that the next chapters of the book now turn.

In this chapter we have explored the formal system as it was designed (quadrant 1) and how it has been implemented (quadrant 2) – see Figure 3.1.

Although the legislative pillars have been remarkably stable since 1989, the formal system's implementation has been affected by how the main central institutions – parliament, ministers, the OAG, Treasury and the State Services Commission – have defined their roles within that legislation and the interactions between them have changed. Parliament has continued to use information in the way it did before the reforms. Ministers have not been active purchasers, focusing instead on a limited number of priorities in each department or Vote. The audit function has generated a focus on aspects of performance that are easy to measure. The chief executive performance review process has predominately been driven by subjective feedback information. The budget process has entrenched a focus

on total agency baselines and marginal changes to those baselines. Across the OAG, Treasury and the State Services Commission the tendency has been a one size fits all approach regardless of size or context.

Recent initiatives

Initiatives that have been commenced since the research for this book was completed include:

- the Performance Improvement Framework (led by the State Services Commission)
- the elaboration of the chief executive performance management process (led by the State Services Commission)
- the capping of staff numbers in public service departments and selected Crown entities, and government expectations on pay and employment (coordinated by the State Services Commission)
- projects on shared services and process re-engineering (led by the State Services Commission and Treasury, respectively)
- value-for-money and line-by-line reviews (led by Treasury)
- performance improvement actions (led by Treasury)
- a work programme on improving performance information (jointly led by Treasury and the OAG)
- a government policy priorities process (led by the Department of the Prime Minister and Cabinet).

These initiatives focus on improving the operational efficiency of the component parts of the system and filling gaps, rather than improving the coherence of overall performance. Some of these initiatives are of uncertain quality and likely effect, and some are arguably unlawful (under the Crown Entities Act 2004).¹²³

To the extent that these developments help lift bottom line organisational output performance or realise additional efficiency gains, they will make a useful contribution. Taken as a package, however, these initiatives represent marginal changes and piecemeal additions to the current system. The developments do not represent systemic reform of the public sector management system as a whole. Indeed, some do not seem well integrated with the formal system.

The next part explores questions left open by the discussion.

123 See Gill (2009, pp 12–13).

- How far into public organisations does the formal system reach – in its design and in use?
- How much does the formal system impact what managers in departments do and how they do it?
- What use is made of formal performance information in decision-making within departments?
- What is the relationship between performance information used for external accountability reporting and performance information used for internal decision-making?
- How does the hostile external authorising environment affect the development and use of performance measures?

To address these questions we must shift the focus from a review of the system as a whole (quadrants 1 and 2), to how departments operate in the system (quadrants 3 and 4). We use the case studies and survey findings (in Part Three) to review how the formal system generally, as designed and in use, and performance information in particular, affects individual public organisations.

Further reading

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Duncan, G, and J Chapman (2010) 'New millennium New Public Management and the New Zealand model.' *Australian Journal of Public Administration* 69: 301–313.

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Part Three

Research: Case studies and survey results, findings and themes

Introduction to Part Three

Derek Gill

The research phase of the project was based on standard qualitative and quantitative research techniques. Following a literature review, from which the key themes are summarised in chapter 2, we undertook qualitative research focused on seven case studies from a range of public service departments. The research themes that emerged, which are discussed in chapter 6, were then used to quantitatively test the generalisability of the conclusions drawn from the case studies. The last chapter in this part (chapter 15) discusses the survey research and findings.

This introduction describes the case studies selected and draws out some of the themes that were found to shape performance measurement and management practices.

Selection of organisations for case studies

The formulation of the case studies was completed in 2008. Therefore, it is important to note that they are findings at a specific point in time, so may not represent current practice in the departments. For example, departments in two case studies have undergone extensive changes. In the case of Child, Youth and Family, its merger into the Ministry of Social Development is now bedding down; in the case of the Department of Corrections, several management initiatives have been developed in tandem with the advisory committee – these are discussed in

detail in chapters 7 and 9, respectively. The bulk of analysis of the information derived from the case studies was undertaken in 2009.

In considering possible case studies for the project, the following criteria were used.

- The case studies should represent a diverse range of public sector organisations in terms of their size, the nature of the functions and tasks performed by them.
- Researchers could obtain the required access to, and cooperation from, the organisation and its staff.
- The degree of difficulty the organisation presents as a case study in a practical sense (eg, the research resources that would need to be expended) was commensurate with the constraints and objectives of the project.
- The ease of conducting the study (ie, the resource intensity given the existence of previous studies and reviews).
- The relative position of the organisation in the state sector based on factors such as its size and political salience.

The research team identified seven organisations as the preferred candidates for the qualitative research phase of the project. Each organisation confirmed its willingness to participate in the research.

As noted, an important concern for the research team was to ensure that a representative group of state sector organisations was addressed in the research. In this regard, the researchers were aware that the literature review had highlighted criticisms of the New Zealand public management reforms' strong focus on organisations and claim that networks were unimportant relative to hierarchies. Given this claim, researchers were interested in exploring how networks across public organisations defined performance and what use, if any, they made of formal organisational performance information. Accordingly, two case studies involving networks were included in the research. They are introduced in chapter 12 and then discussed in the two following chapters: the road safety strategy (Road Safety to 2010) in the transport sector (chapter 13) and the Effective Interventions programme in the justice sector (chapter 14).

The project was fortunate to have access to Rodney Dormer's doctoral research, which had been conducted on three operational divisions within large public service departments: Community Probation Services and Public Prisons Service (which are two business units in the Department of Corrections) and Work and Income (which is part of the Ministry of Social Development). His research is included in chapters 9 and 10. The research team selected three further organisational case studies: the Department of Conservation (chapter 8), the

Ministry of Women's Affairs (chapter 11), and Child, Youth and Family (chapter 7).¹²⁴ Together with the two case studies involving networks, these entities ensured a broad range of sectoral bases was covered, including economic, social and environmental bases, as well as a variety of functions, including policy development and service delivery. In addition, the case studies involved two of the largest public service departments (the Ministry of Social Development and Department of Corrections) and one of the smallest (the Ministry of Women's Affairs).

Methods used to gather evidence

Three main methods were used to gather evidence on organisational performance and its measurement: review of documents, semi-structured interviews and feedback on the case studies.

Review of documents

The research team examined documents relating to the formal framework for measuring organisational performance in each of the selected entities. These documents included the formal accountability documents, namely, the Statement of Intent, the Output Plan and, where available, the chief executive's performance review for the current year.

Where applicable, the team examined legislation specific to an organisation (eg, the Corrections Act 2004 for the Department of Corrections).

To gain insights into the formal performance measurement frameworks, the team also reviewed other relevant documents such as management reports.

Semi-structured interviews

Semi-structured interviews were conducted to investigate the performance management at different hierarchical levels within each organisation.

For the smallest organisation, the Ministry of Women's Affairs, six staff members from different parts of the organisation were interviewed. This included the ministry's chief executive, a member of the senior management team, two middle-level managers, and two front-line workers. In addition, two parties external to the ministry who are important stakeholders were interviewed, including the minister responsible for the ministry.

For the larger case studies, the researchers conducted more interviews and relied on the 'snowball approach', that is, they started with a small number of

124 Child, Youth and Family had ceased to be a stand-alone department by 2005 when it was merged into the Ministry of Social Development.

interviews and then carried out further interviews where additional information would be useful, until no significant information was being added to the research.

For the case studies utilising Dormer's research, an extensive number of interviews had already been conducted. For instance, 29 semi-structured interviews were conducted during 2008 covering the operational arms of the Department of Corrections. These interviews were with external stakeholders and departmental staff at national, regional and local levels. This research was augmented in the current project with seven 'elite' interviews with a former minister responsible for the Department of Corrections, a significant external stakeholder, the department's current chief executive, and four members of the executive management team.

These interviewees were asked, among other things, to describe their position in the organisation, describe how organisational performance was formally measured and delineated, outline the role and their use of performance management information as part of their responsibilities in the organisation, and identify what factors would make a difference to their use of and the effectiveness of performance information.

All interviews were recorded and transcribed. In addition, the interviewers took notes to record any issues they identified in the course of each interview. Using NVivo software, two researchers independently reviewed the transcripts of the interviews for each case study.

Feedback on the case studies

Before finalising the case studies, each participating organisation was given an opportunity to review its case study and comment on whether there were "any statements of fact that needed correcting or questions of interpretation that were potentially misleading".

Findings and Cross-Cutting Themes from the Case Study Research

Rodney Dormer

Introduction

Part Two provided an overview of, and insight into, the principles by which New Zealand's formal system of organisational performance management was designed and how that design was carried through into practices at the level of the system as a whole. That implementation began in the late 1980s and involved a series of initiatives that represent an ongoing evolution of "the New Zealand model" (Boston et al, 1996; Scott, G, 2001). However, despite that ongoing change many of the ideas and language of the initial principles remain to form a received wisdom in respect of a system for the management of the public sector. Despite that ongoing change of ideas and language, a striking feature has been the durability and continuity in the central features of the system for the management of the state sector.

In chapter 5, Hitchiner and Gill also argue that, although the design of the formal system was permissive about management practices within individual public service departments, those implementing that system thought that there would be a close and logical relationship ('the golden thread') between the performance information required for external accountability purposes and the organisation's performance information practices.

As detailed in the case studies in the following chapters,¹²⁵ the research on which this book is based sought to understand the extent to which those relationship intentions are reflected in the contrasting, and at times conflicting, performance management practices used in different organisational settings.

125 Five case studies were of organisations: Child, Youth and Family in the Ministry of Social Development (chapter 7), the Department of Conservation (chapter 8), the Community Probation Services and Public Prisons Service in the Department of Corrections (chapter 9), Work and Income in the Ministry of Social Development (chapter 10) and the Ministry of Women's Affairs (chapter 11). A further two case studies are of networks (which are first introduced in chapter 12): the transport sector (chapter 13) and justice sector (chapter 14).

Notwithstanding attempts to produce a coherent model for performance measurement and management, it is evident that the reforms and ongoing adjustments that have created the New Zealand model have also created, or failed to resolve, at least four “perennial tensions” (Pallot, 2001).

The first tension is between *short-term efficiency and long-term capacity*. In particular, in an environment of renewed economic pressure and fiscal constraint, tension remains between efficient service delivery in a three-yearly political cycle and the maintenance of the longer-term capacity and capability of public service departments.

The second tension is between *increased management autonomy and enhanced central control*. Chapter 4 discussed how New Zealand initially moved toward greater management autonomy but more recently has started to swing back towards central control.

The third tension occurs in *attempting to measure the immeasurable*. The rational logic of *ex ante* output specification and *ex post* performance measurement has not proved to be uniformly straightforward. Many of the functions retained in the core public service are there largely because they cannot be clearly specified in advance and subsequently monitored. If this had not been the case, they might well have been contracted out or corporatised.

The fourth tension is among *control, accountability and ‘real work’*. Chapter 16 explores the assumption, inherent in New Public Management’s thermostat-like model of information feedback,¹²⁶ that the performance of public sector agencies is monitored by a relatively non-distorting information-gathering regime with which managers comply. However, as discussed in chapter 2, that compliance with the reporting regime may have more to do with the need to demonstrate external legitimacy than with reflecting or guiding management practice. Or, more simply, a risk exists that departments will regard the information required to support regulation as divorced from their ‘real work’.

126 The machine-like, thermostatic model is based on the idea of a preset goal and a feedback mechanism that signals any divergence from that goal and institutes corrective action to bring performance back in line with the goal. Hood (2002, p 312) notes, “the incentives and sanctions that operate to ensure that managers follow the goals set by politicians are like switches that turn the current to heating elements or exchangers on or off”. Chapter 16 discusses the concepts underpinning this discussion.

This chapter describes how these tensions are manifest in the, at times, seemingly paradoxical practices observed in the research findings. It then provides an analytical framework that combines two sets of characteristics (the rationality of control and the locus of control), each of which is enacted along a continuum.

The *rationality of control* represents the management logic by which performance is measured and managed in a particular organisational setting. In this respect, it is recognised that organisational performance does not exist independently of the minds of those who define and measure it. Rather, diverse understandings and organisational practices are socially constructed from the existing organisational structures and the actions or agency of actors both within the organisation and externally exerting influence on it.

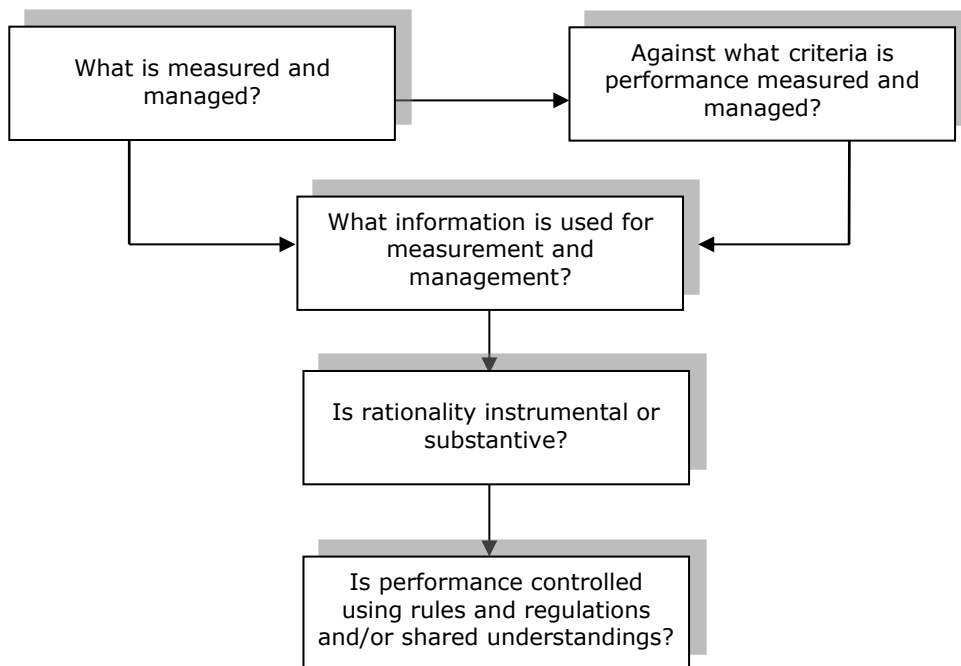
The *locus of control* recognises the roles that managers and external stakeholders play in shaping the focus of performance measurement and management practices within each organisation. This, in turn, influences how much autonomy the organisations have to define and manage their performance and how much their performance objectives and standards are determined by outside influences.

By combining these two sets of characteristics in a framework of competing values (adapted from Quinn et al, 2007) we can gain a better understanding of the distinctive practices in each organisational setting.

Rationality of control

At one extreme of the continuum, the rationality of control exercised in an organisational setting is based on the management of formal rules and regulations. At the other extreme, control is based on shared understandings and logics of action. Where each organisation sits on this continuum, and the extent to which it emphasises either or both of these extremes, can be understood from the answers to the five questions shown in Figure 6.1 and explained in this section.

Figure 6.1: The rationality of control



What is measured and managed?

It is an often repeated cliché to suggest that one size (or performance measurement and management model) does not fit all (public organisations). In this context, Wilson’s (1989) framework that categorises organisations as “production”, “procedural”, “craft” or “coping” (depending on the extent to which an organisation’s work and its results are observable and measurable) has been widely quoted. Indeed, one major criticism of the New Zealand’s public sector reforms of the late 1980s is that the reforms treated all public sector agencies as if they were production organisations in which work could be specified in advance and subsequent results could be clearly identified and measured (Gregory, 1995b). Nevertheless, this typology has been somewhat simplistically used to interpret management practices, despite Wilson’s warning that it is a “crude device” representing four extreme cases.

The current research has found that government organisations (or at least the five used in the case studies) do not simply display the characteristics of one of the four archetypes, but display characteristics that mix aspects of production, procedural, craft and coping organisations.

Thus, although internal performance measurement and management practices may focus on controlling the activities or procedures being undertaken, they may also, to a greater or lesser extent, consider the broader impacts of those activities or procedures. As required by the Public Finance Act 1989¹²⁷ and the guidance material issued by Treasury (2008a) and the State Services Commission (SSC and Treasury, 2008), the external accountability documents of each case study organisation describe the specific impacts, outcomes or objectives that the organisation seeks to achieve or contribute to. Although how well they do that has been the subject of criticism (OAG, 2008a, 2009b), and the reasons for perceived shortcomings have led to some speculation (Dormer, 2001; Gill, 2008b).

As well as the formal external accountability documents describing concerns to ‘manage for outcomes’, or at least to report outcomes, the interviewees also explained the importance of procedures in the models used to measure and manage performance internally.¹²⁸ The interviewees described how compliance with these procedures is audited by regular checks of both computer records and manually maintained documents. Each departmental case study illustrates this point.

In the Ministry of Social Development’s external accountability documents (which encompass both Work and Income and Child, Youth and Family) and Work and Income’s internal management reports, performance information in respect of outcomes is less prominent than the management reporting information that is associated with the routine organisational processes of managing individual, local and national performance.

Similarly, it was suggested that Child, Youth and Family had:

defaulted to a set of performance measures that look very much like a transaction business ... [that reflect a concern with] timeliness, of getting to things and completing things, rather than a set of measures that actually go to the core of the organisation, which is about improving young people’s lives. (CYF national)¹²⁹

Perhaps reflecting the difficulties of measuring outputs and outcomes, interviewees at both the national and local levels of Child, Youth and Family also described a focus on measuring and managing inputs in an attempt to control the

127 Sections 40 and 45 of the Public Finance Act 1989.

128 Procedures (or activities) are the links between the inputs consumed and the outputs produced by each agency.

129 Interviewees from Child, Youth and Family are represented by ‘CYF’. For more information, see chapter 7.

level of expenditure on client-related costs and the number of front-line social workers (Trebilcock, 1995).

In the Department of Conservation, the difficulties of agreeing whether conservation outcomes could be determined in terms of a particular species, a particular site or a whole ecosystem, and then measuring those impacts, have led the department to also focus on the activities undertaken. In discussing possum-control activities, an interviewee suggested that there is no agreed outcome within the department for these activities. In one area, these activities may be associated with saving a particular bird species, but in another area limited funding may result in less-frequent pest-control activities and a more limited objective of “trying to stop the forest falling over” (DoC external).¹³⁰ The significance of outcomes at a local level was also questioned. One national-level interviewee suggested, “that, ‘Often [the] local community [doesn’t] give a rats [care] about an outcome” (DoC national). Managing outcomes was described as difficult because of the timeframes involved for “species that are long lived, that is, 500 years or more” (DoC national) and because “a lot of our management has no monitoring attached to it” (DoC national). As the interviewee observed, “when the Budget push comes on we prefer to kill things and save things, so the monitoring gets dumped” (DoC national).

Interviewees from the Ministry of Women’s Affairs acknowledged that, as a policy-based organisation concerned with longer-term social trends, it is difficult to determine what impacts the ministry is having other than where its advice has led directly to legislative reforms. It was, therefore, explained that the performance measurement and management practices focus on key processes associated with research and policy advice, “in terms of the formatting [and] proofing ... and the content of the papers [and] the quality of the analysis and what makes a good analysis” (MWA national)¹³¹ and on the timeliness of responses to questions answered on behalf of the minister and to requests under the Official Information Act 1982.

In its external accountability documents, Work and Income has acknowledged a desire to shift the unit from a transaction-based approach of managing benefit payments and employment placements to achieving the outcomes associated with the government’s social vision. The research shows that, to some degree, this has been achieved. For example, a local manager

130 Interviewees from the Department of Conservation are represented by ‘DoC’. For more information, see chapter 8.

131 Interviewees from the Ministry of Women’s Affairs are represented by ‘MWA’. For more information, see chapter 11.

explained the need, with the aid of the *Social Report*,¹³² to “paint the big picture” for their staff. This manager also acknowledged that achieving the government’s goals would require the support and involvement of other agencies and community groups, and observed, “It’s more about managing outcomes than managing outputs, and I think that’s where our organisation is going” (WI local).¹³³

Other interviewees at the local level of Work and Income similarly described taking a strategic approach to the management of their clients in the broader community. This approach included seeking opportunities to work with parts of the community to identify and resolve issues to prevent unemployment as well as dealing with unemployment when it occurred. However, at the same time, Work and Income’s internal management reports and formal external accountability documents place a significant emphasis on process-based indicators.

A local-level interviewee from Child, Youth and Family explained a more client-level and shorter-term view of outcomes. They described outcome measures in terms of the difference between assessments of clients undertaken before and after the completion of the plan that emerged from a family group conference. This represents “a way of measuring whether we’ve achieved the outcomes for that young person” (CYF local). This interviewee also described a similar assessment undertaken with the victims of youth offending, by which they measured “whether victims have felt they’ve got the appropriate service they wanted from their experience”. On the other hand, at the national level, a manager from Child, Youth and Family commented, “I’d love to be able to talk to you about outcomes, but we’re not there yet” (CYF national). This manager explained how instead they focus on “outcome drivers” that are “the activities that you have to have achieved”.

National and regional-level interviewees from the Public Prisons Service (‘Prisons’), a business unit in the Department of Corrections, emphasised the operational activities associated with managing the safe, secure, and humane confinement of offenders and, albeit to a lesser extent, with managing offender rehabilitation and reintegration. A concern for managing operational risk leads national managers in Prisons to focus on the unit’s compliance with standard procedures, as exemplified in the comment of a national office manager that “a

132 *The Social Report* has been published annually by the Ministry of Social Development since 2001. It provides, on a regional and territorial basis, a variety of measures related to social well-being that support the monitoring of progress toward managing broader social issues (see, eg, Ministry of Social Development, 2010).

133 Interviewees from Work and Income are represented by ‘WI’. For more information, see chapter 10.

lot of the things we're looking at there are the reasons people end up getting fired at that level; do they follow the rules?" (PP national).¹³⁴

A similar concern with managing procedures is evident in the Community Probation Services ('Community Probation'), another unit in the Department of Corrections. A national office manager asked, "How does anybody know what our success is if we don't have procedures to follow?" (CPS national).¹³⁵

Responses from a survey of about 1,700 staff in 17 state sector agencies similarly reflected this focus on the management of procedures.¹³⁶ The findings from the survey also suggest that controls over inputs remain a significant feature of the performance management environment, as only 17% of respondents agreed that they had a great deal of freedom in how they allocated budgets and staff resources.

As noted in chapter 2, it might also be expected that each manager's focus on inputs, processes, outputs or outcomes would be reflected in a hierarchical division of functions. Senior, or national office, managers (at what Mintzberg (1996b, p 331) called the "strategic apex"), would be concerned with longer-term issues, managing the political interface with external stakeholders, and providing "evidence that the organisation is meeting standards or engaging in activities that confer legitimacy on it" (Kanter and Summers, 1994, p 230). Managers at the local level (in Mintzberg's "operating core") would be more concerned with the technical issues associated with managing inputs and processes. However, the current research found that managers at the national level may also be concerned with the shorter-term issues associated with managing operational procedures and inputs, and managers at the local level may also adopt a longer-term and more strategic focus.

Against what criteria is performance measured and managed?

In chapter 2 the potential criteria by which organisational performance is defined and directed, including economy, efficiency and effectiveness were discussed. To this list can be added equity, organisational capital, and public capital. However, the research also showed that the emphasis placed on each criterion varied

134 Interviewees from Prisons in the Department of Corrections are represented by 'PP'. For more information, see chapter 9.

135 Interviewees from Community Probation in the Department of Corrections are represented by 'CPS'. For more information, see chapter 9.

136 A survey of a structured sample of managers in government departments and Crown entities was organised in late 2008. The aim of the survey was to explain the types and sources of performance management information used by state sector managers. For more information, see chapter 15.

significantly between the formal model of external accountability concerned with the management of the public sector and the models in use within individual departments.

Economy, efficiency and effectiveness

Pollitt (1986) referred to the three criteria of economy, efficiency, and effectiveness as “that triumvirate of virtue” in that they are central to performance management practices in both the public and private sectors. Economy and efficiency, in particular, were a major concern of the public sector reforms in the late 1980s and early 1990s and have remained a significant focus in the New Zealand model of public sector management. The criteria of economy (reflecting how well funding is used to acquire inputs to an organisation’s processes) and efficiency (representing the relationship between an organisation’s use of inputs and its outputs) are of special concern to managers who must apply limited resources to solve massive objectives (Bower, 1977) and to politicians wanting to avoid any suggestion of state sector profligacy. The focus on inputs and processes that interviewees described in relation to the models used in the case study organisations reflects a concern, also present in the formal model, with the economy with which inputs are procured and the efficiency with which those inputs are used to produce outputs.

On the other hand, the emphasis on effectiveness, or the relationship between an organisation’s outputs and the outcomes it achieves, has received varied emphases among different organisations and over time. In part, this reflects the difficulty some agencies have in defining and measuring the linkages between their outputs and the outcomes that they produce. It also reflects the changing concerns of ministers, in particular, the swing back towards outputs and inputs as well as the efficiency of their delivery after the global financial crisis of 2008 discussed in the previous chapters. While interviewees from all levels of these case studies discussed the effectiveness of their activities, they did so with differing emphases. The comments provided by interviewees from Prisons and Community Probation generally reflected a belief that it is very difficult to make a difference in the lives of offenders or to measure any attributable difference. In contrast, the comments of interviewees from Work and Income were richly populated with success stories in respect of the organisation’s clients.

In both the formal and the in-use models it is evident that the tension between organisation performance, as defined and managed in terms of the economy and efficiency of output delivery, and the broader, longer-term concept of the effectiveness of performance, as defined in terms of impacts and outcomes,

remains unresolved in the ongoing evolution of the New Zealand model of public sector management.

Equity

As a criterion of performance, equity is concerned with how services are provided in terms of either the equal availability of services (as with passport services) or the targeted provision of services to those most in need (as with social security benefits paid to people who are invalids). The Australian Steering Committee for the Review of Government Performance has defined the former as horizontal equity or “the equal treatment of equals” and the latter as vertical equity or “the unequal but equitable treatment of unequals” (2005, p 115).

The significance of this criterion for performance management is that equity may be achieved at the cost of efficiency in service delivery and notions of equity constitute a distinctive characteristic of performance in the state sector. In the formal model, equity is given limited explicit consideration because it is generally treated as a component of effectiveness.¹³⁷ The Ministry of Women’s Affairs’ mission of “advancing the wellbeing of women” clearly has an equitable focus that can be monitored using factors such as the number of women on boards and committees in the public and private sectors. In the case study organisations, a concern to appropriately respond to the differing needs of local communities, ethnic groups and individuals was evident in the in-use models at the local levels of Work and Income and Community Probation.

Organisational capital

Over the past two decades, New Zealand’s formal model of public sector performance management has placed varying degrees of emphasis on the measurement and management of organisational capital. Although the reforms introduced the notion of the ownership interest, and accrual accounting introduced organisational balance sheets, and an amendment to the Public Finance Act 1989 in 2004 required performance information in respect of “organisational health and capability”, the review of the case study organisations’ external accountability documents for 2006/07 and 2007/08 provided limited relevant information. However, interviewees at all levels in several case studies placed significant importance on managing the culture, capability and capacity of the organisation. At the regional and local levels of the Community Probation, for example, interviewees described a desire to build a “culture of inclusiveness” in

137 However, the previous Labour government did require several public service departments to report annually on their efforts in ‘Closing the Gaps’ to target the elements of New Zealand society at the lower end of the economic scale.

which front-line staff could take responsibility for the organisation's objectives. Another theme, mentioned by interviewees at all levels of the organisations studied, was the problem of resource limitations and the resulting need to balance the allocation of resources with the demand for services and the resulting workloads of different elements of the organisation.

Public capital

As a criterion of performance, public capital represents the trust and confidence in an organisation that ministers, stakeholders and the public hold – factors that contribute to the political salience of, and external influence on, that organisation's core functions. Although public capital is not explicitly recognised, it did form part of the formal model of state sector performance management as part of the short-lived State Sector Development Goals promulgated in 2006 by the State Services Commission but removed in 2009 (SSC, 2006a). The Development Goals included “trusted state services” as a key goal “so that New Zealanders have confidence in the people, the systems and processes and the way in which New Zealand's State Services are delivered” (SSC, 2006b, p 61).

That confidence was the subject of two surveys (in 2007 and 2009) that sought “to find out more about New Zealanders' experience of public services” (SSC, 2009b). Significantly, those surveys showed that perceptions of service quality in terms of how services are delivered are more important contributors to public capital than are the results or outcomes of those services. Therefore, although public capital is, in part, based on the rational analysis of evidence of organisational performance provided in external accountability documents, it is also based on more subjectively framed information. As chapter 4 noted, a significant element of the State Services Commissioner's annual review of the performance of departmental chief executives is also, in effect, based on an assessment of the trust and confidence that other organisations and external stakeholders have in their departments.

Within the departments studied, interviewees suggested that gaining a more positive public image is about managing public expectations. To this end, to a certain organisational level, the performance of individual staff members includes how well they handle the media. Thus, while public capital receives limited explicit recognition in the formal model of performance management, interviewees at all levels in the case study organisations explained the importance of the public's understanding of, and support for, their activities. In particular, it is evident that the external focus of Work and Income's managers and the extent of their relationships with other agencies and community groups have successfully developed that organisation's public capital. At the local level of

Community Probation, interviewees also provided evidence of their efforts to build that organisation's public capital with their local communities. However, Prisons seems to have been less successful in this respect as interviewees at all levels described problems with negative items in the media and a limited interaction with other agencies and community groups. In contrast, at the local level of the Department of Conservation, interviewees explained the need to engage with the community to the point that community groups would assume responsibility for a variety of local projects. However, they also described a tension between the strategies of local conservation boards and strategies defined at a national level in the department.

From the research, therefore, it is evident that organisational performance is evaluated against different, and at times conflicting, criteria. For example, it is possible for performance to be managed efficiently (in terms of the relationship between inputs and outputs) but not effectively (in terms of the relationship between outputs and impacts or outcomes). Similarly, the economy of service provision in the current period may occur at the cost of organisational capital and the ability to provide services in the future. For the case study organisations, the difficulties of managing organisational performance reflect the complexity of taking into account each of these criteria and their, at times, conflicting requirements.

What information is used for measurement and management?

As described in the legislation and guidance material, New Zealand's formal model of public sector performance measurement and management is, in the main, based on the idea that performance information can be objectively represented in largely numeric terms. However, the current research found that in each organisational setting (be that a whole organisation or a part thereof) a mixture of representational methodologies exists on a continuum from the objective to subjective. Objective representation is a feature of what Hatch and Cunliffe (2006) refer to as "output controls" that focus on the measurement of the results of work (such as the number of clients served or complaints received) or of the work itself (such as the time taken to serve a client). More specifically in such a context:

the representational schemes would be expected to contain concrete, quantitatively measurable elements. The representational context relates to finding 'the' answer or specifying 'the' norms and values as well as articulating processes that attain 'the' goal. (Dillard et al, 2004, p 517)

In contrast, subjective representations are constructed through social interaction, employ anecdote, narrative and direct observation, and are ultimately based on values and norms rather than quantitative criteria.

Interviewees from all the case studies described the use of formal reports containing quantified financial and non-financial information in respect of their planned performance, actual performance and future performance expectations. In Work and Income, this information included the number of people registered for each form of benefit, the results of audits that measured the extent to which case records complied with documentation standards, ratings of service quality provided by client surveys, and employee numbers and actual expenditure against budget. Interviewees from Child, Youth and Family described a daily “traffic light” report of key process indicators and a monthly report that also measures performance largely against process standards and ranks all sites in a “league table” of aggregated results. In Prisons, performance information includes the number of cell searches conducted, the timeliness of sentence plan reviews, the number of hours prisoners spend outside their cells, and the hours they spend in some form of employment. In Community Probation, interviewees described “a whole bunch of indicators” that include the number of new sentences managed, the number of reports written, and the timeliness with which standard tasks, such as offender assessments and work placements, were completed. Interviewees from the Department of Conservation explained that the quantified information in the formal reporting structure makes local operations more transparent and facilitates their control. As an interviewee stated:

you need targets to show what we are trying to achieve, but also to make sure that staff are doing the work of the department as set by the minister and our specialist head office people rather than somebody on the ground, who may have a particular passion for deer, possums, goats or birds, so that they don't then get sidetracked and go and do what they want to do. (DoC local)

In the Ministry of Women's Affairs, objective performance measurement is principally provided by internal systems that track project milestones and key deliverables and by an externally conducted comparative analysis and assessment of the ministry's policy advice.

Further examples of the objective representation of performance data were provided by interviewees' explanations of the emphasis that is placed on capturing performance information in their computer systems. However, several interviewees described problems arising from inaccurate or incomplete records, or too much information being recorded. Contrasting examples were provided by a Child, Youth and Family social worker who recorded in the case management

system every detail of a child's repeated requests for chips and the Community Probation officer who said they did not have enough time to acquire all the required detail for the Department of Corrections' case management system. Interviewees from the Department of Conservation explained that gathering quantified information was difficult ("you've got to climb trees") and can be costly. An interviewee acknowledged:

We know we should measure. Where we've got enough money we will measure as best we can. Some conservancies who've had a little bit more money than others have had a monitoring programme. (DoC)

However, in Child, Youth and Family the dangers of relying on objective representations of organisational performance were explained by a national office manager who stated:

this is not a bloody factory. It's not a conveyor belt where you can measure and cost every intervention and action that people take. It's a practice. And it's a professional practice. And professional practices in the private sector don't measure themselves on conveyor belt type mechanisms. (CYF national)

Interviewees, therefore, also described subjective representations of performance that included the use of formal and informal feedback, anecdote, and direct observation of work practices. Feedback can be a significant element of managers' performance information, as a national-level interviewee from Work and Income emphasised. This interviewee explained the importance of engaging with stakeholders to gain feedback on the organisation's performance. Such feedback helps to counter an expectation by managers that the public will have confidence in the organisation doing a good job simply because it has achieved the largely 'internally focused' measures defined in the output plan and public accountability documents. Another interviewee at the local level of Work and Income explained how, as well as actively encouraging local community groups to provide feedback, they also relied on feedback from regional and national office managers as an indicator of their site's performance, "good, bad or otherwise" (WI local). Similarly, several local-level Community Probation managers described how they regularly sought feedback from judges, court managers, police and prison staff. One local manager from that organisation also suggested that their regular meetings with union representatives provided a gauge of how well staff were being managed. Interviewees from the Ministry of Women's Affairs described the use of informal feedback from other agencies and stakeholders, as well as more formally from the minister. Interviewees from the Department of Conservation explained the use of surveys and focus groups to gain an understanding of public use and perceptions of conservation areas.

External stakeholders also described the use of more subjective forms of information. A former minister of Child, Youth and Family acknowledged that although they received a variety of quantified information, they also relied on being able to “hear it from the people on the ground” (CYF external).

Several interviewees also mentioned the use of anecdote to help explain or make sense of more objectively represented performance information. Work and Income interviewees at the national, regional and local levels narrated anecdotes to explain how the unit had helped its clients. A local-level manager described how they required their staff to record “good news stories” in a local computer file that they then used to provide positive examples of the site’s work to national office and to reinforce their efforts to manage staff locally. At the national level, an interviewee explained how such anecdotes were used to supplement performance information provided to the minister. However, a Community Probation national-level manager was less supportive of the use of anecdote:

Anecdotal evidence ... there’s a tautology for you; there’s no such thing as ‘anecdotal’ beside the word ‘evidence’. You’ve got to have something that backs it up. (CPS national)

While it should also be noted that local managers rely heavily on objectively quantified information and managers at the national level are not averse to “picking up the phone” to find out what is really going on, it is evident that a tension exists between the use of subjectively framed local knowledge for local decision-making and the standardisation and objectification of that knowledge for purposes of control at the national level. Several Department of Conservation interviewees explained the importance of local knowledge, much of which is based on direct observation of the environment. One explained:

It’s all very well having all these lovely scientific monitoring methods, but you need a walk-through survey because people are still going to do that. It doesn’t matter what you’ve told them to do, they’re still going to do the walk-through surveys because that’s all they’ve got time for. (DoC external)

The direct observation of how staff interact with and manage clients is relatively easy in the open plan environment of Work and Income’s local offices. Local managers described how they might observe staff or how that might occur, both formally and informally, by other staff who then report back to the manager. One local manager from Community Probation also explained how they periodically sit at the back of the court and observe the performance of individual staff members. However, “management by walking around” is not so easy within the confines of a prison environment.

Thus, while the formal performance measurement and management model is premised on the use of objective and largely numeric information, the research showed that managers at all levels of the studied organisations also use more subjectively framed information derived from conversations, the narration of anecdote, or the direct observation of work and its impacts.

Is rationality instrumental or substantive?

The New Zealand model of organisational management introduced in the late 1980s and early 1990s was underpinned by an instrumental rationality that defines performance in terms of clear means–ends relationships and largely numerical performance measures. However, the research suggests that, to varying degrees, the in-use models of performance measurement and management also use a substantive judgement-based rationality that is focused on experience, tacit knowledge, values and flexible targets. In this respect performance measurement and management may be seen as involving either the recognition of an independent reality or an emergent and socially constructed process by which sense is retrospectively made of diverse, and at times conflicting, sets of information.

An instrumental rationality of explicit means–ends relationships is evident in the survey responses discussed in chapter 15, in the procedural focus of all the case studies, and in the broad range of formal targets that interviewees at all levels are required to report on. It is also characteristic of situations in which public sector organisations frequently must prioritise the objectives of their expenditure. It was explained, for example, that although the Department of Conservation has a responsibility to recover endangered species it is not possible to entirely prevent future extinctions, and therefore the organisation has to optimise its expenditure to save as many species as possible. A national-level interviewee in the department explained that this optimisation, based on the likelihood of extinction, is a “data- and expert-driven approach” where:

What we’re doing is a simple formula – benefits times the chance of success divided by the cost times a weighting which is essentially around the unique [nature of that particular species]. (DoC national)

However, it was also acknowledged that this formal logic is complicated by the subjective value placed by the public on iconic species such as the kiwi or kakapo towards which funding has to be directed despite the fact they may be less at risk than other species.

Interviewees at the national levels of Work and Income, Child, Youth and Family, and Community Probation explained how funding was allocated using

models of the expected number and characteristics of clients at each site. These models employ a framework of standard tasks to which notional units of time are allocated, which are then used as a basis for operational performance assessment. As a national-level manager in Child, Youth and Family explained, these standards have been used to:

map what an excellent site and an excellent leadership looks like. Then we make that our benchmark ... and we go back and say to our ... managers, this is actually the standard and you need to come up to this.
(CYF national)

An interviewee from Work and Income also described how the value for money of the programmes that the organisation purchased from community-based providers is evaluated in terms of their costs and specific deliverables such as the number of people gaining employment from that programme. Internally, the Department of Conservation costs the 'outputs' (eg, aerial drops of 1080 poison compared with ground-based controls) produced by different conservation areas to determine the comparative value achieved (eg, in terms of possum deaths).

In particular, it might be expected that managers at the national level, removed from the complexities of public, client or offender contact would use a more formal logic directed at specific targets or objectives. This might also be affected by the volume and span of the information that national-level managers receive. However, as a national-level interviewee from Prisons observed, "I get piles and piles and piles of paper; and it's really hard to absorb everything that's in there" (PP national). Such managers must decide what is important and what they must respond to. That interviewee, therefore, also explained how they would either choose to just read a report or pick up the phone and ask the manager concerned for an oral briefing. More formally, a national-level manager in Work and Income explained that the nature of the information they receive and work with is increasingly at the less tangible end of the measurement spectrum, where it is more an issue of focusing on those aspects of the lives of their clients that could be taken as indicative of a broader movement toward desired outcomes.

In the Department of Conservation, the use of an instrumental rationality was illustrated by an interviewee who explained that "we need to have logical science applied" (DoC regional 7) that utilises absolute standards so that "the whole technique is laid out nice and carefully so that everybody does it the same. So the community can use the same method and get the same quality result" (DoC external).

However, another interviewee from the Department of Conservation explained that while at a national level staff draw up formal templates of

outcomes, objectives, and performance measures for each site, “a huge amount of decision-making” still goes on at the level of the local conservators who must manage their priorities in the context of the politics and expectations of their communities. It was also acknowledged, that the department’s decision-making processes are both “data- and expert-driven” to the extent that “We do what we can with data but then we sit down with ... the experts locally ... and they’ll come and apply expert knowledge” (DoC external).

A further example of the use of a more substantive and less instrumental logic was provided by a Work and Income interviewee. In describing their role in managing strategy, this interviewee observed that it is concerned with “where we *feel* we want to be” (WI national; emphasis added). This interviewee also suggested that measuring and managing social development involves managers sitting down in the light of available information and asking, “gut feeling guys, what do we think?”. A national-level interviewee from Child, Youth and Family similarly suggested that managers will often react intuitively to formal reports and seek further analysis where “that doesn’t look right”. This interviewee explained:

The chief social worker’s office has advisers that can actually go out and informally sniff around and check things out. You may never see a report on it but ... there will be verbal briefings about what is happening and the solutions that need to be put in place. So that’s sort of like the informal way – it’s sort of like gut feelings. (CYF national)

Externally, the use of a more substantive logic was also demonstrated by a former Minister of Women’s Affairs, who commented that they could judge the ministry’s success in improving its policy capability and links with other agencies on the basis of the more robust arguments relating to women’s affairs that were appearing in Cabinet papers from that and other ministries. However, while performance may not always be formally evaluated in objective terms, this was of concern to interviewees in some contexts. A Community Probation local manager explained their concerns about the subjective nature of the quality audits of case files, stressing that they reflected the good or bad prejudices of the managers doing the evaluation.

At the local level, several organisations in the case studies were concerned with managing the delivery of services that directly affected individual members of the public, be they referred to as clients or offenders. A characteristic of the relationship between case managers and their clients or offenders is the need to understand and appropriately respond to the complex reality of the client’s or offender’s experience and cognitive framework. This can never be known with objective certainty but can be subjectively understood. While such an approach is

encouraged in Work and Income, it is the cause of division in Community Probation. National office interviewees explained that front-line staff were encouraged to establish a less empathetic and more rule-driven relationship with offenders on community-based sentences. In contrast, local-level interviewees in Prisons described having a more formal relationship with offenders. One manager suggested that prison officers did not have the relevant psychological training and knowledge to enable them to work more actively in rehabilitating offenders and commented “we can’t ... say to these guys what you’re doing is wrong, because we haven’t walked in their footsteps” (PP local).

A further contrast exists in that, while decisions about how and when to intervene in the case of offenders on community-based sentences are, at least in theory, based on a set of standard criteria or rules, the decision rules for child welfare social workers are more complex and substantively based. Interviewees from Child, Youth and Family, explained how, at least in part as a response to demand and resource pressures, the management of the intervention threshold varies between different sites and over time. Thus, the significance of the client or offender perspective varies between agencies and is affected by the performance measurement practices within each agency (Tilbury, 2004). Only in Work and Income did interviewees describe routine processes used to gain an understanding of “client satisfaction”. While an external interviewee from Child, Youth and Family provided anecdotal information about their efforts to gain children’s views, the organisation has no formal performance indicators to embody that perspective.

In summary, the formal model of performance measurement and management uses a calculation-based logic, explicit cause and effect relationships, and specific targets or objectives. However, it is evident from both the case studies and the broader survey of state sector organisations¹³⁸ that managers at all levels in public organisations also use a more substantive, judgement-based rationality that frequently involves professional knowledge or training. In this respect it has been suggested, “that ‘measurement in the public sector is less about precision and more about increasing understanding and knowledge” (Mayne, 1999, p 5).

Is performance controlled using rules and regulations or shared understandings?

As noted in chapter 2, the ongoing reforms of New Zealand’s model of state sector management was underpinned by the notion of the “golden thread”

138 See chapter 15.

(Micheli and Neely, 2010). This conceives of an integrated framework of performance objectives and information that cascades down from government priorities to ministers' 'purchase' of goods and services to the specification of managerial objectives at each layer of an organisation.

Although this integration is desirable, the research found that, at least in the case study organisations, integration is not always achieved. An interviewee from the Department of Conservation explained that although the performance requirements of the external accountability documents might change, they had little impact on the performance measurement and management practices at the local level. This interviewee stated:

every year we set the conservators' priorities. So they come down from the minister, to our director-general, to our conservator; and those expectations are quite high level. It's a matter for us to interpret those into things that we do on the ground. We're still doing the same work. We just describe it differently sometimes. (DoC local)

In practice, the extent to which the formal framework for the measurement and management of performance is reflected (in detail) through the different levels within an organisation will be determined by the institutional context of that organisation. That context may be understood from a series of institutional "carriers" defined by WR Scott (2001) as:

- formal rules and procedures
- routines
- artefacts
- social networks of roles and positions
- shared understandings and logics of action.

Formal rules and procedures

Formal rules and procedures are used to both frame and control organisational performance. In Work and Income, they are an essential safeguard against the risk of inappropriate payments to beneficiaries and are also important for those organisations, such as Prisons, where the activities of staff members are more difficult to monitor. In Community Probation and in Child, Youth and Family, compliance with rules and regulations was seen as a form of protection against media and political accusations in the event of critical incidents or perceived management failures.

From the wider survey of 1,700 state sector staff, 92% of managers at the regional and local levels reported that they were "mostly guided by established rules and procedures". However, it was also noted that the danger exists that staff

see rules and procedures as something with which they have to comply rather than as something that relates to their operational objectives.

Routines

The establishment and management of routines is a key element of the performance of human services agencies. Particularly in Prisons, routines are seen as a critical characteristic of a "safe, secure and humane environment". Routines are also present in much of the seasonal and cyclical work of the Department of Conservation.

The monthly reporting cycle was the routine interviewees most frequently mentioned. Interviewees from each of the case studies frequently expressed concerns about the workloads involved and the fear that reports could be used as "weapons" not "tools". Processes associated with managing individual staff performance were also frequently mentioned, although it appears they are more rigorously applied in some organisations than others.

Artefacts

Artefacts are physical and technical objects that are given shape by human action that also, through a process of reification, assume a role that both enables and constrains human action (Giddens, 1976). An organisation's national computer systems are artefacts that embody a codification of a particular view of what performance is and how it should be managed.

At the national level in Child, Youth and Family it was acknowledged that the case management system (CYRAS), described as "the monster" (CYF national), was increasingly being used to provide more information but, in turn, was increasing pressure on front-line social workers to input information in a timely and correct manner. At the time of the research, staff in Work and Income used a variety of legacy systems. These systems were not integrated and gave staff a reasonable degree of freedom in how they used them, although it was suggested that this situation might change with the planned development of a single system. In contrast, both Prisons and Community Probation use the relatively new Integrated Offender Management System (IOMS). IOMS gives operational staff minimal freedom by more strictly defining due processes. One local interviewee in Prisons described IOMS as "not user friendly ... extremely complicated sometimes and tediously time consuming" (PP local). Another local interviewee described IOMS as "a 'big brother watching' sort of situation" and suggested that it is "taking front-line staff away from the people that they are there for" (PP local). Community Probation interviewees suggested that IOMS was

unreliable and provided examples of local systems that are run in parallel to the national system.

Similarly, a former employee of the Department of Conservation suggested that the development of a centralised system designed to gather a lot of information that is in people's heads:

doesn't actually help the people on the ground because they already knew that. ... you say to people, "What about these maps?" and they say, "We already knew, that's what we were doing". (DoC external)

It was also apparent that other performance-related artefacts do not always provide the intended results. Work and Income, for example, has invested in wall posters, desk calendars, and computer screen savers to carry corporate messages about the organisation's performance objectives. However, interviewees from that organisation suggested these were ineffective; they explained, for example, how they would look at the calendars to see whether any of their colleagues featured rather than to be reminded of the organisation's performance objectives. Similarly, in general, they could not remember the content of the wall posters they sat beneath every day.

Social networks of roles and positions

The importance of networks of relationships with other government agencies and community organisations was broadly acknowledged, particularly by interviewees from Work and Income.

One interviewee commented:

we can't do that by ourselves; we need the help of the community that we service and other organisations, whether that's government organisations or non-government organisations. (WI local)

Community Probation interviewees similarly reported concerns about building and managing relationships with other agencies and the communities within which they manage offenders. Child, Youth and Family interviewees acknowledged that although community organisations were important, relationships at the local level were strained by the inability of managers to provide adequate funding. Networks were not a significant focus of the comments of interviewees from Prisons and the Department of Conservation, although a national-level interviewee from the latter organisation did suggest that developing broader community partnerships was a key strategic challenge for that organisation.

The importance of maintaining effective networks with other organisations was also emphasised by a former Minister of Women's Affairs, who suggested

that the organisation's performance had suffered as a result of its failure to maintain such networks.

Shared understandings and logics of action

The danger of differing logics of action is exemplified by Child, Youth and Family. This organisation has a strong social-work culture among many of its staff, one of whom commented, "My whole being in this organisation is about improving service to families" (CYF local). A national-level manager observed:

if our performance criteria are not clearly linked to that, be they financial ones or anything, then people will rally against them anyway. And they'll be de-motivated. And make poor choices. So that issue of alignment is quite critical. (CYF national)

The existence of differing cognitive frameworks was also illustrated by attempts to change staff attitudes to offenders in Prisons and Community Probation. A national-level interviewee from Prisons described attempts to change the focus of prison staff to one that supports prisoners "so that when they walk out the door they are a better person" but acknowledged that this had not been broadly achieved. Similarly, but with a different emphasis, a national-level interviewee from Community Probation described attempts to shift the culture of that organisation away from helping "clients" to holding "offenders" to account for the proper completion of their sentences. In both cases, the research findings suggest that different parts of the same organisation are using different conceptual frameworks. A national manager in Prisons observed:

It's one thing to have ... quite clear and specific performance agreements that people are reporting against and saying ... it's either achieved or it's not achieved. It's quite a different thing for people to be seeing that it's a tool that's helping them do their job well. And that's the bit I think that we fall down on. (PP national)

The problem was also summarised in the comment of a local-level interviewee in the same organisation that:

The unfortunate fact of life is that these people that drive our policy and drive everything else have no experience, have never set foot in a prison, and do not understand our business. They are the majority of people making decisions. They do not have to implement any changes; they do not have to bear the brunt of any of the changes that they may make. Yet operationally we are the ones that have to implement the changes and have to make it work. (PP local)

Similarly, a local-level interviewee from Community Probation acknowledged:

We see the managers as outsiders, as the enemy instead of someone who's with you, who's pulling this car together. We're not a team; it's us lot of workers against management and it shouldn't be like that. It's always, "They don't see this, they don't know, they don't" (CPS local)

Despite the strong shared belief in the value of the conservation estate at all levels of the Department of Conservation, interviewees from that organisation noted the need to move the organisation away from being "locally driven" by establishing "the concept of a national department with national priorities and local delivery within a national context" (DoC national).

The existence of shared understandings and logics of action in respect of performance objectives, therefore, may be facilitated by a common vision such as environmental conservation or child protection. However, it may be frustrated to the extent that functional or professional groupings within an organisation are not aligned with its central management or, in more complex organisations, with each other.¹³⁹

It has been suggested that these carriers exist on a continuum from more regulative in nature to more culturally and cognitively based (Dillard et al, 2004). While the formal framework of external accountability impacts on internal performance measurement and management practices, that formal framework will become increasingly decoupled from the frameworks used internally as the institutional carriers in each organisation move from being more culturally and cognitively based to being more regulative in nature.

Summary: Framework within which performance is measured varies among organisations

In summary, the rationality of control – the logical framework within which performance is measured and managed – varies in different organisational settings. Using Scott's institutional carriers concept it is apparent that in Prisons and Community Probation the formal performance measurement and management framework can be characterised as regulative and rule-based (Scott WR, 2001). The comments of the interviewees from those two organisations also indicate that their formal accountability frameworks are not internalised or owned by local staff and are, at best, loosely coupled with the

139 Ackroyd et al (2007), among others, have pointed to the competing objectives of professional groupings (in sectors such as health and education) that have traditionally emphasised public service and the effectiveness of service provision, and central managers who are more concerned with the economy and efficiency of service provision.

performance measurement and management frameworks in use, particularly at the local level. There is a resultant growth in local, alternative performance systems and frameworks.

The Department of Conservation has a proliferation of local systems spawned by difficulties in measuring performance and a culture that has given local managers a great deal of operational freedom. Historically, it has been driven by a shared belief in the value of the conservation estate; however, the development of the integrated system represents an attempt to establish a more regulative and consistent framework of performance measurement and management.

Interviewees from Child, Youth and Family similarly described a tension between the regulative management of operational risks, with an emphasis on adherence to standard procedures, and a strong social worker culture, based on wanting to have “caring, sharing, loving relationships with their clients” (CYF local). In contrast, Work and Income appears to have more successfully embedded a common cultural or cognitive basis for performance measurement and management in that organisation.

Locus of control: Sense-giving and operational autonomy

Performance measurement and management frameworks are, in effect, mechanisms that enable organisational members to make sense of stimuli in the context of the limited knowledge that is usually available in complex organisational settings, that is, in the context of bounded rationality. The concept of, and literature on, ‘sense-making’ provides a window into the performance measurement and management practices of organisational actors – both those within a specific organisational setting and those externally exerting influence upon it. In a world of bounded rationality, socially created institutions such as these frameworks (that are based on experience, assumptions and interests) function as filters of current experience to enable plausible, consistent and socially acceptable sense-making to occur (Weick, 1995). In their decision-making, organisational actors cannot hope to absorb and consider all available information, so they seek cues that are accepted “as the equivalent of the entire datum from which it comes” (James, 1890, quoted by Weick, 1995, p 49). Performance measurement frameworks are, in essence, a series of extracted cues, ordered in a predefined format, that represent and provide a sense-making device for the reality of organisational actions.

Sense-making and sense-giving

Sense-making practices are also influenced by the degree and manner of ‘sense-giving’ undertaken by internal leaders and/or external stakeholders. Sense-giving is, in turn, influenced by the political saliency or sensitivity of an organisation’s core functions. Gioia and Chittipeddi (1991, p 442) define sense-giving as “the process of attempting to influence the sense-making and meaning construction of others towards a preferred re-definition of organisational reality”. In DiMaggio and Powell’s (1983) terms, sense-giving represents the use of power to define norms and standards by which performance measurement and management practices are shaped and guided. Sense-giving practices range from the use of physical artefacts such as wall-mounted mission statements or messages on a computer screen saver to formal staff briefings delivered by a chief executive or the public pronouncements of government ministers.

From a study of three British orchestras, Maitlis (2005) identified sense-giving activities undertaken by internal leaders and external stakeholders. She proposed that different combinations of these activities produce four different forms of organisational sense-making, namely, “guided”, “fragmented”, “restricted” and “minimal”. As shown in Table 6.1, each of these sense-making forms produces different accounts (descriptions of an issue and its context) and actions (ie, organisational decisions) (Maitlis, 2005, p 32). Maitlis found, for example, that organisational settings that are subject to limited sense-giving by internal leaders and significant sense-giving by external stakeholders will hold multiple accounts of reality that give rise to an emergent and inconsistent pattern of action. However, such fragmented accounts and patterns of action are dependent on the number and diversity of external stakeholders. Many public sector organisations are likely to exhibit a form of ‘restricted sense-making’ in which there is either significant internal leader sense-giving and limited external stakeholder sense-giving, or limited internal leader sense-giving and significant levels of sense-giving from a single stakeholder or united group of external stakeholders. In either case, sense-making is likely to produce a unitary but narrow account and a single action or series of consistent actions.

Table 6.1: Forms of organisational sense-making

Sense-making type	Resulting account and action
<i>Guided sense-making</i>	
Significant leader sense-giving	A unitary account that is rich
Significant stakeholder sense-giving	An emergent but consistent series of actions

<i>Fragmented sense-making</i>	
Limited leader sense-giving	Multiple accounts that are narrow
Significant stakeholder sense-giving	An emergent and inconsistent series of actions
<i>Restricted sense-making</i>	
Significant leader sense-giving	A unitary account that is narrow
Limited stakeholder sense-giving	One-time actions or a planned series of consistent actions
<i>Minimal sense-making</i>	
Limited leader sense-giving	Nominal accounts
Limited stakeholder sense-giving	'One-off' compromise actions

Source: Based on Maitlis (2005).

Maitlis (2005) also noted that the risk of “minimal sense-making”, in which internal leaders and external stakeholders undertake little sense-giving activity, is likely to result in the production of “nominal” accounts that neither synthesise the views of multiple stakeholders nor provide a single, well-articulated logic of action. In this situation the actions of managers are more likely to represent one-off or short-term compromises in the face of conflicting objectives.

Pollitt (2006b) also explored the extent to which public sector agencies are subject to external sense-giving, and the resulting impact on their performance management practices. A study of four organisation types (forestry, meteorology, prisons, and social security) across four European states (Finland, the Netherlands, Sweden and the United Kingdom) identified three factors that affect the extent of external sense-giving and the degree to which managers have discretion or experience operational autonomy.¹⁴⁰ Pollitt suggests these factors are the:

- political salience of the organisation’s primary task
- nature of the organisation’s primary task
- relative size of the organisation’s budget.

Political salience

In respect of the first factor, Pollitt (2006a) suggested that the greater the political salience of the organisation’s primary task, the more external interest there will be in setting targets and monitoring its performance and the less operational

140 As Wilson (1989) has explained, autonomy does not imply complete freedom of action but rather the ability to choose how most appropriately to operate within a given jurisdiction.

autonomy will be provided to its managers. From the European survey, Pollitt noted that compared with the other functions studied:

Prisons are much more in the daily eye of the politicians and the media. Prominent escapes are news, especially if the escapees go on to commit further crimes. Whether the prisons are becoming ‘too soft’ has been an issue in all four countries, as has the abuse of drugs by inmates. (Pollitt, 2006b, p 37)

In New Zealand, public concerns associated with crime and the perceived risk of crime work to ensure that the functions of both Prisons and Community Probation are politically salient. The activities of an organisation’s staff members may also increase public and political interest and reduce public capital, if they contravene the law or are otherwise seen as inappropriate. Prisons has experienced prison officers being accused of corruption; Community Probation has had to respond to allegations of negligence when staff members’ failure to follow procedures has resulted in public harm; and a chief executive of Work and Income was negatively perceived as flamboyant and extravagant when trying to change the organisation’s culture and focus. As Pollitt (2006a, p 39) observed:

when embarrassments, scandals or disasters occur, politicians and the media suddenly take on an enormously detailed interest in organisational activities they have never asked about before. This interest includes performance data, but those data are unlikely to be given any privileged standing during bouts of political conflict – more probably they will just be treated as extra ammunition.

Similarly, a former New Zealand minister explained:

In a portfolio like Corrections there are always problems. People escape – there’s just a myriad and endless – it’s just a difficult portfolio because you’re never really on top of it. (COR external)¹⁴¹

Primary task

The second factor Pollitt (2006b) identified relates to the nature of the organisation’s primary task and the extent to which it is “relatively simple, understandable and measurable” (p 29). The more technically complex the task is perceived to be, the greater the reliance that is placed on the professional training and knowledge of its managers and the more operational freedom they will experience. As Pollitt observed, “Ministers are understandably more cautious about intervening in the details of the activities that they realise (or believe) they

141 Interviewees who are corporate staff from the Department of Corrections or external stakeholders are represented by ‘COR’. For more information, see chapter 9.

do not fully understand” (p 36). In New Zealand, the activities of Prisons (ie, locking people up) are not seen as complex, despite the complexity of the offenders concerned. Similarly, the activities of Community Probation, although at times extremely complex (given the variety of community-based sentences and offenders), are viewed by the public and media in relatively simple terms associated with whether the community is perceived to be safe.

Budget size

Pollitt’s (2006b) third factor is the relative size of the organisation’s budget. He suggested that big budget agencies are more likely to be of interest to ministers and their advisers, so their managers will have less freedom to operate “under the radar”. However, in practice, that logic may apply in reverse for very small agencies, such as the Ministry of Women’s Affairs, whose small budgets will constrain the scope of their activities. In contrast, the size of the appropriations provided to the larger agencies, such as the Ministry of Social Development, provides increased scope for budget management and operational flexibility.

Role of management

Notwithstanding Pollitt’s (2006b) thesis, political saliency and the perceived complexity of an organisation’s core functions are not determined simply by the nature of those functions. They are influenced by the sense-giving and communication strategies undertaken by the organisation’s managers. How managers interact with the media, the public, other organisations, and government ministers will either enhance or erode understanding and hence the trust and confidence in their organisation. Moore (1995) has suggested that the management of public capital (and more broadly “public value”) requires non-elected public servants to assume an active role in the external authorising environment to promote and maintain the trust in, and legitimacy of, their organisation.

As Coates and Passmore (2008, p 8) explain:

Public value assumes that public managers will try to both shape public opinion and have their views shaped in turn. This is much more of a continuous conversation than an exercise in market research and should be viewed as a serious effort to restore trust in the public realm.

However, while Moore (1995) and Talbot (2008b), among others, have explained the positive impacts of trust and legitimacy, Yang and Holzer (2006, p 116) have observed:

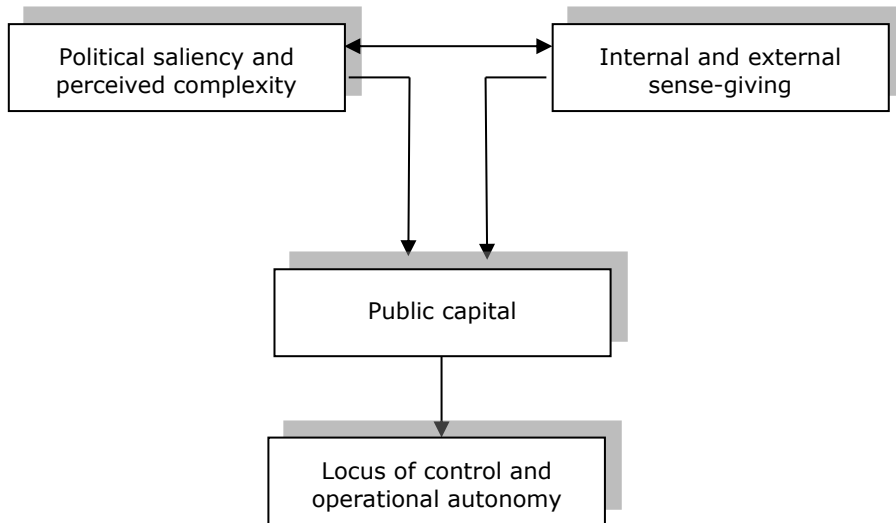
distrust can be used as a political discourse to attack government programmes, reduce government funding, and ultimately impair

government performance. To restore public trust, public administrators must improve their performance and *communicate* it to citizens. [Emphasis added]

The relative strength of internal, compared with external, sense-giving can, therefore, be seen as a reflection of the degree to which an organisation is, more generally, internally or externally focused.

In brief, public sector organisations are subject to, and engage in, varying degrees of interaction and sense-giving with external stakeholders. The nature of that interaction reflects, and is affected by, the (internal or external) locus of control over how the organisation's performance is defined and driven. As shown in Figure 6.2, the degree of political saliency and the perceived technical complexity of each organisation's core functions impact on both the extent to which external stakeholders are prepared to intervene and engage in sense-giving activities and internal managers are able to maintain and develop public capital. Each organisation's public capital will also be a reflection of and impact on the locus of control between external stakeholders and internal management and the extent to which those managers have a degree of operational autonomy.

The impact of these factors on the case study organisations is described in the following sections.

Figure 6.2: Locus of control and operational autonomy

Work and Income

In a time of economic growth and declining unemployment, the functions of Work and Income have not been politically salient. Also, as that organisation has moved to emphasise broader issues of social development, its activities and their results have become harder to monitor directly. As a consequence of strong internal leader sense-giving, through regular communications such as the Wednesday Team Brief, and external stakeholder sense-giving resulting from regular interactions with other agencies and community groups, Work and Income exhibits guided sense-making practices in respect of its performance that are both consistent and rich in their scope. These practices involve a consistent and composite perspective of the organisation's performance that encompasses the significance of procedures and the primacy of the outcomes the organisation seeks for its clients and the broader community.

A national-level manager explained the importance, in seeking to achieve those outcomes, of monitoring and managing the confidence that stakeholders have in the organisation. It was also explained that as a result of being seen as a 'can do' organisation the unit is seen as a first point of call in the event of local crises such as floods. Work and Income, therefore, has been able to go beyond its core business and 'formal mandate' to attempt to tackle more holistically those factors that impact on, or impede, their accomplishment of the objectives. This operational autonomy is evidenced in the following statement by a national-level manager:

Because of that ‘can do attitude’, you know, it doesn’t really matter whether you’ve got a formal mandate. It’s just how you work with others to support them. (WI national)

The operational autonomy within Work and Income is also reflected in the ability of, and requirement for, operational managers to respond to local conditions and to develop appropriate initiatives with other agencies and community groups.

Prisons Service and Community Probation Services

In contrast, public concerns associated with crime and the perceived risk of crime work to ensure the functions of both Prisons and Community Probation are politically salient. Further, although the offenders for whom these service units are responsible embody several complex social issues and are subject to a variety of extraneous forces, their management is generally represented in simple terms by both the media and politicians. As an interviewee from Prisons observed, “it’s not something that the public thinks deeply about” (PP national).

The political saliency of the functions of these two units should result in their being subject to strong external stakeholder sense-giving. However, the two units display different characteristics. Interviewees from Prisons provided little evidence of sense-giving by external stakeholders. Comments about external stakeholders largely reflected a concern with the public’s understanding, or lack thereof, of the organisation’s role and functions. The political saliency of those functions and their media coverage has led to somewhat defensive strategies. Indeed, an external service provider described Prisons as being difficult to work with and suggested that it has a “culture of control” in which “there is a belief that no one can do corrections as well as Corrections” (COR external). Prisons, therefore, displays a pattern of restricted sense-making in which internal leaders provide a unitary but narrow perspective on organisational performance.

Several interviewees from Prisons did comment on the problem of maintaining public confidence. It was suggested that despite “trying to be responsive to the minister, trying to be responsive to the press, trying to get the real story out there” (PP national) the public generally has a negative opinion of the organisation.

Unlike interviewees from Prisons, interviewees from Community Probation described processes by which sense-giving by external stakeholders plays a more important role. For example, as noted above, local-level interviewees explained how they actively sought feedback on their performance from the police, judges and union representatives. This suggests that, as for Work and Income, Community Probation is subject to guided sense-making in which both internal

leader sense-giving and external stakeholder sense-giving play a role in shaping a unitary but rich perspective on performance. Nevertheless, the apparent disparity in the need to focus on managing offenders' compliance with the terms of their sentence and supporting them through their sentence suggests that sense-making practices in Community Probation are fragmented.

As with the interviewees from Prisons, interviewees from Community Probation expressed concern about the lack of public understanding "of what we are actually dealing with on a day-to-day basis" (CPS local). They described attempts to address this by working more closely with local authorities and communities where potentially high-risk offenders were being housed in order to provide assurance, build confidence, and prevent "a potential public backlash" (CPS national). Interviewees also described processes by which the organisation attempted to be responsive to, and gain the confidence of, the police, courts and the New Zealand Parole Board. It was suggested that gaining a more positive public image was about managing public expectations, and that to this end, to a certain level, the performance of individual staff members includes how well they handle the media.

Notwithstanding these differences in the two units, interviewees from both Prisons and Community Probation indicated that they have limited operational autonomy and, particularly at the local level, described an environment in which they simply respond, as best they can, to the demand pressures created by the courts and Parole Board.

Child, Youth and Family

The core functions of Child, Youth and Family – the care and protection of at-risk children and young people and the management of young offenders – are also politically salient. The organisation has periodically been subject to strong criticism in the media following the deaths of children whose cases have already been notified to the organisation. It was suggested that as a result the organisation has become somewhat reactive "because we're accountable to some very senior people and because our environment is a very political one as well" (CYF local).

Child, Youth and Family has a broad base of stakeholders including some "high-powered ones", such as the Children's Commissioner and judges, together with the unions, with which it is important to maintain constructive relationships (CYF national). As well as the sense-giving activities of these stakeholders, a former minister who was interviewed described how they had asked for regular reports from the organisation as a means of focusing the organisation's attention on the issues the minister felt were critical, such as young offenders being held in police cells. Senior managers within Child, Youth and Family have also been

attempting to proactively undertake their own sense-giving with both internal staff and external stakeholders including Treasury, the State Services Commission, the media and the minister. A national-level manager commented:

Taking your minister on the journey with you, in a way that she or he can manage the politics of where you're at and the changes you need to make, is an incredibly important part of it. (CYF national)

The organisation is, therefore, subject to both strong external and internal sense-giving and displays an increasingly guided and rich pattern of sense-making that allows it to place less emphasis on procedural compliance and more emphasis on the extent to which it is making a positive difference to the lives of the children and young people within its care.¹⁴²

The sense-giving activities of Child, Youth and Family's managers have also served to improve its public capital. A national-level manager described how, despite initial concerns, the organisation had worked to build more positive relationships with the media by providing them with increased access to the organisation. This manager explained how the number of positive stories in the press had increased significantly and commented that "people are good to us when they know the real stories" (CYF national). A regional-level interviewee similarly described how they had worked to improve relationships with a local school from which the interviewee had "had a couple of complaints [but] they're actually raving about us now" (CYF regional).

The internal benefits of enhanced trust and confidence were also explained by a local manager:

Assumptions are formed whether you like it or not, and they aren't necessarily an accurate reflection of what's happening, but if they are centred in someone's head that's external looking in it's a hell of a hard job to get rid of them. So every brownie point you can receive it's well worth it – it helps you survive within the organisation and enables you to keep your focus on what it is you really want to achieve. (CYF local)

Department of Conservation

The activities of the Department of Conservation have been politically salient. In 1995, it was subject to extensive media and political pressure following the

142 The dangers of focusing on procedural compliance were illustrated by the high-profile Baby P case in the United Kingdom. Following the tragic abuse and death of a 17-month-old child in August 2007, the British Care Quality Commission reported that any one of a number of doctors and other health professionals who had had contact with the child on 35 occasions before his death could have picked up that he was suffering abuse if they had been "particularly vigilant" and "gone beyond what was required" by the system (*The Times*, 13 May 2009).

collapse of a viewing platform that caused the death of 14 young people. While that tragedy undoubtedly had a significant impact on the department and its performance measurement and management practices, its activities have subsequently been far less publicly and politically salient. Nonetheless, the public does have an interest in conservation areas that are also recognised as a key element of New Zealand's tourism industry. Interviewees explained that the department does need to take account of the public's reaction to its activities. As a local-level interviewee explained:

You have to weigh up the political thing now – I mean the media just gets a sniff of something a bit political and it's headlines, and the minister doesn't want that. (DoC local)

The department's biodiversity strategy has assumed a broader political saliency as a result of pressures from within New Zealand and internationally. This led to the provision of increased funding but also to more pressure from Treasury for the department to prove the effectiveness of initiatives such as possum control. Internally, sense-giving occurs through national managers' attempts to place local decision-making in a broader context and to communicate "the big picture" through a series of cascading management team and area meetings. However, as noted above, "the areas are still reasonably separate and reasonably ... autonomous" (DoC local). Apart from the difficulties of measuring work undertaken remotely, this autonomy is supported by the perceived complexity of decision-making in respect of what work needs to be undertaken. As a national-level interviewee acknowledged:

environmental management is so complex that it's very hard to know whether you're getting perverse effects and what it is you're actually doing, and if you need to do it as much as you're doing it, or there's something else you need to do. (DoC national)

Overall, the Department of Conservation is subject to restricted, if not minimal, sense-making based on relatively low external stakeholder sense-giving and limited internal leader sense-giving. At the local level, managers retain a good deal of operational freedom although their actions tend to reflect a compromise between what the minister wants, what local conservation boards define in their conservation management strategies¹⁴³ and what local departmental staff believe to be important.

143 The New Zealand Conservation Authority and the regional conservation boards are independent bodies involved in conservation planning, policy, and management advice.

Ministry of Women's Affairs

The functions of the Ministry of Women's Affairs are not politically salient and have a limited profile within the public sector and with the public to whom the ministry does not directly provide any services. Ministry interviewees, reflecting a concern about the ministry's capability and profile (at least within the organisations of central government), described a variety of internal sense-giving mechanisms, including a fortnightly meeting in which the chief executive talks to all staff. Other mechanisms included collating and distributing important messages from executive management team meetings within two days, holding special seminars on topics such as the Treaty of Waitangi, and, more simply, conducting management by walking around. External sense-giving had been provided by a former minister's efforts to "drive change within the ministry to engender respect from other departments" (MWA national) and plausibly from the organisations with which the ministry has increasingly interacted.

Nonetheless, interviewees generally described an environment of high internal sense-giving and low external stakeholder sense-giving, leading to a pattern of restricted sense-making practices and a planned series of consistent actions.

Interviewees did stress the importance of the ministry's relationships with other organisations and the public capital that they represent. Interviewees suggested that those relationships needed to be based on the perceived quality of the ministry's work and the belief by other organisations that the ministry is worth involving in their projects and initiatives because it will add value. As one interviewee explained:

Because we are so small ... we need to have leverage and we need to have a profile and we need to be listened to if we're going to make any impact for our policy goal, which is improving women's outcomes.
(MWA national)

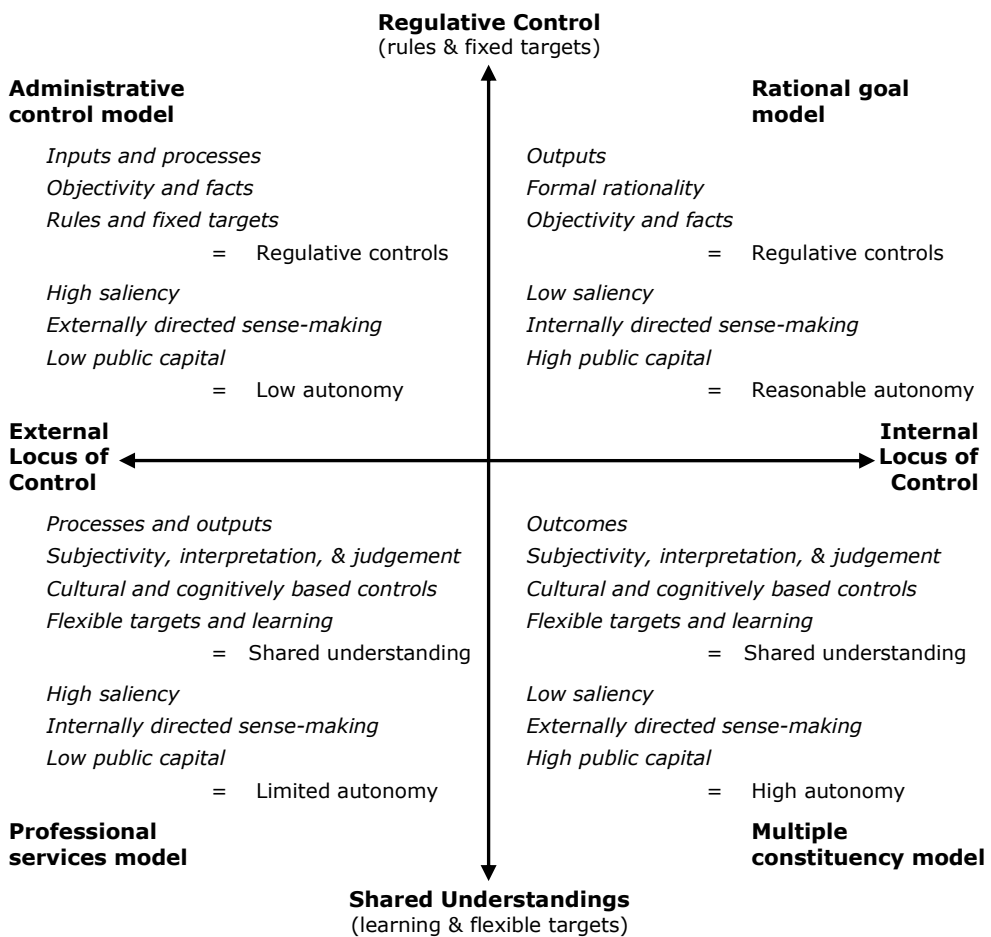
It was suggested that the ministry's reputation needs to be much bigger than its size (MWA national), so "what performance really means is influence" (MWA national). The ministry's networks form the field within which it is able to exercise a reasonable degree of operational autonomy. As one interviewee explained:

I've got networks and my job is to keep abreast of what issues are on the horizon and then think about whether they are important ones for us that we should be engaged in and to make that contact. (MWA national)

Models of performance measurement and management

The themes discussed above can be combined into a framework of competing values based on the nature of the rationality and control mechanisms used to measure and manage performance and the extent to which they are internally or externally driven. This framework comprises four possible models: the administrative control model, professional services model, rational goal model, and multiple constituency model (shown in Figure 6.3).

Figure 6.3: Performance measurement and management models



Administrative control model

Public sector organisations (or parts thereof) that adopt an administrative control model of performance management use a calculation-oriented logic, based on

empirical knowledge, that focuses at the level of inputs and processes. Performance management is characterised by regulative control with clearly defined rules, fixed targets, and a formal rationality that is conceptualised as value neutral and universally applicable. In such an environment, the formal model of performance measurement and management may be loosely coupled with the model or models that operational managers use.

The functions managed by organisations whose characteristics are reflected in this model are politically salient and external stakeholders do not perceive these functions as technically complex or difficult to measure. There will, therefore, be significant external stakeholder sense-giving. To the extent that this is accompanied by limited internal sense-giving, sense-making will tend to lead to an emergent and inconsistent pattern of actions. The organisation is likely to experience limited operational autonomy.

Professional services model

Public sector organisations that are characterised by the professional services model of performance management adopt a more substantive logic that is ends-oriented. As well as quantified data, this model places emphasis on more subjectively framed information and judgement based on values and norms. Performance is measured and managed at the level of outcomes using flexible targets and highlighting the importance of learning. The rationality of control is more culturally and cognitively based.

Such organisations are also likely to be principally concerned with functions that are politically salient and not perceived by external stakeholders as technically complex. They may, therefore, be subject to high levels of external stakeholder sense-giving. However, a degree of public capital associated with perceptions of professional expertise may enable some operational autonomy experienced by managers of organisations in this model.

Rational goal model

Organisations characterised by the rational goal model of performance management use a calculation-based logic that utilises empirical knowledge and focuses principally on the delivery of outputs. It emphasises regulative control through the use of fixed targets and a formal rationality that may not reflect the exigencies of, and will therefore be loosely coupled with, operational management.

This model is also likely to be concerned with the measurement and management of functions that are not politically salient, but are, to some degree,

perceived as technically complex, which results in limited external sense-giving. To the extent that internal leaders engage in significant sense-giving the organisation is likely to use a unitary but narrow account of performance. In such situations, the organisation is likely to experience a reasonable degree of operational autonomy.

Multiple constituency model

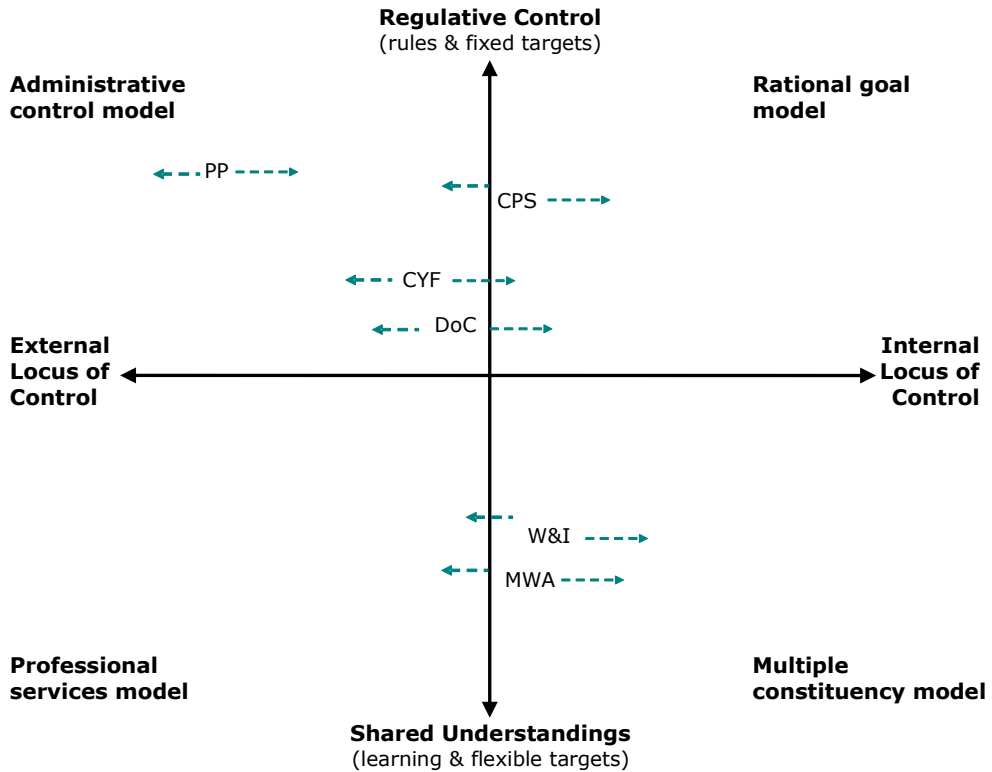
Organisations that characterise the multiple constituency model embody a more substantive, ends-oriented rationality that uses quantified data and more subjectively framed information such as narrative and direct observation. Performance is measured and managed at the level of outputs and outcomes, using flexible targets and recognising learning processes. The rationality of control is culturally and cognitively based, and supports an integration of the formal performance framework with the frameworks used by operational managers.

The functions managed by organisations with the characteristics of the multiple constituency model are not politically salient and may be perceived as technically complex and difficult to measure. These organisations are likely to possess a larger amount of public capital and thus experience more operational autonomy. However, in this externally focused organisation high levels of interaction with stakeholders will result in both internal leader sense-giving and external stakeholder sense-giving that produces guided sense-making practices that richly encompass the range of external stakeholder perspectives.

Application of the models of performance measurement and management

As noted by Talbot (2008b), organisations are not limited to one of the four models and may demonstrate characteristics of all four. However, they will have characteristics that more distinctly typify one or more models. For each of the case study organisations the spread of these is shown in Figure 6.4.

Figure 6.4: Performance measurement and management models



Note: CPS = Community Probation Services; CYF = Child, Youth and Family; DoC = Department of Conservation; PP = Public Prisons Service; MWA = Ministry of Women’s Affairs; W&I = Work and Income.

Work and Income

Although the interviewees from Work and Income described a strong internal emphasis on technical processes, their broader concern with client well-being and social development and interaction with a variety of external stakeholders suggest that it principally displays the characteristics of the multiple constituency model. Interviewees also frequently described the use of a substantive rationality that uses more subjective forms of evidence and values-based judgements. Internal control mechanisms are to some extent culturally and cognitively based with little evidence of any uncoupling of the national performance measurement and management framework and those used by operational managers at the local level.

Although the organisation is influenced by the sense-giving practices of external stakeholders, it is also subject to strong internal leadership. The resulting guided but rich (ie, multifaceted) sense-making practices give managers some flexibility to use their discretion when making decisions.

Public Prisons Service

For Prisons the rationality of control is regulative in nature, focusing on fixed targets and management control. At the local level, interviewees provided evidence of a degree of decoupling between the national formal model and the models in use within individual prison environments. Little confidence was expressed in the formal model as encoded in the main IOMS computer system and several interviewees described independent systems that they had developed and run locally.

Although Prisons is subject to significant external stakeholder sense-giving through the media and pronouncements of politicians and lobby groups such as the Sensible Sentencing Trust, the degree to which the organisation responds to these influences is unclear. Interviewees from both within and outside the agency described a largely internally focused set of sense-making practices that produce a unitary but somewhat narrow account of performance. Interviewees from Prisons described a regulative and internally focused set of practices concerned with measuring and managing procedural compliance. As such, this unit principally displays the characteristics of the administrative control model.

Community Probation Services

Community Probation similarly displays many of the characteristics of an instrumental rationality focused on fixed targets relating to key procedures. However, although rationality of control employed in the service is principally regulative in nature, at the local level an objectively framed focus on fixed targets is complemented by a more subjective, values-based rationality.

Unlike interviewees from Prisons, interviewees from Community Probation described active relationships with their external stakeholders, particularly at the local level. As a result, the agency is subject to a range of external sense-giving alongside its internal leadership. The agency, therefore, displayed a degree of fragmentation in its sense-making practices that led to inconsistency in its performance-management practices.

Overall Community Probation may be viewed as principally adopting the rational goal model.

Child, Youth and Family

Interviewees from Child, Youth and Family described an organisation attempting to manage a delicate balance between the administrative control and rational goal models. Historical experience of strong media, public and political reaction to critical incidents has led the organisation to adopt a regulative model of control based on fixed targets and an instrumental rationality. Emphasis has been placed on procedural compliance and the timing within which steps in the social-work process must be completed. More recently, increased internal sense-giving has allowed a less emergent and inconsistent pattern of actions and responses to external stimuli. Greater recognition has also been given to a substantive rationality that is ends oriented and uses values and judgement as well as quantified data.

Department of Conservation

A key feature of the Department of Conservation is the common cultural significance among its members of conservation management. This strong internal culture may also reinforce an internal focus that is further supported by a political saliency that is generally managed at low levels, relatively limited external stakeholder sense-giving, and the perceived complexity of many of its scientifically based decisions. Despite the high degree of local operational freedom, the performance measurement and management frameworks in use do not appear to be loosely coupled with the formal national framework.

The difficulty of measuring the department's long-term outcomes results in performance measurement and management practices that focus on processes and outputs and use flexible rather than fixed targets. Tension also exists between the use of empirical data and a formal logic to allocate limited resources among the range of endangered species and sites and to externally demonstrate 'value for money' and the more substantive, albeit expert, judgements used in its operational decisions.

The department principally displays the characteristics of the administrative control model although a more eco-centric and externally focused strategy draws it toward the rational goal model.

Ministry of Women's Affairs

The work of the Ministry of Women's Affairs is principally monitored against the ministry's work plans and an assessment that compares its results to predefined standards and the policy documents of other organisations. Its targeted social outcomes are subject to a variety of social and economic forces, and its

contribution to them is limited to the influence that it is able to have on other organisations, and therefore is difficult to determine.

Although the ministry uses a formal framework of objective criteria to measure and manage the quality of its policy, it also uses a variety of more subjective feedback mechanisms from stakeholders, other organisations, and its minister. These support a substantive, judgement-based rationality by which its performance is measured and managed. Interviewees from the ministry described a common, tightly coupled logic of action around improving outcomes for women. This logic is reinforced by strong internal sense-giving and facilitated by the small size of the organisation.

The functions of the ministry are not politically salient, so it is subject to limited sense-giving by external stakeholders. It was suggested that although other organisations had not valued the ministry's contribution in the past, efforts to improve its capability and relationships with other organisations had significantly improved its public capital, at least within the public service. Despite the fact the ministry's staff are, at times, required to respond to requests for ministerial briefings and the initiatives of other organisations, the ministry does have a reasonable degree of operational autonomy in respect of where and how it believes it can best make a contribution to improving outcomes for women.

In summary, the Ministry of Women's Affairs principally displays the characteristics of the multiple constituency model, although its focus on the management of processes and outputs is also characteristic of the professional services model.

Summary

In New Zealand's state sector the formal model of organisational performance management is based on theories drawn from institutional economics and private sector management practices aimed at improving organisational performance. This model is characterised by:

- the ex ante specification of performance
- the subsequent measurement and management of the extent to which this performance was achieved
- a focus on the outputs (final goods and services) and outcomes (their impacts and the resulting states) produced by and contributed to by each organisation with managers given relative autonomy in respect of inputs and processes
- no mention of the underlying processes or activities that produce the desired outputs

- an expectation that outputs and outcomes can be objectively defined and monitored
- an instrumental, calculation-based rationality based on logical means–ends relationships
- formal levels of authority flowing from parliamentary votes to ministerial ‘purchase’ decisions to organisation delivery.

However, this framework was conceived as a model for management of the state sector that largely left unaddressed the challenges of managing individual organisations in the sector. In seeking to better understand these challenges, the research has shown the following.

- Performance objectives are not always clearly stated or, indeed, defined in advance. For organisations managing in dynamic policy environments ex ante accountability documents such as the Statement of Intent or Output Plan can quickly become irrelevant to changing ministerial requirements and the exigencies of operational management.
- For many functions undertaken by public sector organisations the objective measurement of both outputs and outcomes may be impractical.
- In public sector organisations, managers are primarily concerned with managing processes, although they may do so with a view to how those processes contribute to the organisation’s broader outputs and outcomes.
- As well as quantified performance information, managers at all levels also use a variety of more subjectively framed narration, anecdote and observation.
- Together with instrumentally rational models that use standardised performance metrics, managers also use a more substantive value- and judgement-based rationality.
- While the formal model of performance measurement and management embedded in the external accountability documents does impact on internal management practices, where more regulative institutional arrangements exist it may be loosely coupled with frameworks used internally.
- Political saliency, perceived technical complexity, and the sense-giving practices of internal leaders and external stakeholders all influence the amount of operational freedom experienced by public sector managers.

These contrasts between the formal and in-use models are not based on absolute distinctions but rather on what may be seen as a series of tensions by which organisations may:

- display the characteristics of both production and craft, or coping and procedural, organisations
- focus on managing processes outputs and outcomes
- represent performance both objectively and subjectively
- use an instrumental and a substantive rationality
- contain both regulative and culturally and cognitively based institutional frameworks
- be subject to both internal leader and external stakeholder sense-giving.

The competing values model provides an interpretative framework that attempts to capture these tensions and explain that measuring and managing performance in the context of the public sector requires a more flexible approach that recognises the diversity of functions, the socially constructed nature of organisational performance, and the extent to which political saliency and external sense-giving shape internal management practices.

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Case Study – Child, Youth and Family: Drivers of the need for information

Rob Laking

Basis of this analysis

This analysis of interviews conducted in late 2008 with eight Child, Youth and Family (CYF) managers and two external stakeholders.¹⁴⁴ As with the other case studies, this is an historical account and does not take account of changes in CYF management practice in the two years or more since our interviews took place. It primarily reports what interviewees said were important influences on them at the time in how they acquired and used information. The formal framework of accountability within which CYF sits is described elsewhere in this book. What is important here is how CYF staff see this formal accountability in relation to what they perceive as their real responsibilities for the welfare of children and their families.

Context

CYF is a ‘service line’ in the Ministry of Social Development. It’s primary service responsibility is to protect children and young people “from suffering harm, ill-treatment, abuse, neglect, and deprivation” and to bring young offenders to account for their actions and assist with their rehabilitation. CYF provides child protection and youth justice and adoption services and residential care as required and funds other service providers in support of these objectives. It administers the statutory processes of the Children, Young Persons, and Their Families Act 1989.

In the past 40 years, CYF’s core functions have been organised in several different ways: as a division of the Department of Education (to 1972), a division of the Department of Social Welfare (which was also responsible for social

144 The CYF interviewees are identified as national, regional, or local managers. National managers may be in a line relationship with regional or local managers or in corporate support roles. Regional managers are broadly responsible for CYF services in one of four regions. Local managers each have responsibility for several sites from which most CYF social work services are provided. The two external stakeholders identified as a former minister and the then Children’s Commissioner have agreed that they can be named. They are, respectively, the Hon Ruth Dyson and Dr Cindy Kiro.

security benefits and pensions); a ‘business’ in the Department of Social Welfare; a separate government department; and its present position as a service line in the Ministry of Social Development (which again is also responsible for income support programmes).

At the time of this research (late 2008), CYF was headed by a deputy chief executive and services were delivered at 55 sites or locations under four regional managers. CYF’s residential centres and adoption services were separately organised. Services were delivered by CYF staff and through contracts with individual caregivers and community organisations. Of over 3,000 staff, about 1,300 were social workers or allied professionals such as psychologists, evidential interviewers, and lawyers. There had been a drive in recent years to increase the professionalisation of the social work staff of CYF through registration and the upgrading of qualifications. In 2008-09, about 850 staff were registered and a further 250 were working towards registration.

Operating environment

In the last 20 years, CYF’s operating environment has been dominated by a rapidly increasing rate of notifications of child abuse or neglect and of youth offending, and a series of widely publicised cases of child homicide or serious injury, usually at the hands of caregivers or their relatives in the same household. Public and political attention in these cases has frequently turned to the alleged failures of caseworkers to detect abuse or take effective action to remove the child from harm, and prompted questions about the competence of social workers and whether they have complied with the rules for case management. High-profile child homicides have sparked official enquiries that led to recommendations such as changing CYF processes, enlarging the service’s staffing, or improving the supervision or capabilities of front-line case workers. Much recent growth in notifications of suspected abuse has resulted from police routinely notifying CYF when a child is present in a suspected case of family violence.

Stakeholders

Public and politicians

Because CYF is in the front line of the government’s response to child abuse and youth offending, CYF’s performance has high political significance. When interviewed, the former minister had very clear priorities about the information she wanted – certainly, in part, reflecting issues where she was under political attack regarding the agency’s performance. She saw her demands for information

as a means of “getting the focus of the department”. She acknowledged that her questioning and calls for reports was “probably a micro-management type of approach” but that “I thought I was asking the department to focus on [a specific issue] because I thought it was important. And it was a good way of doing it”.

The information needs of the minister and CYF management depend to a large degree on the agency’s public profile. CYF management is sensitive to public opinion about the agency, not the least because it is important to the minister. This presents a dilemma:

So it’s sort of like we manage two things. ... We’re trying to run a business and make all of those best choices along the way and motivate our people and so on. And then there’s this external environment ... [the public] don’t care about that stuff – they just care that this service that the taxpayer is paying for, actually is turning up and doing the right things. (CYF national)

Senior managers pay attention to the media: not slavishly, but it was important to one respondent that a measure of “negative media is at 9% instead of 37%” (CYF national). They do what they can to create a more favourable public climate for their work, for example to “show the neat things that we are doing with the children” (CYF regional). They appreciate the protective role played by Ministry of Social Development, which “acts as an umbrella so people aren’t constantly pushed from pillar to post by the media exposure” (CYF national).

Senior managers were clear that the minister also had to respond to public criticism and pressure and that this would drive her demands for information. One manager said that when a previous minister took over the portfolio:

there were 5,000 children unallocated on cases. Now it’s ... come down – but for her it’s still a real touchy point because she’s been criticised publicly and in the House [of Representatives], and had to defend CYF over this issue. (CYF national)

The Children’s Commissioner also referred to CYF’s political salience:

Child Youth and Family is a much more complicated beast than most people realise. [The agency’s] front-line service role ... is often in the firing line. So I think it’s difficult because it carries high levels of political risk in the public minds and for politicians and for government in particular.

Given that public opinion and politicians may pay scant regard to performance against formal standards, formal external accountability is nonetheless a driver of information requirements. This was evident in how the

agency’s specific external reporting requirements influenced the way it structured its internal reports. Justified or not, managers expected that they would be held to account for specific auditable standards. The Children’s Commissioner described working with CYF to develop a new monitoring framework that:

attempts to remove the degree of subjectivity that I think Child, Youth and Family have experienced from commissioners, including myself, in the past. I have agreed to it because I think it’s important that they can actually have certainty around what it is they are going to be assessed against. ... So we’ve developed a framework which makes the job more of an auditing function than I think has previously been the case.

But the recent history of CYF is – along with its sibling organisation of Work and Income – strongly shaped by a contradiction between formal and actual accountability. CYF management was acutely aware how public opinion could trump formal accountabilities as the real measure of performance.

That happened to Work and Income. It didn’t fail in performance terms. In fact it returned huge savings to the government, and did its job with clients, but people didn’t have that view. Stakeholders didn’t have that view and the general public, influenced through the mass media, did not have that view. And it crippled the organisation for a period. (CYF national)

Corporate managers

Corporate management was also aware that public organisations operate in a public environment, and that this exposure generates its own information requirements:

It’s much more difficult in a public sector organisation. They want the same things, but you’re exposed every day to public scrutiny about every choice you make ... So your options ... become more limited. (CYF national)

The consequence was that:

you have to work much harder – to think about the solutions that satisfy the political dimensions. Because again if you lose confidence it doesn’t matter how good your plans are, you’re not going to get them done and your organisation’s not going to get better. (CYF national)

As a result, corporate management may think of itself as “managing the public context which is about confidence in the place and belief in the place” (CYF national). In the senior management team, “political savvy” was an important value. It was not spoken about specifically in those terms, but “being a

good public servant” was clearly understood to mean that you “stop things going pear-shaped”; “that you’ve done your job when things are not getting into the public domain – not on the front page of the [newspaper]”; and “when the minister is not having to answer questions” (CYF regional).

Corporate managers said that outcome measures were important – “re-abuse is really important for us because that’s one of our key [measures]” (CYF national) – but are anxious about the implications of public reporting. A long-requested report on the incidence of “resubstantiation” (second and subsequent confirmed reports of child abuse or youth offending) was seen as “quite sensitive because we have got international comparisons with other jurisdictions that are a similar size and shape” so that “we want to think about this and then write the report” (CYF national).

In practice, management has used operational performance targets to drive service performance, to compare sites against each other, and as a basis for removing poor-performing managers:

We say [to site managers] if you do the right things, then you’ll move your performance. (CYF national)

So we build a model of excellence from our own current well-performing managers. And then we go back and say to our other managers, this is actually the standard and you need to come up to this or in actual fact we need to think further about your role in the organisation. So it makes it a lot easier to manage them out, based on again what is the norm, what 80% of the people are doing. ... Poor-performing sites ... usually go hand in glove with challenged managers. (CYF national)

Regional managers

At the regional level and in CYF’s operational units, key performance indicators played a central role in day-to-day performance management. These indicators measure aspects of demand for services and the timeliness and quality of managers’ responses. Indicators were still cast as “traffic lights”: thresholds of performance were green, yellow or red. Regional managers closely monitored reports on key performance indicators, often on a daily basis. They also regarded performance management as an important part of managing their team:

As a team we meet fortnightly and the first half of that meeting is actually focusing solely on our key deliverables and how we’re managing to our key deliverables and what we need to do to meet them if we’re not getting there. (CYF regional)

I've made [it] really clear with all the managers is that we have some sites performing – above the line – some below the line. They all see the performance reports. ... A lot of members of the team might be below or above the line, but at the end of the day it's up to the individual accountabilities of the site manager. (CYF regional)

Regional managers used site performance reports both as a basis for rewarding and developing good performance and for supporting or removing substandard performers. Site performance directly influenced manager remuneration and opportunities for development for more senior roles. Conversely, there could be clear consequences for poor site performance:

I just have a two road approach ... If they're prepared to get on board and work and clearly show the attitude and desire and motivation to improve things – get in behind them and give them as much as you can in terms of guidance. Or at the other end, if there is truly a capability issue, working with as much grace as you can, have people move on. (CYF regional)

Service managers and site managers

As you would expect, some service managers and site managers may have been quicker to adapt to the performance management objectives of senior management than others. One senior manager said, “The most difficult people to work with in this organisation are middle management, not social workers” (CYF national). In particular, middle managers tend to be more sceptical about performance measurement. Key performance indicators “don't tell us a story about good practice” (CYF local).

A higher priority for middle managers was balancing demand and resources. Middle management often appeared “entirely focused on getting the operation under control”:

I think they are running so fast and just keeping ahead of the tidal wave and they're certainly more ahead of the tidal wave now. But they're certainly not wandering round in the green pastures going – well that was cool, what are we going to do next? (CYF national)

Service and site managers did have an interest in measuring the effects on clients and acting in response. But the measures that were important to them on a short-term basis were related to their allocation of budget and staff time and meeting their work throughput and process standards. These were also important for them because they were the de facto targets set by senior management – they

remained “focused on the activity type and volume measures because that’s what they’re being measured on” (CYF national).

Task workers

Corporate-level managers explained that social workers had a different perspective from senior managers on what was valuable information, reflecting their orientation towards case management and the issues facing their clients.

Some of them [social workers] might be interested in how they’re going out there, but generally they’re not that interested in how the rest of the organisation is running and tracking, it’s “how am I doing?”. (CYF national)

People won’t, at the bottom level of an organisation, sit where you and I sit and know that yes we’ve got a problem with the number of children that we’re trying to serve right now, but we need to make sort of careful choices. (CYF national)

Social workers tend to be driven in two directions. First, they are driven by the day-to-day requirements of managing workload in terms of cases assigned to them. A social worker “gets absolute satisfaction when they feel that their case flow is in a very safe position. And they can leave at the end of the day not kind of worrying ‘oh my goodness what if that case falls over?’” (CYF local). Associated with this is the risk, both for their clients and themselves professionally, of a misdiagnosis or slip-up in managing a case. Cases of serious child abuse or homicide “do impact on staff because they do think, well that could have been me – I could have been the social worker” (CYF local).

Secondly, social workers are also driven strongly by the operating rules and performance standards set for them by the organisation and their supervisors. In this, they may have seen their freedom of action progressively circumscribed over the last 20 years, as social work practice has become increasingly rule-driven. They were “being quite heavily performance-measured on the activities they’ve completed” (CYF national) and “are far more compliant and suppressed in their behaviours now than I remember them 20 years ago” (CYF national).

Social workers interact with the organisation’s database mainly through CYF’s case management system (CYRAS). According to one manager:

It’s just huge and it’s just getting bigger, uglier ... [b]ut because we’re becoming more sophisticated we ... are using it more and more to get additional information. That’s putting additional burden on social workers in sites in terms of putting information in. (CYF local).

CYRAS was primarily intended to help social workers manage individual cases, so was not built to meet these increasing demands for structured information about social work activity. These additional requirements placed increasing expectations on social workers in terms of recording information, something they were not necessarily good at or motivated to do.

Social workers tended to value performance information according to how it would help them respond to the various demands on their time from clients and managers, and whether they could see the connection between what the information measures and what they regarded as priorities in their work.

The challenge is to get [performance information] aligned to ... what people are inherently motivated about. This is a social work organisation providing care services. So if our performance criteria are not clearly linked to that – be they financial ones or anything – then people will rally against them anyway. And they'll be de-motivated. And make poor choices. So that issue of alignment is quite critical. (CYF national)

As CYRAS has been able to meet those requirements, it has become a more useful tool for the front line. If a manager told social workers they had missed 10 cases, but the social workers had no idea which cases they were, that was “just a pain in the butt”. However:

The usage skyrocketed when it became “okay here’s the 10 cases that are late – here’s the one that’s got a future – and you can drill through” ... making it useable, making it something that’s important. (CYF national)

The focus of information used

Importance of process

A central criterion of good performance in CYF was achieving process targets. The managers interviewed saw process objectives as an essential part of an operational service delivery function, “everything comes down to that level and that’s why we have very limited, high-level outcome stuff, because people feel more comfortable with this on a day to day measurement basis” (CYF local).

CYF is driven initially by notifications and how they are assessed and handled. An important aspect of process is timeliness, “Any notification that comes in the front door, we have timeframes within which we have to respond” (CYF regional). Managers recognised that process measures such as timeliness do not in themselves indicate good performance, but saw them as essential for managing daily workflow, “[Workflow information] doesn’t necessarily mean

you're performing exceptionally well as an organisation, but without that you can't function" (CYF national).

Process measures are also sometimes publicly important. CYF has rules about how to assess and classify notifications, how to establish deadlines for responding to high-priority cases, what steps to follow during an investigation, when reports should be produced for court, how long young people can be held in custody, and so on. All of these can be the subject of public scrutiny and debate, and the agency is explicitly accountable for meeting standards for several of them. Consequently, they are of high salience for ministers. The previous minister said:

So we had obvious things like notifications – how long does it take for you to go to the house of a kid who you think might be being abused. Now that's a sort of 101 for care and protection. If you've got an urgent call, can you respond to it urgently? I really focused on notifications, to the point of obsession, where I had daily reports from every site.

The managers interviewed saw process standards as basic, bottom line essentials for performance because "if you don't do your job at the basic level, people will endlessly have difficulty with you" (CYF national). They were also a form of protection when things go wrong: a way of demonstrating "that I [did] the best if the worst happened protecting oneself" (CYF national). "If the worst happens and a child dies ... if we've done everything we're meant to do – we can feel okay" (CYF local).

Managers also argued that good practice was a contribution to good outcomes:

Key performance indicators are there for a reason. They are there to ensure the service is the best possible. ... They are there to assist us to achieve the best outcomes. (CYF local)

However, to others the view that "if you measured every step of the process and the process was done perfectly, then the lives would be improved" (CYF national) was an oversimplification of the complexity of practice. One manager agreed that a certain percentage of clients "go through a very simple business process – CYF intake, investigation and intervention", but:

60% go through 10 different ways and then there's this ginormous [tail] of 10,000 different ways they engage with us. And ... that's why the process modelling failed because you can't process model all those 10,000 different ways of going through the system. (CYF national)

What is said here is probably true of any attempt to model all the complexity in decision paths for a large organisation. But it is evident from all the interviews

that managers and external stakeholders need somehow to simplify this complexity to make sense of it.

Child, Youth and Family accountabilities

The performance for which CYF is externally accountable is set out in its Output Plan:

The Output Plan is around performance and how well we deliver the services that we say we're going to deliver, that government ... gives us money for. And the Output Plan measures are an indicator of how well we are delivering the services that we say. (CYF national)

The standards in the plan are closely tied to CYF's statutory functions such as taking action based on notifications of neglect or abuse and managing children at risk and young offenders. The standards are primarily set in terms of timely completion of process actions. The measures have "tended to flow up from an Act that specified a bunch of bottom line statutory requirements around timeliness" (CYF national).

The Output Plan distinguishes between measures of activity – demands made on CYF by key drivers such as notifications; and measures of performance – and how it responds to these external drivers. Activity measures are an indicator of the volume of potential work coming in through the door. Performance measures relate to action taken by CYF that it can control and that generate costs for the agency. These output standards also tend to receive more attention in internal performance management. There is "definitely pressure when you underperform on the Output Plan measures – not on activity drivers or whatever but on those" (CYF national).

The managers interviewed said that the basic activity drivers could not be controlled, so were not appropriate measures of performance. But CYF staff and other professionals could to some extent influence notifications on the "doorstep" of the agency. Many notifications are made by members of the public, police and other professionals and their perceptions of what should be notified have an effect on what in fact is notified. For example, according to one manager, findings of physical abuse arising from investigations "actually plateaued quite a while ago' but findings of emotional abuse were 'skyrocketing ... the more FARs [further actions required¹⁴⁵] we do, the more investigations we do, the more emotional abuse is found" (CYF national). Similarly, at the time of our interviews the police procedures for notifying children at risk when they attend a reported case of

145 FAR is a procedural step in case management indicating that an agency response to an initial notification is needed.

family violence were generating a rapidly rising rate of notifications. In an effort to screen these cases before they become formal notifications at the call centre, CYF managers had taken steps to educate the police about what constitutes a risk to a child:

We know every time police go to a family violence notification and there are children there, even if they're asleep in bed and the altercation happened in the back garden and they couldn't possibly have heard it, and it was a one off and it's never going to happen again, we still get a notification because there's children there. (CYF national).

Outputs compared with outcomes

For CYF, measures of output and process were evidently important drivers of day-to-day operations. But the managers recognised that output standards can say little about CYF's achievement of outcomes, "They're not wrong, but they're not transformative for the people that we serve" (CYF national). At a high level, CYF management was clear on an outcomes focus for performance. At the corporate level management talked about "four key outcomes" and "six linked priorities" written into CYF's strategy. A focus on "measuring ourselves against the ultimate outcome" was seen as "the only way we'll change processes in the organisation long term" (CYF national).

Outcomes in child protection was defined in terms of effective interventions, "what was the outcome of different types of interventions for this particular cohort of children?" (CYF national). The best available measure of effectiveness in child protection was when "fewer children come back to us re-abused" (former minister). Managers distinguished between 'renotification', which may be a good thing, because a family is signalling that it needs help, and 'resubstantiation', which is a recurrence of abuse or offending. For children who come into the agency's care the desirable outcome is 'permanency': "to have children in stable, permanent placements" (CYF regional).

It also follows that the difference that CYF can make to a child's life – reducing the long-term risk of abuse or helping them into a stabler and happier family life – is measured over years. It is not "something you report on monthly": otherwise it becomes a process around something and it's not a process. This is about the quality and effectiveness of what we do. And you know if we reported on them once a year or once every three years, and just did some initial in-between stuff, it would be more my view. (CYF national)

The managers interviewed conceded that CYF is not there yet in terms of getting stable and meaningful measures of outcomes for internal performance management or external reporting. Getting there had been difficult for two reasons. First, because of the strong historic focus on process and compliance:

[Social work staff have] tended to default to compliance. So in the absence of performance the next step was to get everyone to comply. ... So management didn't really feel it could change anything much, but it knew that it had to send in certain reports and tick certain boxes in order to stay out of trouble. (CYF national)

Secondly, it was difficult because of the problems in defining meaningful outcome measures and translating them into terms that social workers could relate to what they do.

There has been a particular and longstanding debate about using measures of resubstantiation: children or young people “coming back into the system” with evidence of further abuse or re-offending. Unlike some other jurisdictions, New Zealand did not at the time of this research have an official set of standards for child abuse or re-abuse rates at different levels of severity. Some managers interviewed argued that there is a great deal of complexity and ambiguity attached to such measures:

You've got multiple types of re-substantiation. There's re-substantiation from physical abuse to emotional abuse [which is] actually an improvement; but it's [still] re-substantiation. [Or] if you're physically abused and then you're emotionally abused a month later that's not re-substantiation because it wasn't the same abuse type. I guess it's all those complexities that have made that report [on re-substantiation] really struggle to be effective or to get off the ground. (CYF national)

There are similar problems with evaluating outcomes for young offenders. The only measure available to CYF at the time was whether a previous young offender had been referred to CYF again. But if they were originally referred for armed robbery or kidnapping and came back for shoplifting, “Well actually, that's a pretty good improvement I would say. But our current way of measuring [would say that] we failed because they came back” (CYF national).

CYF managers did seem to agree that ideally outcomes had to be assessed over the whole life cycle of a child or young person's engagement with the agency, “the longitudinal stuff as well as the moment in time stuff”; whether over this time “our engagements with these people [are] getting better or worse” (CYF regional).

Ultimately, outcome measurement requires direct evaluation of the effects on clients. Over a longer period, focusing on “client engagement” with cohorts of children or young people on the agency’s records may be the only proper evidential basis for evaluation of the effectiveness of social work. But to link outcomes to operational transactions, shorter-term impact proxies are required. For example, getting a child into a ‘permanent’ placement, given that it requires an element of judgement, is a result that can be measured. It may be only a proxy measure: “you’re not necessarily saying you can record you’ve increased their well-being in life” but “you’ve got them to a point where they should be better off” (CYF national).

This approach to measuring outcomes assumes that there is a canon of good social work practice that, if adhered to, will optimise the interventions that the agency makes. Pragmatically, it enables managers to speak to social workers about effective performance:

If you wanted to talk to a social worker who’s never had any sort of focus on this [managing to performance targets] and you say well look if you did this and this and this, and the outcome was to get that kid through court and into a good care placement ... you got these underpinning things in place. So it was just a way of moving the workforce. (CYF national)

Managing for inputs: thresholds and bands

CYF has a history of pressure on budgets. At the time of our interviews, the department was emerging from just such a period:

[E]veryone’s projections around here were saying [an] overspend by somewhere [between] 20 and 28 million dollars. ... People just ... overspent their budgets by millions of dollars and just looked up as if to say, well, you know, you have to deal with this. (CYF national)

The senior management group had assured Treasury that overspending would stop and made a significant effort to change the culture of overspending partly by creating “significant sanctions for overspending your budget” (CYF national). “And it took a hell of a lot of pressure being applied [to change] expectations” (CYF national). At the time of our interviews, the strategy of strict budget limits seemed to have worked. In the fiscal year 2009/10 the agency was heading for a surplus.

But enforcing budget limits can create perverse incentives and illustrates the importance of getting the right performance standards in place. For example, a national manager said that the “single biggest financial driver” in CYF was the

number of children in care. To cut these costs “you have to get these people out of the system. So it’s like a hospital – the beds are full” (CYF national). But there were essentially two ways of doing that: by rationing places at entry or by reducing the time children spend in care. The agency hoped that by giving their managers less budget for care they would manage numbers in care within the new limits. But there was a risk that this could be a “blunt instrument”: managers could respond, not by more vigorously pursuing ‘permanency’ (an exit for children from CYF care into stable family placements) but by accepting fewer children into care in the first place and thereby increasing the risk of further harm or neglect occurring.

So the issue of reducing the cost of children in care was re-cast to establishing:

a set of [performance] measures that reduce the number of children that stay over two years. And that fits philosophically also with the purpose of the organisation which is to say children shouldn’t be in long term care unless they are unable to be accommodated in permanent arrangements elsewhere because it’s bad for them. (CYF national)

According to corporate management, targeting performance on length of stay in care significantly altered responses from social work managers:

over the last two or three years we have progressively been able to improve our management of care, reduce the numbers in care, reduce the duration, free up funding that was available to fund children in care and start to progressively move that resource out of costs for care to early intervention. (CYF local)

More generally, it led to the view that worksites should be funded on “what it should take you to do the throughput, and how many staff you’re going to require to do that” (CYF national). This is effectively a standard costing model that assumes that a standard efficient set of interventions (each with a known cost attached to them) can be developed for dealing with a known client population. Management would say that:

if you guys are operating within this threshold [ie, intervention rate] then we’ll fund you for that work because you are operating in the right band. ... It’s not about measuring the number you do, it’s about measuring the threshold that you’re receiving work at, or accepting work at. (CYF national)

The managers interviewed believed that the standard service cost model has changed behaviour:

what it's helped destroy is the myth of never having enough money to do things. ... We just constantly say to them you've got exactly enough money. We know how many kids you've got coming through, we know what you are forecasting. You've got the social workers, you've got the financial plan – you've absolutely got enough money to do the job [provided] you make the right decisions. (CYF national)

A more general consequence was that corporate managers were increasingly representing the issue of budget limits as a trade-off with risk to clients and the organisation. Managing demand in CYF can be analysed as a problem of where to operate on a risk curve. In one direction, CYF increases the rate at which it intervenes with further action in response to notifications, and increases the risk that it will be intervening unnecessarily in people's lives (with costs to both the government and the families concerned). In the other direction, social workers decide that a higher proportion of notifications require no further action, and increase the risk that they miss a case where a child is in real danger.

According to one manager interviewed, the senior management “definitely clearly gets [that] the performance or the operational changes in CYF are cycling back to a higher risk profile in that huge demand came on board and lots of things were done to manage that demand” (CYF national). CYF management had, therefore, told Treasury that, although CYF would manage within given constraints, “there are risks in managing inside a constrained budget” (CYF national).

Characteristics of the information

How meaning is given to information

All the research for this project has confirmed that public servants rely a lot on numerical data from their organisations for information about performance, and staff in CYF are no exception. Structured data sets such as CYF notifications that can be classified by (say) date, notifier and action taken are critical for process control. But unstructured information – documents, recordings, personal observations or conversations (which may be shared or get no further than the memory of the observer) – is also important. Interview respondents referred, both prompted and unprompted, to both types of information. Furthermore, CYF managers and stakeholders do not rely entirely on their organisation for the information they need. Managers commonly collect and store their own information locally. Outside stakeholders check the information they get from the organisation against other sources.

Structured (usually numerical) information is important because managers simplify reality by finding similarities or patterns in events and fitting them into mental models. Managers gave examples of where they looked for patterns in information. For example, although the agency does not keep a database of “serious events” (such as a young person under supervision committing an offence) a manager agreed that they could learn something from serious events in aggregate:

Often we’ll get a serious event that is very similar to one we had two or three months ago, and we’ll think about processes we used then and what we asked, and best practice comes forward. (CYF national)

Other examples were analysing variance in attendance at family group conferences or identifying differences between locations in rates of children in care attending school.

Nevertheless, differences of opinion existed in CYF about how much variance can be explained and how much complexity can be simplified. One manager believed it was possible to “categorise everything” and that data analysis would help to “eke out which bits are the true important factors and which bits are just chat around the outside”, but acknowledged that he was:

more data-focused [than some of his colleagues] ... It’s slightly different if you have that same discussion with a social worker ... they’ll say certain things aren’t that measurable. I suspect the truth is somewhere in the middle of the two views. (CYF national)

And all managers interviewed agreed that they used direct observation and enquiry to check or confirm the statistics. The “formal system is about that much, really [holds fingers close together]” (CYF regional). The most common means of unstructured enquiry were to “get around the sites”, “walk the floor”, meet their teams regularly and discuss performance, and have meetings with external stakeholders such as other agencies or caregivers. Similarly in our two external interviews, both the former minister and the Children’s Commissioner said that, while the statistical reports they received were important, they also relied on visiting CYF offices and talking to staff and external stakeholders.

Conversations, oral or written reports, and direct observation were useful as data. When they were used by our interviewees to make a point, they were frequently turned into stories. Anecdotes might be a form of illustration of an already-formed mental model. They may also be accounts of some sentinel event – in CYF, usually a performance issue with political consequences – that could trigger re-framing of those models. For example, the former minister explained how after she had heard “terrible stories of young people being in cells for a

week” she said that 24 hours at the most would be acceptable and directed that CYF should report its performance against this standard on a weekly basis.

Senior managers and our external respondents seemed perhaps more than managers at other levels to need to simplify their models to get the broad picture, to make sure that they were not just reacting to essentially random events and to draw a broader sense from the reports or information they received. The Children’s Commissioner relies a lot on personal inspection and stories: visits to sites, meetings with Youth and Family Court judges, and discussions with children and young people and their families and with other social agencies and caregivers. But she has also accepted that a formal reporting framework is necessary for her to get the full picture of performance. Anecdotal information:

picks up people’s grievances rather than ... a sort of overall pattern. ... [A formal report] gives a more accurate picture of what’s happening across the country ... as opposed to relying on sites that are considered naughty, bad or aberrant in some way.

How people trust the information they get

Reliance on a formal reporting framework, however, assumes that reported indicators are both trustworthy (mean what they say and are not subject to error or deliberate misrepresentation) and significant (say something important about performance).

The former minister said that she trusted the consistency of the information because she trusted the system that produced it, “I was confident that they weren’t cooking the books. ... I just think they were honest. ... in the end you’ve got to trust people to a certain extent. I don’t think we’ve got a corrupt public service”.

Managers in CYF on the other hand did see problems in consistency:

Our intuitive feel is that we’ve always used this information and it would be ridiculous to stop using it because that’s going to cause more of a risk [but] we know that it’s not as accurate as it could be. We don’t know by how much: for example, is it 15%, 10%, whatever? (CYF national)

My wish would be that I could look at that data and know there was only 5% margin of error and I can’t do that. (CYF national)

Managers, maybe not surprisingly, did not attribute these problems of data accuracy to deliberate falsification – in part it was a consequence of a system (referring specifically to CYRAS) that was:

getting bigger and bigger and bigger ... To start a new social worker they say it takes a good two years for someone to learn CYRAS well. At the rate we’re going it’s going to take four years ... Our social workers

come to this organisation to do social work. ... Lots of them will tell you “the computer work drives me crazy”. (CYF local)

If task workers see feeding CYRAS as a chore with no obvious value, they may not be as careful about entering data as they would be if they thought the computer system produced information that matters more to them in their daily work. One manager contrasted a local data system with a colleague’s reliance on CYRAS:

with due respect, [manager A]’s data is what people put into CYRAS. And [A] cannot put ... hand on ... heart and say this data is accurate. [Our local] system, because it’s done on an individual basis, is accurate. ... the manager goes into the system, does a supervision session, checks the data against what it is the social worker is saying ... and then enters the data. So there’s a better chance that that information ... is more accurate. (CYF local)

CYF is also no different from any other organisation where people are judged by performance measures. There is an incentive for people to ‘game’ the statistics: falling short of deliberate falsification, but putting the best possible face on their actions. According to one manager interviewed, “people find perverse ways around the measures and that can ... in fact produce something other than that which was intended by the measure” (CYF local). Gaming “could be described as perfectly legitimate but in practice terms it’s not” because it is targeting the measure rather than the intended purpose of the measure. Another manager that was interviewed added, “[p]eople will be creative – they’ll find ways through to satisfy management’s requirement to achieve performance targets” (CYF national). One manager gave an example of ‘tricks of the trade’ when assigning a social worker to a new investigation. – as this example shows:

Which one are you going to choose out of the ones that you haven’t actually done? You may as well do the one with eight kids in as opposed to the one with one child in because that will knock off eight [key performance indicators] in one hit as opposed to one; where the presenting information is pretty much the same ... If you’ve got 10 kids in this family, they’re going to equal 10 unallocated cases – you’d better allocate them – it will make a big difference. You’ve got a hundred unallocated – do that one and you’ve got a 10% improvement. So simple things. (CYF local)

But trust in technical accuracy is not enough. Operational managers and task workers will value structured information only if it fits their own perspectives. They will trust information “if they can see the relationship to what they’re doing

and it works and it makes sense” (CYF national) and it will “tell us what we need to know about the business” (CYF national). For staff ‘close to the coalface’, a report that had “been developed with 9 or 10 assumptions and [is] there to achieve some view or measurement that may not be the view at the front end” was “not of any use to them – it doesn’t add value to their daily activity or their drivers about what their role is. So if it doesn’t add value and doesn’t help them, they’ll just never look again” (CYF national). Thus, key performance indicators were “legitimate” but “just inputs into something else”. You could get top scores on all the indicators but the numbers of children in care might still be going up.

In part, this attitude to performance measurement reflects an abiding cultural antipathy amongst social workers to management by the numbers. A corporate manager explained:

I think it’s been a big mistake to default human service type organisations like this to a set of measures that might apply to a factory. Some of those are fine, but actually on the whole this is not a bloody factory. It’s not a conveyor belt where you can measure and cost every intervention and action that people take. It’s a practice. And it’s a professional practice. And professional practices in the private sector don’t measure themselves on conveyor belt type mechanisms. (CYF national)

There is also a belief that outsiders “don’t understand the business” and that it can be hard to dislodge the inaccurate assumptions of external observers. (CYF local). These attitudes, legitimate or not, are clearly a problem for managers’ faith in external accountability.

Ownership of performance information

When managers and task workers do not rely on organisational information, they will develop their own sources. Several interviewees acknowledged that local databases frequently spring up in CYF, “We have experiences where a whole lot of different business units in CYF would have their own informal systems – Excel, Access, whatever” (CYF national). One manager had developed a parallel reporting system for supervisors, not connected with CYRAS, and was developing her own financial reporting system. At one stage all the agency’s information on adoption was on an Access database outside the formal system.

Another manager acknowledged that the existence of these local data sets was “a direct indication [that] what we’re doing is not hitting the mark. Because somebody has a need that we’re not fulfilling, so they find a way to do it” (CYF

national). Partly, local data sets kept cropping up because corporate information systems could not adapt quickly enough to changing front-line data views. There was:

a bit of a conflict [between quick response to local information requirements and] running a large reporting warehouse system that you need some quite robust processes around it to make sure you've got accuracy and reliability and stuff. But that slows down your flexibility to move rapidly. (CYF national)

This is also justified in terms of data security and integrity, and ensuring that information is a shared asset. As a corporate manager explained the problems arising from the local development of an Access-based adoption information system mentioned above:

The person that ran it for several years has left ... so that information, which is invaluable, could have got lost. But there, thank God, happened to be some sort of back up [if] something happened. We can't have that – that's a lack of discipline on our part and our front line's part. (CYF national)

I guess the biggest example of that, which was recently brought out in-house, is the 'kids in police cells' and residential stuff. For years that [information] was trapped as a spreadsheet and I know for a fact that once it was completely lost and they only got a copy back because he'd given some interested party a copy just before their laptop or PC blew to smithereens. That is essentially in-house now. But there will be others, you can guarantee it. (CYF national)

Accordingly, there are strong incentives for corporate management in CYF to regard all information about performance as a corporate asset and to bring as much of it as possible under central control. In part, this is a response to the perceived need to manage external political and reputational risk and, in part, it is to secure performance information as a shared asset.

How performance information affects decision-making

No one doubts the strong moral commitment that CYF staff have to the wellbeing of children. But fear of the personal consequences of a failure to keep a child safe is also an important influence on CYF decision making. There is a long and tragic list of children who have died almost always at the hands of their parents or other members of the household. Death reviews are widely regarded in CYF as a daunting experience for all concerned. Connolly and Doolan (2006, p 31) found that in about 20% of cases of child deaths between 1996 and 2000, the child had

previously known to the statutory child protection authority. In these cases there are external and internal inquiries to discover how and to what extent organisational failure might have contributed to the child's death. An interviewee recalled a high-profile case involving the death of a teenager:

He had spent some time with us. I can remember coming to work saying this 17-year-old kid – did we have some involvement with this? And it was, oh yes, but that finished three months ago. So it was kind of like phew, it wasn't us. ... it wasn't our individual accountability on that case, although we had been involved with that young person's life. ... But what you got was this kind of fear reaction that looked for culpability. (CYF national)

Perhaps a natural consequence of the risk for case workers and their supervisors is the adoption of the defensive practices of following rules of process and recording information. One manager gave examples of the recording of trivial information in case files (a record of a young man in care demanding fish and chips for dinner, for example) and agreed that there was an element of "better be safe than sorry" in this practice.

Failing to meet performance standards can also be an important incentive and a consequence of the high weighting placed throughout the organisation on achievement of these standards. Sometimes fear can lead to reluctance simply to confront the information:

if you're at the bottom month after month, [you] stop going in [to the reports] and looking. So you have a [key performance indicator] traffic light comes up every day. People who are failing consistently, they don't go in every morning and press the button because they don't want to see red – red is bad. (CYF local)

Managers, however, who used performance information to manage unit performance, typically investigated a reported variance by "drilling down" to locate the causes:

We can go right into CYRAS and drill down very deeply, gather that information and present it and say this is what we've seen. (CYF national)

So what managers [can] do is go back to the key internet reports here and they can go down to individual cases – individual case loads as well. (CYF national)

In the bureaucratic model, managers saw their role as one of "control" in the classical sense (ie, responding to deviation from the standard by taking action to close the gap).

The regional directors and I all align through this performance and we say anything less than 50 points we actually want a remedial action plan for the site to bring it back to performance. That has to be with me and I have to agree it. (CYF national)

A performance report gave one manager a “flashing red light” on unallocated cases and on investigations exceeding the required 90-day time limit.

The advice that we get at the moment tells me at the end of the month that things are seriously wrong ... We worked with them closely around dealing with the current problem because ... it is unacceptable to have unallocated cases. At this particular stage they were exceeding something terrible and it needed to be addressed. (CYF local)

The manager’s response with the site where the problem lay was to do:

the quick fix thing. We did the after hours: we did the bringing the experience in from regional team, helping out with training – that type of stuff. And we did that for a solid six weeks. In the meantime in the background what I was doing was working with our regional managers and the experts within the regional team to mobilise a design of how we could improve services, and we’re talking about how we could support the manager to lead. (CYF local)

Stopping fear of performance failure from sliding into avoidance behaviour as described depends on the way performance problems are approached.

The attitude that managers have to have data and the reports is what’s the critical thing. ... All our sites are the same – they’ve all got social workers, all got supervisors, all got a manager. So at one level you could say, well everyone should be able to do very well. So if someone isn’t, it might be ... a resource problem. Well if there is let’s be very careful not to bang my manager over the head but let’s help that person survive with the resource limitations they’ve got. (CYF local)

So at the time we did our research, CYF presented something of a paradox. On the one hand, managers appeared to have little confidence in measures of process performance as proxies for the value of what they did; on the other, the measures were highly salient for day-to-day reporting, remedial action, and consequences for managers falling off the pace.

Conclusions

In the recent history of CYF, the management of risk has been an important influence on CYF decision making. Perhaps a natural consequence of this for case

workers and their supervisors is the adoption of defensive practices, following rules of process, and recording detailed information. Fear of failure to meet performance standards can also be an important incentive and is a consequence of the high weighting placed throughout the organisation on achievement of these standards. Managers, however, who do use performance information to manage unit performance, typically investigate a reported variance by ‘drilling down’ to locate the causes.

So CYRAS, the case management system, is seen in CYF as the base of an information pyramid of progressively more structured and attenuated information – requiring that there should be a consistent relationship between the higher-level structures and the underlying base information at the case level.

In this view, the actions and processes of social workers are framed in a consistent model of effective organisational practice – the ‘gold standard’ or ‘clinical pathways’ of practice implied in some managers’ statements of how process steps contribute to desired organisational outcomes. This reflects a potential conflict between bureaucratic and professional models. External accountability and internal compliance drive the former; responding to the needs and situation of ‘clients’ in their environment, by drawing on a repertoire of professional skills, drives the latter. Social workers like to represent social work as a craft based on professional judgement, not a standardised process; but in fact the high degree of operational risk in social work and the political response to sentinel incidents have been countervailing influences pushing social work towards a compliance model where process becomes as important as professionalism.

Further reading

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Case Study – Department of Conservation: Moving from measuring outputs to managing for outcomes

Bill Ryan

Introduction

This case study is based on a review of the Department of Conservation's external accountability documents and other publications. It also includes the analysis of 10 semi-structured interviews undertaken in late 2008 with two external stakeholders, three staff based in the national office in Wellington (including the director-general, and five staff in regional and local offices in Canterbury, who the agency identified the most able to speak with experience on the matters being researched. These interviews focused on the context around the national heritage management and paid less attention to the management of recreation and outdoor activities. As with the other chapters in this volume, the case study reflects a snapshot in time and does not take account of changes since 2008.

The purpose of this case study is to see how the department's strategic framework is expressed in its formal documents, then to understand how managers and staff think about and enact performance management in the light of the context and conditions in which they are expected to implement such management.

This case study should not be read as an evaluation of the Department of Conservation or an assessment of its current efforts – further developments have occurred since the case study was undertaken. More importantly, the study attempted to look at the kinds of conditions and factors in play when departments try to shift to an outcome focus and monitor their management efforts. Accordingly, it should be understood as an analysis of a type of setting rather than of the department per se.

The main conclusion arising from this study is that even when an agency is trying hard to develop outcome-oriented performance management, systemic factors serve to frustrate and complicate the process and it is the elimination of these that should be the focus of future reform efforts.

Context

The Department of Conservation is a department of state with its head office in Wellington. Head office is devoted to providing national services and support for the operational functions of the rest of the department, providing policy advice to the Minister of Conservation, and contributing to whole-of-government policy processes. The department administers the Conservation Act 1987.

Day-to-day operations of fieldwork and conservation are conducted out of a network of 49 area offices, grouped into 13 conservancies. As at 30 June 2008, the department employed 1,770 permanent full-time equivalent staff. Throughout the year, around 500 temporary full-time equivalent staff were also employed (depending on the season), as well as contractors.

There are two striking things about the department. The first is that it has control over almost one-third of the land area of New Zealand, more than 8 million hectares of protected land and 32 marine reserves, including national parks, forest parks, offshore and sub-Antarctic islands, historic sites, and walkways. The second is that, unlike any other public organisation, it has a legislated obligation to advocate for its subject matter, that is, conservation.

Operating environment

The department seems to be one of the few government agencies that has little problem getting ‘good news’ stories in the media. ‘Conservation’ is now a widely accepted value in New Zealand’s culture, and news items and multimedia features are commonplace. Examples include attempts to preserve an endangered species, eradication of a pest from a protected area, the return of an island to its pristine state, the restoration of an historical site, or the opening of a new bush track. These items often feature department staff, such as a friendly, engaging, and enthusiastic scientist, ranger, or conservator, as the presenter.

Publicity over the years surrounding the Kakapo Recovery Programme is a case in point.¹⁴⁶ The status of New Zealand’s nocturnal parrot species attracted the interest of documentary makers such as Gerald Durrell in the 1960s, Sir David Attenborough (*The Life of Birds*) in the late 1990s, and, more recently, Douglas Adams and Stephen Fry. Recent successes on Codfish and Anchor Islands have been treated in New Zealand’s media with considerable optimism, particularly improved breeding rates in 2002 and 2009.¹⁴⁷ *Meet the Locals* is a popular

146 See, for example, the Kakapo Recovery website www.kakaporecovery.org.nz.

147 See, for example, the Wildlife Extra website www.wildlifeextra.co.nz/go/news/kakapo-breeding090.html#cr.

New Zealand television programme that features aspects of the country's plant and animal ecology ("exciting series of bite-sized documentaries featuring our natural world") and is presented by Nic Valence, the department's national media adviser.¹⁴⁸

Certainly, there are less friendly stories, particularly around hearings under the Resource Management Act 1991 where the department has been criticised for advocating conservation or raising environmental objections to the particular development seeking resource consent (both legislated obligations of the department). One disaster stands out. In 1995, a viewing platform overlooking Cave Creek in the South Island's Paparoa National Park collapsed, killing 14 people. The subsequent commission of inquiry (1995) found the immediate cause of the disaster lay in the department's procedures and practices and a culture of "making do". Subsequent legislation included changing the Building Act such that government departments can now be held responsible for inadequate building practices. The Minister of Conservation felt obliged to resign as did, eventually, the department's director-general and the commission's findings also impacted heavily on the department's structures, practices and culture.

In contrast, some public sector organisations regularly attract negative publicity, for example, the Department of Corrections, Work and Income, Child, Youth and Family, the New Zealand Police, Immigration New Zealand, district health boards, or any one of many agencies whose work involves assessing risk and comes under close public scrutiny. These agencies are perceived to represent greater political, budgetary and management risks than is the department. Therefore, they attract a high level of ongoing surveillance over their expenditure and performance, something that the department usually manages to escape. But as a Treasury interviewee noted, there have been concerns over the department's ability to provide the types and levels of information required to justify its budget bids, for prioritised decision-making, and for demonstrating value for money for proposed initiatives. Accordingly, when the department first proposed the development of its Natural Heritage Management System (NHMS), a large-scale, national information system (about which much is said later in this chapter), Treasury was supportive, but no new money was forthcoming to fund it.

Context is critical when it comes to the attention paid to an organisation's performance monitoring and reporting. An organisation regarded as 'at risk' will have Treasury, ministers and parliament paying it close attention to determine whether the agency is 'doing things right' (rather than 'doing the right things');

148 See, for example, *Meet the Locals*, which is available from the TVNZ OnDemand website (<http://tvnz.co.nz/meet-the-locals>).

in other words, performance oversight focuses on correct procedures, targets and standards, compliance, and conformance. Opportunities for experimentation are limited. Standard operating practices, conformity, and risk aversion are made uppermost, not the creative, risk-managing, and strategic thoughts and actions demanded by the managing for outcomes approach.¹⁴⁹

According to interviewees, the Cave Creek disaster led to a tightening up throughout the department. Head office control was asserted, as were sticking to the rules, following work plans, and meeting agreed targets. Performance management focused on compliance and the prevention of error. The cost, of course, was loss of innovation and internally driven improvements. But, in time, as the department moved off the issue agenda, things opened up once more – although, as one senior manager recalled, the tragedy left a permanent legacy:

When we moved to an hierarchical organisation with standard operating procedures that stifled a lot of improvement stuff. A lot of our people felt that there was no room to improve things anymore. You had to follow the procedure. So that's taken a lot to break that back down and say to people, "Well no, in actual fact you can try different things and step aside and bring it back and say here's how to improve it because I've trialled it". But that's taken a long time to work its way in. People were very scared ... as a result of the Cave Creek stuff – people are individually liable now. So they are very careful.

By the late 1990s, day-to-day decision-making and management had again become decentralised, with conservators regaining a considerable amount of operational autonomy but with a proliferation of priorities and monitoring frameworks. The strategic framework that the department's director-general announced in 2006 again centralised strategic goal setting and definitions of performance but also allowed local variations in conservancies. In the words of one senior manager:

We're gradually coming out of "The conservancy areas generally know best" and moving to "We need some national frameworks to help support that if that's where you're going to go".

149 Managing for Outcomes is the public management framework introduced in 2001 in New Zealand. See the State Services Commission's website on performance and accountability (www.ssc.govt.nz/display/document.asp?navid=339#P54_546). As discussed in chapter 4, the Managing for Outcomes initiative faded from view after the Review of Accountability Documents in 2008.

Formal performance management framework

Department of Conservation's Statement of Intent

The department's approach to performance management is encapsulated in its Statement of Intent. Therefore, this analysis begins with a survey of key parts of that document. The Statement of Intent for 2008–2011 was in effect at the time of the interviews (DoC, 2008b), and staff were expected to be aware of its content. Relevant parts of the 2008 and 2009 Annual Reports were also examined (DoC, 2008a, 2009a).

The Statement of Intent was introduced in New Zealand as part of the shift towards the managing for outcomes approach. This approach is derived from a classic strategic management framework (eg, Bloodworth, 2001; Bryson, 1988a; Hughes, 2003; Nutt and Backoff, 1987; Ryan, 2003b). However, the Statement of Intent is less a strategic plan than a summary of the organisation's strategic framework intended to justify to parliament the budget appropriation for the following year.

Central agency guidance for the preparation of the Statement of Intent expects the document to include a progressive 'stepping down' from vision to goals to objectives (intermediate outcomes), the strategies the agency believes will lead to those desired outcomes, and the indicators to be used in monitoring progress (DPMC et al, 2003b). The causal model ('intervention logic') underpinning the strategic framework is also expected to be evident.

The Annual Report, in addition to the financial accounts, is supposed to report on how well (or not) the agency performed over the previous 12 months in relation to its Statement of Intent and other organisational and programme strategic plans; the primary purpose of both types of document being 'accountability'.¹⁵⁰

Strategic direction, strategic approaches, and monitoring

As stated in the Conservation Act 1987 and confirmed in the 2008–2011 Statement of Intent (DoC, 2008b, p 8), the department's mission is:

The preservation and protection of natural and historic resources for the purpose of maintaining their intrinsic values, providing for their appreciation and recreational enjoyment by the public, and safeguarding the options of future generations.

¹⁵⁰ Some argue that accountability information is the same as that sought for management improvement (eg, OAG, 2002, p 67). This proposition is debatable.

This mission statement is notable for the use of two terms, “intrinsic value” and “appreciation and recreational enjoyment” and their apparent confluence. At first reading, this statement seems benign. However, as will become apparent, the two-fold purpose sets up conflicting tendencies inside the agency.

The director-general makes a particular point in his introduction to the Statement of Intent (p 6):

In 2005, the Department began developing a new strategic direction, which is now in its implementation phase.

The strategic direction focuses on *increasing the value that New Zealanders attribute to conservation*. [Emphasis added]

This proposition signals a move from an activities and outputs focus (the traditional ‘killing and saving’ culture of the department) to a particular outcome. This outcome is referred to in this analysis as the ‘attribution of value’ or the creation of ‘public value’ outcome.¹⁵¹ The difference between the original focus and the outcome is significant. To achieve this outcome or goal – and, according to strategic management theory, it is a ‘goal’ (aspirational, utopian, non-empirical) rather than an ‘objective’ (definite, empirical, a changed or maintained state of affairs in a planning period) – the department says it will (p 13):

- ... seek to entrench conservation as an essential part of the sustainable social and economic future of New Zealand.
- ... be recognised as an effective manager of the lands, waters, species, historic places, and roles entrusted to it.
- ... lead, guide, and facilitate conservation gains throughout New Zealand, wherever conservation is most needed.
- ... weigh society’s values, nature’s inherent qualities, and scientific criteria in its decision-making.
- ... actively promote outdoor recreation for New Zealanders, especially through fostering recreation, use, and enjoyment on conservation land.

The “strategic approaches” specified to achieve this overall goal are:

- “promoting the benefits and values of conservation” (p 13)
- “demonstrating that conservation contributes to economic prosperity”(p 14)
- “achieving conservation results through collaboration”(p 14)

151 The new overall goal has a clear connection to the recent idea first articulated by Moore (1995).

- “demonstrating excellence in conservation knowledge and sharing it with others” (p 14).

A three-pronged “monitoring approach” measures the effects of the four strategies, charting progress towards the overall goal.

First, monitoring involves “[t]racking changes in native vegetation cover across New Zealand as a whole, by environment type and level of protection” (p 15). This approach is based on data collected by Landcare New Zealand managed by the Ministry for the Environment. Changes in vegetation cover are tracked using a multivariate index or combined data sets (eg, of climate, landform, soil properties) that are correlated to the distribution of forests, shrubs, and ferns. This correlation enables the New Zealand landmass to be mapped with 20 different types of environment. These maps were first reported on in 2006 and have since been used to show changes across the country.

Secondly, monitoring involves “[t]racking trends in the benefits New Zealanders seek and receive from the natural, historic and cultural heritage managed by [the Department of Conservation]” (p 15). This approach uses an index that was first reported on in 2006. This index is based on telephone survey data and was developed from an earlier “appreciation” outcome. This index “assess[es] the connections New Zealanders make between conservation and environmental, social, cultural, and economic benefits” (p 15).

Finally, monitoring involves “[t]racking the relative value of conservation as an indicator of support for conservation” (p 16). When the 2008–2011 Statement of Intent was being written, the department was trialling a “conservation values monitor” based on a “values survey” conducted in 2006–2007. This survey provided a baseline for this monitoring. The intention was to create a survey of New Zealanders’ attitudes towards conservation that could be conducted and reported on annually.¹⁵²

Without doubt, this is an outcome-oriented monitoring framework covering both conservation and social outcomes. One of the framework’s dimensions is changes in the state of ecology, another is the material and lived benefits perceived by New Zealanders, and the third is changes in the value attributed to conservation, all of which are consistent with the new overall goal. There is no

152 The Annual Report for the year ended 30 June 2008 says the indicator “results from a pilot that translated questions from the 2006–2007 survey into a cost-effective framework that will enable ongoing measurement of New Zealander’s conservation values” (DoC, 2008a, p 130). No report was planned for the 2009 Annual Report, although it notes work is continuing and that “The next report is due in 2010” (DoC, 2009a, p 22).

question that, given the increased emphasis on outcomes following Managing for Outcomes, the framework is moving in the right direction.

The next question is, of course, has this outcome orientation flowed into the work practices of staff? However, before turning to that issue, it is worth looking further into how these strategic matters step down to lower-level objectives and into operations.

Intermediate outcomes and their indicators

As Pathfinder (2003a) suggests, a detailed understanding of intermediate – and, as I have argued elsewhere (Ryan, 2003b), immediate – outcomes is important for managing for outcomes and any performance management regime that goes with it. The desired ultimate outcomes (ie, goals) are usually abstract, long term, and not directly observable (being abstract categories). It is also unlikely that their achievement could be conclusively attributed to agency strategies. In other words, they are not useful when assessing the performance of an agency (or a policy).

On the other hand, those outcomes that contribute to or are prior conditions for the ultimate outcome – the intermediate outcomes – are usually more concrete and observable – although attribution can still be a problem. Of course, immediate outcomes, those ensuing soon after or during implementation and delivery, are usually much more concrete and empirical. If the causal model (in New Zealand, the intervention logic model), predicts these immediate outcomes, then they can be used as indicators of effective performance – or not. Therefore, they are definitely a basis for building a performance management framework, assuming that valid and reliable indicators for them are also developed.

Intermediate outcomes, unlike immediate ones, are acknowledged in the formal guidance for New Zealand’s public agencies. Intermediate outcomes, their purpose, and their value appear to be well understood in the department. According to one senior manager:

Our outcome is pretty much our 20–50-year goal and lots of agencies contribute to that ... The impacts are intermediate outcomes [that] are much more departmental. They may be influenced by other forces, but what we’re trying to do is sift out the bit where the department has an impact on that. So we’ve got “ecological integrity of managed sites is maintained or restored”. There will be a huge impact on that from climate change but we will be wanting to say our impact from our operational delivery is X proportion of that ... Our intermediate outcomes are what we can have an impact on.

Seven intermediate outcomes are identified in the Statement of Intent (DoC, 2008b, p 16):

- 1 The ecological integrity of managed sites is maintained or restored.
- 2 The security of threatened species unique to New Zealand and most at risk of extinction is improved.
- 3 Examples of the full range of New Zealand's ecosystems are conserved.
- 4 A representative range of historic and cultural heritage is conserved and interpreted.
- 5 New Zealanders increasingly engage in conservation.
- 6 New Zealanders have increased opportunities for recreation and outdoor activities.
- 7 Business opportunities consistent with conservation outcomes are enabled.

What types of evidence will be created to monitor and evaluate progress towards these objectives? This section of the Statement of Intent is worth exploring in detail because not only does it enable a comparison with practice on the ground later in this analysis, it also reveals something of the quality of the work being undertaken inside this department.

Ecological integrity of managed sites is maintained or restored

“Ecological integrity” is defined in the Statement of Intent as maintaining or restoring “marine, terrestrial and freshwater sites on public conservation lands and waters to a healthy natural functioning condition” (DoC, 2008b, p 21). According to the department, ecological integrity is important to prevent the ongoing depletion of New Zealand's natural heritage and provide security for a range of ongoing conservation and biosecurity initiatives.

The Statement of Intent then asks, “What will we do to achieve this?”. The text that follows that question covers the importance of selecting optimum sites and developing nationally consistent management and monitoring approaches; developing tools and systems to do this effectively; managing introduced animals and weeds; and undertaking various management activities, including replanting, controlling predators, herbivores and weeds, and reintroducing native species.

The four indicators the department uses to test progress towards this objective are as follows.

- Changes in different types of indigenous vegetation cover on conservation land by environmental type. These changes are tracked using translated satellite data and the Ministry for the Environment's New Zealand Land Cover Database. Changes are used to report on the state of New Zealand's

environment. This is a relatively new indicator and is subject to ongoing development.¹⁵³

- Changes in the size–class structure of selected indigenous dominants in particular places in forests on conservation land. The Statement of Intent provides the scientific reasoning for monitoring the habits and effects of particular species. That causal mechanisms are specified is the important point and seems to justify the indicator. The department describes how and why this indicator is being further developed and how it hopes to report on it again in 2010–2011.
- Changes in the status of and trends in the condition of the maritime reserves that the department manages.
- Improvements in biosecurity and pest-management responses by Biosecurity New Zealand to incursions and pests adversely affecting conservation values, as a direct response to the department’s biosecurity advice and advocacy.

Security of threatened species unique to New Zealand and most at risk of extinction is improved

The department’s objective here is to “secure threatened native species from extinction – those that are either rapidly declining or have extremely small populations”, with priority given to species “that are found only in New Zealand, and/or that are taxonomically unique” (DoC, 2008b, p 23). The department’s justification for this priority is that “Species are preserved for their own sake, for their role in indigenous ecosystems, and to help maintain options for current and future New Zealanders” (p 23).

The associated indicators are changes in the:

- number of extinct species or subspecies (confirmed and assumed extinctions)
- threat classification status of managed “acutely threatened” and “chronically threatened” species or subspecies.

These indicators use a three-level threat classification system that identifies the level of risk of marine, terrestrial, and freshwater plants and animals going extinct. The status of each taxonomic group is reviewed on a triennial cycle with the next full report expected in 2011.

153 The 2009 Annual Report shows that this work is continuing and use is increasing of the LCDC and NHMS data for reporting purposes (DoC, 2009a, especially section 5).

Examples of the full range of New Zealand's ecosystems are conserved

This intermediate outcome refers to the department's work in environmental protection on land and in water that is not held in public ownership. It involves, for example, the legal protection of sites, systems, and species and helping landholders or those responsible for the sites, systems and species (eg, iwi (tribe), landowners or the Ministry of Fisheries).

The associated indicators are:

- changes in the percentage of most at-risk environment types (freshwater and terrestrial) under legal protection from year to year (with a focus on the percentages of lowland forest and wetland in protection)
- progress by regional planning forums to implement the Marine Protected Areas Policy to establish a network of marine protected areas that is comprehensive and representative of New Zealand's maritime habitats and ecosystems.

Representative range of historic and cultural heritage is conserved and interpreted

The department aims to achieve this objective by advocating and conserving both the stories (history) and physical aspects of selected sites.

Consultation with tāngata whenua is emphasised in the selection of sites as is engagement with other groups such as people of Dalmatian, Chinese and French descent.¹⁵⁴

Twelve sites are deemed iconic sites and 644 other sites are under active conservation and managed to the standards set by the International Council on Monuments and Sites. Other work involves complementing the work of the Ministry of Culture and Heritage, local government and Te Papa Tongarewa (Museum of New Zealand).

The associated indicators are the change in the:

- percentage of historic sites in the "improving", "stable" and "degrading" categories
- number of historic sites that meet the standards of the International Council on Monuments and Sites
- number of sites for which key history has been safeguarded.

¹⁵⁴ 'Tāngata whenua' in this context means the local Māori of a particular place.

New Zealanders increasingly engage in conservation

The Statement of Intent states the objective here is (DoC, 2008b, p 29):

to deepen New Zealanders’ awareness and understanding of the benefits and value of conservation, and their support for it, including, but not limited to, the work of the Department. This will help build a national view of conservation as essential to New Zealand’s well-being, rather than simply a ‘nice to have’.

To achieve this objective, the focus is on “promoting the full value and benefits [including economic value] of conservation to all New Zealanders”, working alongside “the individuals and organisations with the greatest actual (or potential) contribution to, and/or influence on, conservation” to achieve conservation gains, particularly tāngata whenua and “targeted stakeholders” (p 29). The department is in the process of reorganising its indicators in this respect (p 29):

Measuring the extent to which the Department’s action are successful in creating the desired future state requires indicators that test changes in New Zealanders’ attitudes to conservation, the ways they take conservation issues into account in their decisions and actions, and the ways others see the Department as working alongside them in the interests of conservation ... During 2008–9, the Department will confirm the indicators to be used in 2009 and beyond, set baselines and targets and trial data collection information.

The 2008–2011 Statement of Intent used the same set of indicators as was used in the 2007–2010 Statement of Intent (DoC, 2007b). The indicators are based on data derived from quantitative surveys. They are the change in:

- New Zealanders’ understanding of important conservation issues
- the quality of the department’s engagement with key associates
- the satisfaction of tāngata whenua with the department’s activities to assist them to maintain their cultural relationships with taonga (treasures).

New Zealanders have increased opportunities for recreation and outdoor activities

The objective here is straightforward and includes active participation (eg, hunting, walking, tramping and motorised recreation) as well as passive enjoyment.

The Statement of Intent says (DoC, 2008b, p 30):

The desired future state and the work priorities and indicators of progress require reassessment for this intermediate outcome. The results

of this reassessment will be reflected in the Statement of Intent 2009–2012.

The associated indicator is the change in New Zealanders' participation in recreation on public conservation land and satisfaction with the quality and range of recreational opportunities provided. Until 2007/08, visitor satisfaction data was collected (showing high and stable levels). The department now tracks this indicator by surveying a sample of sites and visitor groups.

Business opportunities consistent with conservation outcomes are enabled

This objective appears to focus on the work the department needs to do through concessions and agreements with businesses involved in tourism, recreation, and agriculture and the services sector to ensure their outcomes are consistent with conservation goals.

No indicators are provided for this objective, the intention being, as elsewhere, to “work towards confirming the indicators to be used in 2009 and beyond, set baselines and targets, and trial data collection methods” (DoC, 2008b, p 33).¹⁵⁵

Information systems

According to the 2008–2011 Statement of Intent, the department is putting considerable effort into developing a more appropriate management information system (DoC, 2008b). This system is called the National Heritage Management System (NHMS). It is being developed to “to create a nationally consistent, scientifically sound system of natural heritage management, enabling prioritisation, planning and monitoring of achievement” (p 41). It seems that much information collection and analysis occurs in the department but most of it is small scale and localised and not integrated or combined at the national level – unlike the systems for business process management.

Accordingly, the department is trying to standardise and make more accurate and comparable the collection of field and other data, integrate it internally and to have it connect to data from other agencies (eg, regional and local authorities). In the meantime, work is ongoing in developing nationally consistent inventories, classification systems, prioritisation processes, and monitoring and reporting methods. In other words, the creation of the NHMS is a progressive process with

155 The 2009–2012 Statement of Intent says, “Now that the overall principles and framework have been established, the Department will develop and trial a reporting system to measure progress towards this intermediate outcome. This system will be ready for use for the 2010–2011 year” (DoC, 2009b, p 28).

tools being introduced as they are developed. Eventually, it is hoped that the NHMS will be shared with others in national planning and reporting on the state of New Zealand's biodiversity.

The NHMS proved to be a major point of discussion in the field interviews. Detailed discussion of this important part of the department's approach to performance management is included later in this case study.

Summary

Overall, in relation to performance management and reporting in a managing for outcomes context – certainly as far as planning is concerned as evident in the 2008–2011 Statement of Intent – the department can be assessed as making a serious and competent attempt. It has explicitly tried to step from government priorities to its overall vision and goals to strategic directions, then down to objectives, strategies, and indicators applicable in the planning period. The department has also tried to group and link operational activities under intermediate outcomes.

The Statement of Intent suggests a strong orientation towards outcomes, outcomes that focus as much on the societal as the scientific effects and are seemingly connected to government priorities. In that respect, there is a clear sense that the department believes its performance should be evaluated primarily in terms of its impacts on New Zealanders and New Zealand's natural heritage – rather than simply meeting its agreed output targets or expending its previously appropriated funds according to law and audit. Serious efforts are being made to develop direct indicators for monitoring progress towards objectives. On the other hand, evaluation per se (impact or otherwise) is barely mentioned.

Overall, it is reasonable to conclude that the department is doing a reasonable job in relation to performance monitoring in an outcomes framework. The department is not explicit in terms of its reporting processes (what monitoring information should be supplied to whom and for what purpose), but the attempt to create nationally consistent, year-by-year state-of-play reports of New Zealand's natural heritage carries a strong implication of systematic and detailed parliamentary and public reporting over time. In that respect, the NHMS is a significant and noteworthy initiative. However, as we see later, although the NHMS is internationally admired, progress is slow and its design and the well-known problems of large-scale, national, technically focused monitoring systems have not been solved.

On balance, the formal performance management system in the department seems substantive.

The next issue to be explored is whether these same qualities are found in the day-to-day practice of managers and staff throughout the organisation.

Enacted performance management

This section of the department case study looks at enacted performance management, what managers and staff at all levels of the organisation – but particularly at the conservancy and area levels – understand and do in monitoring, evaluating, and reporting performance. Their everyday practice (in the second half of 2008, the period during which the interviews and observations were conducted) is compared with the formal, conceptual version of the performance management framework presented in the Statement of Intent, as analysed in the first part of this case study.

The key question is whether the conventional assumption holds that the formal system is reflected more-or-less in everyday practice (eg, OAG, 2002).¹⁵⁶

Executive understandings of 'performance'

The department's director-general defined the new strategic direction in the department as "a whole different paradigm"; in technical terms, it is a shift from activities and outputs to outcomes. As one senior manager put it:

When you read the department's outcomes, it says "healthy functioning eco systems and living historic heritage provides benefits to New Zealanders". So the benefits to New Zealanders remind us that it's not all about science and stopping things going extinct. It's about making a life for people.

The final remark reflects the new outwards-facing, public-regarding perspective emerging in the department, not just the inwards-facing culture of conservation professionals. "Making a life for people" refers to New Zealanders attributing value to conservation and the efforts of the department in making it happen. This is now regarded as the essence of 'performance' within the executive stratum. Another manager commented:

We're particularly focused on defining what the outcomes are that we are managing towards. There's a lot of work under way on that at the moment ... managing for performance around outcomes. It's around the struggle of finding ways to measure our impact on that. That's exercising our minds at the moment.

The shift from the 1990s approach to outcomes was significant and difficult:

156 See also the Pathfinder website <http://io.ssc.govt.nz/pathfinder>.

We struggled for quite a number of years over trying to find what that is beyond outputs because we're also a delivery agency ... But now we've actually done that, supported by the Pathfinder approach, that's been a great thing for us.

However, the logic of outcomes became increasingly apparent. The department had been an agency driven very much by operational plans and outputs – “killing things and saving things” is an oft-repeated phrase. One senior manager spoke for many when he said:

The control of threats is not outcome. It's an output. It's not even in my mind a particularly good output. Yes, go and kill possums – that's the output, we go and kill possums. Okay, but what does that say about the ecosystem? That's the outcome you want to measure.

The evolution of an outcomes orientation also drove the need to develop a substantive performance information system (eventually, the NHMS). Other pressures also contributed. The director-general recalled that, for some years, a parliamentary select committee asked the department to identify the connections between the work it was doing and the outcomes being achieved:

How do you actually know that the things you were doing are achieving your outcome? And even if you're getting your outcome, how do you know they are the things that are contributing to it?

Central agencies and legislative changes drove the point home, according to one senior manager:

The change to the Public Finance Act [2004] to sort of focus on cost effectiveness has helped that. That's given a huge impetus ... Treasury saying to us “Prove to us that the funding we give you for possum control improves forest health – give us the proof”. So what we've had to do is go back and say, “Well, we've got to nail down the cost, we've got to nail down first of all what the outputs actually are, define them properly, nail down the cost. We've got to nail down the process to deliver the standard. Then we've got to link the impacts to the sites where those outputs are turning up and dished out and prove the links”. And we've gone a long way in that space. We're almost to the point of finishing that. And that's basically driven the indicator programme.

Internal drivers also contributed. Another manager emphasised the desire to know more about impacts and outcomes (“It was also our passion because we knew this really wasn't good enough”) and to be able to share that information with cognate agencies such as the Ministry for the Environment.

There can be little doubt that senior management in the department have a very strong orientation towards outcomes and one that has been growing for some time.

Mid-level managers' understanding of 'performance'

Mid-level managers in the department (ie, tier 4 managers and below, regional managers and managers at the level of conservancies and areas) have to translate overall national goals into relevant and appropriate work plans and targets, allocating resources against priorities. These managers then have to manage ongoing work and report against the achievement or otherwise of the targets. In some respects, therefore, as one area manager described, mid-level managers' role, function, and performance orientation are more or less the classic role of middle management as has been conventionally understood over recent decades:

Although the performance expectation is more about delivering programmes ... every year we set the conservators priorities. So they come down from the minister, our director-general to our conservator and those expectations are quite high level. It's a matter for us [area management] to interpret those into things that we do on the ground. But the work we've been doing for the last 30 years hasn't changed ... We just describe it differently some times. So it's still the same. The reporting mechanisms remain pretty much the same.

Conservators head a group of area managers and area managers head a group of programme managers; that is, operational managers who interface directly with staff. As one programme manager described it, setting output targets, achieving them, and reporting against results are the focus of activity at this level:

[W]e do four monthly, or thirdly performance reporting and we have a number of performance targets which are inputted into the business plan software. That cycle starts in December/January each year when we have to set out our expected performance measures – how many hectares of land will we spray, how many hectares of land will we manage, how many hectares of land under sustained management, how many volunteers will we have, how many shows do we go to and put on displays, like that. And those get tabled collectively and presented to the minister around the Estimates time where all government departments are preparing their Estimates. And that eventually gets signed off by the [director-general] and the minister.

The reporting framework is based on a monthly operating review that is a standard, face-to-face meeting between programme managers and the area

manager. There is also monthly and quarterly reporting of financial and non-financial targets against various outputs (eg, the number of blocks walked by a hunter, animals (such as goats) shot, drops of 1080 (a poison), hectares of weeds sprayed, concessions approved, helicopter flights, traps set, baits laid, possum poisoning activities, pest-control activities, hectares of land sprayed, and hectares of land managed). Meeting these targets is the core of the performance expectations for area managers; expectations are tight and rigorous. A programme manager explained:

So our threshold for performance reporting is plus or minus – either 5[%] or 10% depending on which – some of them have got a 5% threshold, some are 10. The Department is very strong on this performance reporting and there's a lot of emphasis placed on getting it correct ... then you then have to report on those three dates (October, February and June) as to how you've done and if you are at variance then you have to have a reason, which may be that the funding was removed from you ... If you over-achieve by plus 5 or 10%, you also have to explain that ... There's a lot of emphasis placed on getting it correct ... It is, as I said, in the last 12 months we are advised that this is a performance issue and therefore that will affect your end of year salary review.

The purpose and focus of work, then, for mid-level managers in the department, appears to be largely operational and focused on production aspects of the organisation. However, change is occurring. While “some staff struggle to buy into some of these national questions”, one area manager sees significant change of focus occurring at all levels of the department, including in the conservancies:

They're the delivery level of the organisation, the conservancy. It's the system support and delivery support level. Here it's the next level up. In this office we're into system monitoring. Our [research and development] colleagues are into system improvement and so on. And the next level up is strategy and leadership and so on. But, as I say, increasingly ... the conservancy people are certainly demanding more answers in terms of 'is this not just value for money for the outputs' but 'is this value for money for species outcomes' or whatever.

Mid-level managers, it seems, are also encouraging front-line staff (rangers, task workers) to refocus on outcomes, to make the connection between their everyday work and the higher-level objectives sought by the agency. One area manager spoke of the discussions he has with field staff when he visits and his sense of increasing success in their thinking more in (immediate) outcome terms:

And it's about having that understanding of staff – the connection for the front-line coal-face people doing something out there on the ground – having an understanding of 'Why am I doing this? What's the bigger picture'? ... When I first put [trend] graphs up, I got a hard time a few years ago. But there's pride now in terms of where the dots are going. These graphs sit on the wall in the smoko room ... So a goat shedder, or a track cutter or a trapper just wants to go out and do their job. "I don't want to know all about outputs and inputs and reporting and stuff." But their eyes do prick up when they go, "Oh! Hang on a minute, this forest is a lot better as a result of me doing this job".

The picture of the department emerging from the interviews reveals considerable differentiation of focus at different levels and location in the organisation. This differentiation is an effect of the technical division of labour and the corresponding authority structure. Executive and senior management is national in its concern and tends to focus on ultimate and intermediate outcomes, defines performance in these terms, and seeks to incorporate indicators and data in a national information system built on that understanding. Mid-level managers include regional managers who are responsible for the delivery of the department's programmes and services. The performance focus here tends to be on operations and outputs. Mid-level managers run their own monitoring and information systems and are slowly adapting their ways to the new national strategic direction. However, as these managers also begin to recognise the logic of managing for outcomes and learn to comply with the requirements of the national information system, they seem to increasingly understand the necessary interaction of their localised plans and performance with those of the national framework.

Front-line staff's understanding of 'performance'

The department's front-line staff are task workers and rangers. Task workers undertake jobs such as hunting, cutting, trapping, planting, and fencing and are often employed as temporary staff or on short-term contracts for particular tasks or projects.

Rangers undertake technical or professional work that verges on scientific work, have usually completed a professional qualification, or have a degree in a field such as ecology, natural history, environmental management, or the sciences. In general, they look after huts, tracks, and camping grounds; protect native species (eg, plants, animals, insects, and fish); remove threats to native species such as weeds or non-native predators (eg, possums, rats, stoats, weasels, and cats); and work with local communities to identify and improve local

conservation outcomes. Ranger positions are often tagged with qualifiers such as visitor/historic assets, visitor information, mountaineer, community relations (eg, concessions), biodiversity or biodiversity threats, or projects relating to particular species and aspects of site management (eg, campsite warden). With experience, some rangers acquire a high level of technical and scientific expertise in relation to particular species.¹⁵⁷ Ranger positions are permanent or fixed term.¹⁵⁸

A constant refrain in the interviews was that front-line staff have an activities and targets orientation in their work, “A goat shedder, or a track cutter or a trapper just wants to go out and do their job”. Task workers are definitely like this, which is hardly surprising given the nature of their employment relationship. The organisational definition of this work is ‘delivery’, as if these workers are little more than the producers of outputs, instrumental functionaries, with little interest in the effects of their efforts.

An examination of the actual work undertaken, however, reveals a different picture – especially in relation to rangers. These individuals are often deeply committed to the principles and values of conservation. For example, interviewees told of individuals working in under-resourced conditions but still being committed to completing their work plan, their motivations usually described in terms such as a “passionate belief in conservation” and a “belief and commitment to what they are doing”, and indicated this is not a recent phenomenon. In fact, the belief system of these committed individuals leads them to be concerned about the state of the environment in which they work. Over the years, they have developed skills, tools of the trade, and rules of thumb for monitoring the status of these environments such as bird counts, walk-throughs, and canopy monitoring, all of which are what the department calls “expert monitoring” (ie, rapid observation and analysis using more-or-less systematic analytical tools derived from tacit professional knowledge).¹⁵⁹ Using these tools, experienced rangers get an ongoing sense of whether recent activities appear to

157 For a good illustration, see the NZFrog website www.nzfrogs.org/Frog+Research/DOC.html. The website also shows something of the symbiosis with which the department’s rangers and research scientists work.

158 It is worth noting that the Department of Conservation encourages volunteers to plant trees, count birds, restore natural habitats, transfer bird and plant species, look after huts in national parks, control weeds and pests, fund-raise, and assist with rescuing stranded whales. Most volunteers receive training and learn techniques alongside department staff on the job.

159 The issues for the department, however, are that the indicators used may vary widely as might the methods, although some, such as five-minute bird counts, the foliage browser index and walk-through surveys have a prescribed format and methodology (discussed later in this chapter). Local databases have proliferated, often lacking common formats and data standards that would enable them to be combined – which is why the department is developing the NHMS.

be working. Many rangers keep ongoing records of their observations in local data collections. In other words, these rangers behave like delivery professionals in every field of government service, constantly monitoring the immediate effects of their work and the wider context in which they operate.

‘Performance’ from this perspective then is much more than just meeting delivery targets. It includes a strong sense of ‘outcomes’, albeit that those outcomes are often expressed in the form of status indicators and tend to be immediate, or perhaps intermediate, outcomes; that is, the (assumed) immediate effects of delivery activities and outputs.

Some implications of this finding are immediately apparent and significant. The first is that there has been a tendency (repeated by some senior managers in the department) to see front-line workers as not particularly interested in outcomes and front-line work as not particularly relevant to the chain of causality leading to outcomes (given by the intervention logic). This is deemed to be the realm of outputs rather than outcomes. The case of the department’s rangers suggests otherwise. Not only are these workers interested, their interest seems to be expanding. More than one manager reported that front-line staff increasingly wanted to understand the wider effects of their work and consider outcomes at the level of ecosystems rather than the traditional terms of eradication and protection. As one senior manager put it:

A lot of the intelligent pest people were thinking “Hang on, it’s fine working on killing things but I want to have systems telling me about what’s the value of killing these things”. And the people in the species thing were saying, “We’ve got all this money going into pests, but where’s the connection with what we want to do in terms of getting our species protection outcomes? We want to be able to have something that links it in terms of the prioritisation” ... [T]hey want to measure outcome results as well. They’re critical of having to produce this data on hectares of possums but they say, “Well that’s fantastic, we can always tell you how many hectares ... We would welcome tools that actually told us how much better our ecosystem was”.

The second implication is that the types of information collected and analysed by rangers in the course of their work should be used as part of the performance monitoring system developed by the organisation – even if only as ‘alarms’ to trigger more sustained and intensive analysis of a particular situation. Again, in this respect, the department is moving in interesting directions. Not only do managers seem to value rangers’ practical knowledge but they are making a conscious effort to include this in the NHMS (discussed later in this chapter along

with the potential value of ‘expert’ assessments in performance management regimes generally).

Research scientists’ understandings of ‘performance’

Research scientists are employed in the Research, Development and Improvement Division of the department – in other words, they are not managed in the department’s operational side.

Research scientists usually come to the job with a postgraduate degree. Their job is to research the status and population trends in particular species and sites and to assess the effects of the department’s conservation management by developing, validating, analysing, and interpreting species and ecosystems monitoring methods and data. They design and manage field-based research investigations and organise and analyse long-term ecological data using high-level statistical techniques, creating and testing models, and so on. They also lead particular scientific programmes such as Operation Ark, stoat eradication, restoration on offshore islands, sanctuaries, and reserves, and eruption and lahar observation.

The department’s research scientists are expected to publish their research findings and to interact with scientists in other New Zealand agencies (eg, Landcare and AgResearch) and overseas conservation agencies and scientists.

Scientists conduct research. In a conservation context, they seek to discover the combination of factors that prevent or enable the continuation or restoration of a particular native species or conditions. It is believed that from the science, effective initiatives can be mounted in the field – whether that is pest or predator eradication, nursery breeding then transfer to an appropriate site, the creation of protected zones, mitigation activities, regulations, or any one of many other possibilities. In that sense, scientists are akin to policy analysts in ministries trying to model the conditions that contribute to a desired state of affairs and developing initiatives and policies to achieve them.¹⁶⁰

160 In *Science Counts!* (DoC, 2002, p 2), for example, “New strategic decisions have been announced by the Department, and science has played a big role in shaping and promoting them. For example, our innovative work towards measuring conservation achievement underpins a major new integrated programme called ‘Natural Heritage Management System’ (Natural Heritage Information System in the Statement of Intent). We are helping to provide the Department and the nation with new tools for better management of our indigenous biodiversity. These will assist us to identify with greater certainty places of high biodiversity value, help to prioritise places for enhanced conservation effort, provide new inventory and monitoring practices, and enhance the way we measure the difference that conservation management makes”.

The important point is that research scientists are profoundly interested in results. Their overriding concern is the scientific explanation of identified phenomena and research into conditions that generate conservation effects for particular species and sites and at the systemic level of ecologies. But these are conservation outcomes for flora and fauna, not the overall corporate goals of public value. In fact, a staunch conservation science orientation may conflict with public value goals in so far as the effects the public might value may not be those that a conservation scientist might value (eg, a preference for iconic species rather than preserving the full range of biodiversity, including species known and of interest only to specialists).

Therefore, the issue is not whether research scientists have an output or outcome definition of performance but that the outcome definition may not necessarily align with that of their employing organisation. Scientists in the department are driven by the principles of conservation science towards conservation outcomes rather than corporate, organisational outcomes. Although clearly, part of the department's intervention logic is to get the conservation outcomes first and then the rest will follow (even though there might be flaw in assuming a simple connection between conservation and ecological outcomes, because of the level of complexity). Moreover, as would be expected, scientists who step up the corporate ladder learn to integrate the two sets of goals as far as possible but as a professional group in a public sector organisation, scientists' professional principles, norms, and values may cut across the organisational, strategic, governmental goals and objectives of the organisation in which they work.

Definitions of performance, likewise, diverge from the corporate picture. Again, as with policy analysis generally, research science is work that is not amenable to the observation of immediate outcomes. Its effects (good, bad, or indifferent) cannot be known until the research and policy development is converted into a specific policy, funding is agreed and signed off by the minister, and the policy is implemented and given an appropriate period in which to have an effect that can be monitored. Under these circumstances, performance in the short and medium term cannot be assessed other than by recourse to 'professional' assessments of what constitutes 'competence'. These assessments include matters such as successful submissions for funding (whether through Treasury or external funding agencies – a significant amount of departmental research is financed through contestable funding sources); successful project management; innovative research design and data collection and analysis techniques; and new findings and the publication of papers and reports through internal and external (peer-reviewed) outlets. Other indicators of performance can

relate to political and administrative processes such as the production of timely and well-received documents for the minister, cabinet, and parliament; liaison with conservation boards, community groups, the media and iwi; engagement with the international conservation science community; and the representation of the department at international conventions and conferences. However, generally, these factors will not be as forceful and telling to research scientists as those that are regarded as important in the profession.

In other words, the focus of work can be displaced onto professional understandings of performance rather than the more diffuse and uncertain assessment of actual outcomes that will not emerge until well into the future. Monitoring can become inward-looking and oriented towards the profession rather than the strategic goals and objectives of the organisation that employs the professionals. Some interviewees hinted that something like this was the case in the department; in particular, that research had become a goal in itself rather than a means to a policy end, and that the performance of scientists was assessed by scientists in terms of the realities, values, and methodologies of science rather than in terms of their contribution to the wider goals and objectives specified in the Statement of Intent.

However, there were also signs that at least some scientists, particularly those in management positions, were seeking to more closely connect science and management in the department, even if only to be more successful in attracting external funding and justifying to the minister and Treasury the importance of particular projects, and hence to have them funded above baseline.

In short, scientists in the department function as a group for whom accountability and performance are defined more in terms of scientific principles and practice and the ideas and values of the conservation community. They are conservation scientists who happen to work in the public service and work with more reference to their peers than to the overall and whole-of government goals of the agency. They are indeed outcome-oriented and expect to be assessed by their achievement against those outcomes, but the outcomes they seek are those defined by ‘good science’ and the intrinsic values of conservation. This state of affairs, of a separation between the professional and technical values of a key professional group and the corporate goals of the organisation, is hardly uncommon in the public service (eg, teachers and academics in education, medical staff in health, and social workers in community services). However, from an organisational and staff performance perspective, it raises interesting challenges.

Emerging performance management system: National Heritage Management System

In several respects, the centrepiece of any performance management system is the information system that carries the data and enables performance analysis. A textbook model of an organisational information system envisages a single, dominant and mandatory system with clear, unambiguous, and agreed goals, objectives, strategies, and indicators, where data based on indicators (whether input, output, or outcome oriented) is regularly collected and included by staff in procedures that are standardised up and down the organisation. On this basis, the data is aggregated and periodically analysed to provide a sense of comparative performance within the organisation and over time – whether those analyses are intended for management improvement inside the organisation or for external reporting.

This case study provides an excellent and unusual opportunity to examine the process of constructing a major performance information system. The NHMS has played a critical role in helping the department learn its way towards developing an outcome orientation, but building such a system is complex and takes time and other resources. Even then, it is not clear that the department has or will be able to solve all the issues arising or be sure that the NHMS will succeed.

The department started developing the NHMS in the early 2000s with a full business case approved in 2006. This system will become a significant, large-scale information system described as (DoC, 2007a, p 2):

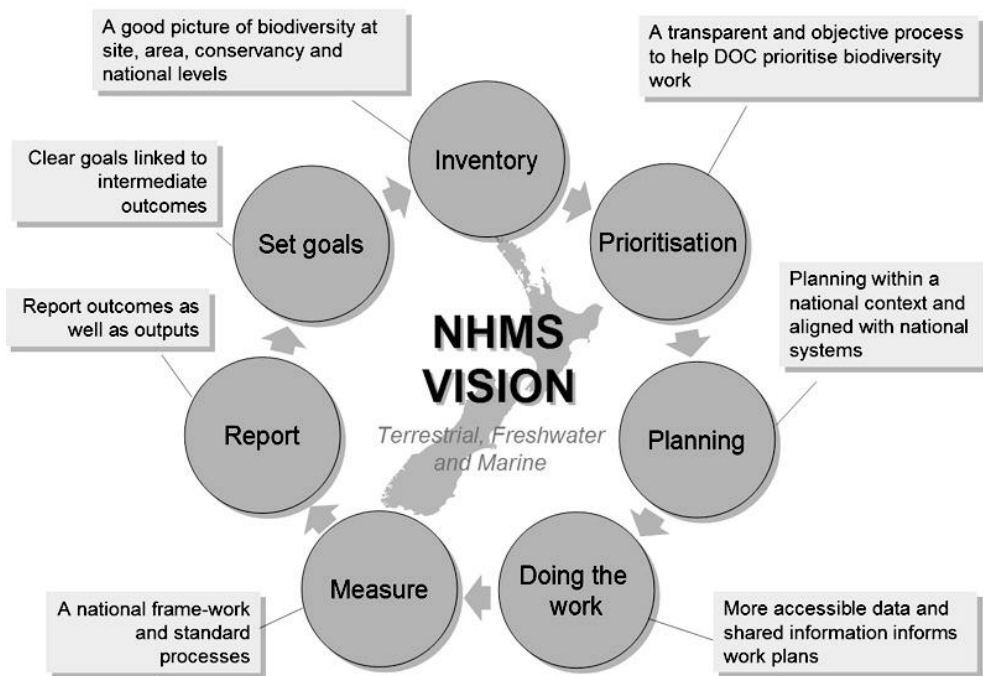
A nationally consistent, scientifically sound system of natural heritage management that allows us to see exactly what's there, how it is changing, and the difference our work is making so we can prioritise, plan, and carry out our work better and at the same time track progress towards national outcomes.

The NHMS has been designed to fulfil all of those functions: supporting decision-making, supporting budget bids, and, ultimately, providing an overview of outcome achievement that subsequently can be reported. It is also intended to have an adequate level of scientific validity for policy purposes. Figure 8.1 illustrates the system's intended comprehensiveness.

The department has many information systems. Most of them, however, are small, localised, and specific, and are maintained by individuals for particular purposes or because they value a particular type of information, “[Microsoft] Access databases, hundreds, hundreds and hundreds of them”. The problems are well recognised, as one senior manager said:

Basically, we’ve got lots of local processes but no consistency. We do all the different tools in various ways but it’s kind of locally driven. So there’s no national picture, no consistency, we don’t handle information very well, we’ve got no database so there’s no central repository – the data is held every which way around the country. At the end of the day we can’t demonstrate our effectiveness. What we do at the moment is measure outputs and everybody is frustrated about that measurement because it doesn’t tell them anything.

Figure 8.1: Intended comprehensiveness of the National Heritage Management System



Source: DoC (no date, p 2).

The desire is strong for national consistency or the capacity to integrate this output and outcome data under a national strategic framework to improve planning, resource allocation and reporting. “An integrated system to actually implement the thing called Managing for Outcomes”, particularly for the monitoring of outcomes, is essential. The same senior manager continued:

The control of threats is not an outcome. It’s an output ... Getting away from the measurement of killing possums. And so a lot of our performance measures are output ones that are quite distant from these

... The quantitative [measures] are probably the worst, dealing with hectares of possum control. This tells you diddly-squat about what happened in those hectares and which species and eco systems improved. Everybody knows that's the problem.

The NHMS is an attempt to build a large, complex, standardised information system that is full of data from a wide variety of sources (input locally) and set up so data can be combined and analysed for a variety of scientific, management, and political purposes (and be able to accommodate several causal models). The NHMS is expected to be reasonably up to date, able to connect workplace activities with overall goals and objectives, accessible to most staff and managers in their offices, and available to other agencies for shared outcomes. As one interviewee described it:

What [the NHMS] was actually wanting to achieve is something similar to what these biodiversity pictures [in the Statement of Intent] look like. This is the current distribution, this is where they used to be and in five years' time hopefully you've got another picture next to it that says, "Well, look we've made this much difference" or "We've lost on this front". This is what we're hoping [the NHMS] will basically spit out at the other end – something that people can relate to and say, "Well I can see for myself, it's not hard to understand".

There is similar optimism about the NHMS's potential to contribute to decision-making and ongoing performance management. In particular, the "species optimisation tool" in the NHMS is expected to help considerably in identifying priorities for future resourcing and action. The director-general described its potential this way:

The species optimisation tool is basically a tool that you can apply when you've got enough information; let's use kakapo as an example. The kakapo has recovered. Technically, it's recovered. So we could say, "We're not going to do any more work on it and we can go and spend that recovery money on something else, another species" ... It's a very logical tool ... And that, of course, is presenting the conservancies with some decisions they have to make.

Computerisation has made these dreams possible. Some modules of the NHMS are up and running but inevitably, there are problems. One problem is a degree of scepticism about the ultimate feasibility of the NHMS – indeed, about the possibility of building an information system that effectively deals with outcomes, much less their combination with outputs. The director-general, however, is unfazed:

The British think we're mad. My counterpart in the UK just said you can only manage for outputs. In environmental management you can only manage for outputs. Well we're determined to try and change that. But it's tough going.

And he remains aware of the difficulties:

[The UK consultants] said that this is done in bits in various places, particularly the species prioritisation. It's world leading. It's been done on one species, one set of species in Australia and one whole park in America; they've had a go at optimising the work. I mean, running across a whole country and across sites as well as species is hugely ambitious.

Ambitious it certainly is. Whether the NHMS is ultimately successful, the department is going about its creation with skill, commitment, and high-quality intellectual effort. It may, therefore, become a case where much learning is achieved about building large-scale complex performance information systems in New Zealand and elsewhere – or it may turn out to be, as some before, a public management pipe dream.

Issues arising from this case study

The discussion of enacted performance management at different levels of the organisation and of whether and how the formal framework (examined in the first section of this chapter) is implemented has thrown up several issues. The remainder of this chapter discusses two of these issues (both matters of long-standing interest in performance management): the reasons outputs continue to dominate in performance monitoring and reporting, and the potential of rapid, 'expert' assessments as valid and useful ways of monitoring performance. The chapter then comes to an overall conclusion about the characteristics of performance management in the department.

Hegemony of outputs in performance management

As we have already seen, outputs (and activities) have been the enforced preoccupation of management and staff at the front line of the department. They underpin work plans and official expectations of performance. Of course, outputs were one of the foundations of the so-called 'New Zealand model of public management' introduced from the late 1980s, a paradigm that is widely regarded as successful and that has become deeply embedded in the prescriptions and practices of public management in this country. Outcomes were introduced in 2001, yet progress towards defining outcomes and measuring performance by

monitoring and evaluating their achievement (or otherwise), remains patchy, as the Auditor-General has observed.¹⁶¹

It is clear from some of our interviewees that they are frustrated by what they have not yet achieved. They spend considerable time and effort monitoring and reporting on outputs, more than they believe is warranted, but do so partly because of what they take to be mandatory system requirements and partly because it functions as the organisational default:

What we do at the moment is measure outputs and everybody is frustrated about that measurement because it doesn't tell them anything ... The measuring and monitoring of stuff, we've tried to go to outcomes and we've fallen back and we've tried again, and we really have not got a consistent package.

What explains the resilience of this preoccupation, the continuing salience of outputs as a prime performance indicator in the department?

As has been observed, the imbalance between outputs and outcomes exists across the whole public sector in management and performance. Most agencies seem to recognise the obligations and significance attached to an outcomes orientation but have not yet moved irrevocably in their values, thought, and practice. The default remains outputs, especially in budgeting and performance management ('counting widgets'), commonly explained by the continuing force of the outputs paradigm implemented in New Zealand from the 1980s, and the power of Treasury as the principal proponent of that model of public management, particularly in budgeting and reporting. This seems a reasonable explanation for the situation in the department. As already noted, mid-level managers in particular understand that budget bids and projected performance need to be expressed in terms that are favoured by Treasury, otherwise the funds required to undertake new and ongoing activities will not be agreed. Senior managers seem to have a more nuanced view, that the issue is more about 'value for money' than simple outputs, but there is still the same undercurrent of discontent.

Other factors may also exacerbate the issue. One executive manager reported a view held by many in the field (including, apparently, the director-general's UK counterpart) that "in environmental management you can only manage for outputs". Another executive mulled over the apparent "naturalness of outputs in conservation", adding:

161 The more familiar title of 'Auditor-General' rather than the formal 'Controller and Auditor-General' is used in this chapter.

What measures can you get [staff] to take to actually say whether or not they've been successful? Well, some things are easy, like the length of fence. How many hectares of planting did you do? How many hectares of weed control did you do? How much possum bait did you put out? Those things are relatively easy to measure. Then you get onto, "Well, are we getting more leaves on trees?" How do you measure that? Are we getting more birds? How do you measure that? ... It's the same problem with local conservancy staff. It's much easier to measure and report on length of fencing than fluctuating populations of birds ... This is a common issue right through the whole conservation arena.

This remark was made during a discussion of the difficulties of resourcing more-sophisticated monitoring, the methodological and epistemological problems associated with attribution ("If there are more birds, is it an effect of our activities? If so, how much?"), and the time involved in achieving some kinds of outcomes ("Think about a system which has got species that are long lived, you know, 500 years or more, and your little moment in time where you are doing something here"). The intellectual difficulties of dealing with these issues are significant enough but the practical problems may be just as great. Essentially, (ultimate) outcomes may be too far into the future and immeasurable in the present (relative to the cost of doing so). In these kinds of situations, 'counting widgets' may be a sensible, practical proxy.¹⁶²

Funding constraints exacerbate the issue. One mid-level manager discussed the tensions arising when scientists, unable to attract funding for research through the usual rounds, approach a conservancy. Allocating funds to scientists' potentially significant work will have little immediate payoff in outcome performance compared with allocating those funds to meet output and activity targets. As this manager said, "As an operational manager, I'll get a better return if I go and control a whole lot of habitat – if I kill these predators". Another manager put it even more bluntly, "When the budget push comes on we prefer to kill things and save things, so the outcome monitoring gets dumped".

162 Interestingly, this might be seen to parallel the Wilson (1989) case of "procedural" organisations where work is observable but the outcomes are not (or not immediately so anyway). In such organisations, Wilson argues, output production can and should be the basis for performance management. If that were to be true, then it would have significant consequences for what can be expected of the department and similar agencies in relation to performance management (as it would for "coping" organisations rather than "production" and "craft" organisations where outcomes are deemed observable). There are strong reasons to argue with Wilson's typification, including his positivist conception of "observability" (compared with indexicality) and his assumption that organisations are unitary (rather than comprising different types of practice). An extended critique, however, belongs in another place.

These remarks are revealing. They suggest that, as a matter of practical reality, operational managers find the logic of funding ‘killing and controlling’ activities that are cheap, routinised and tangible to be more justifiable than funding those with a longer-term promise of improved outcomes. In other words, a simple efficiency preference under conditions of limited funding in the department drives operational managers’ work allocation decisions and underpins the prevalence of outputs in everyday management. The ‘tension’ referred to above is the clash of competing organisational logics: a scientific logic and a managerial logic. The former focuses on outcomes and effectiveness (albeit of scientific kinds) but needs higher levels of resourcing than the organisation has immediately available. The latter has to be mindful of efficiency and cost-effectiveness (where the denominator is based on a tacit evaluation of “what seems to work, based on experience”) and a belief that “certain outputs [will] eventually lead to [the] outcomes desired”. The dull compulsion of budgeting relations inevitably wins, with the effect that outputs appear to dominate organisational thinking and practice, even though a competing view is strong but, for practical reasons, held in abeyance.

This confirms a contradiction that is tacitly known but often ignored by those at the centre of the public service. When the squeeze is on for greater efficiency, there are insufficient resources to engage in the kinds of experimentation and evaluation required to make outcome-oriented performance management work. Practice reverts to the simplest, accepted ways of doing work and appearing competent. Counting widgets, while offering little in terms of outcome-oriented policy performance, is rational in terms of efficiency or value for money; that is, organisational performance or mechanical performance even though it contributes little to managing for outcomes. The clear implication is that if the department (or any other agency) is to significantly improve its outcome-oriented performance management, more resourcing or more-flexible resourcing arrangements are required – or other activities have to be stopped to free up the resources required.

‘Expert’ assessments in outcome monitoring

The second issue is the extent to which outcome monitoring can and should be conducted using tacit knowledge; that is, getting experienced, expert practitioners to make regular, quick, but knowledgeable, assessments of the state of play and changes that might be occurring in preference to less frequent, technical, expensive, and untimely data collection. It is argued that experienced practitioners can make such judgements because their expertise is underpinned

by frameworks, criteria, and comparisons that are distilled from multiple observations taken over time, held in memory, and often shared by their peers.

Further, a well-known way of moving from ad hoc to formal but rapid outcome monitoring that can combine the precision of quantitative approaches and the richness of qualitative ones is to have experienced practitioners collectively create and validate case assessment matrices or templates. Subsequent adjustments as required eventually lead to a point when the instrument can be said to be objectively (or rather intersubjectively¹⁶³) valid and reliable; that is, many practitioners use the instrument over time and produce similar and consistent monitoring and evaluation of policy implementation.

This project has explored whether, in addition to the formal performance monitoring system:

- managers and staff use expert judgements in their decisions in addition to codified monitoring data
- agencies are incorporating expert judgements in their formal, prescribed monitoring frameworks.

In New Zealand, the argument regarding the formal value of rapid expert judgements is not widely accepted, so it was interesting to find one of the department's scientific advisers making precisely this point:

Privately I've sort of felt that [NHMS developments] have veered a little bit too much towards the 'have to have scientifically robust information' side of things. Which you need hundreds of people on the ground to get the information versus 'let's be practical and use the ... anecdotal information to start with, and then build on that' ... [I]t's all very well having all these lovely scientific monitoring methods, but you need a walk-through survey, because people are still going to do that. It doesn't matter what you've told them to do, they're still going to do the walk-through surveys because that's all they've got time for. So you need to have a standardised walk-through survey that is an accepted part of the toolbox.

Furthermore, this adviser illustrated how rapid expert and more elaborate technocratic monitoring can be symbiotic:

And in most cases it's because somebody has done a quick walk-through survey and said, "Wow, if we don't do something here quick it's going

163 'Intersubjectively' is the more correct term. It may seem esoteric, known only to methodologists, but its meaning is simple. 'Objectivity' in the social world occurs when two or more people who are interacting (including researchers) agree on the characteristics of a phenomenon; that is, their 'subjective' assessments align, which they then take to be 'real' and act on that basis.

to be a big problem for us because the canopy is getting hammered by possums or whatever”. And then once you’ve had a walk-through survey then they quite often go in and do some more detailed monitoring which actually says, “Yes there is a problem here”. And then from that point on people can start managing it ... I’d be very confident to put down the assessments of most of the experienced staff, “This forest is in good nick or this forest is not in good nick”.

The fact and value of expert assessments regarding immediate outcomes is accepted in the department, even by its senior managers. The department recognises that data collected and analysed to scientific standards may take far too long to be managerially useful and, sometimes, large-scale monitoring systems built from the top down can miss out and not sufficiently value the practical indicators and rapid complex judgements that experts can make on the ground. A scientific adviser fears that this may be what is happening with the NHMS:

But [these methods] are not necessarily scientific enough to fit into the [Department of Conservation] melting pot. And again there’s the dichotomy between them. I think that [the department] should start at the expert end and work up ... But [the department] seems to be thinking let’s start from the scientific [end]; the science people are as robust as we can manage and work down from that.

Expert judgements can be best used to get quick and sufficiently robust management information about ongoing immediate outcomes. However, there are traps in asking technical experts such as rangers to make attributions of causality on the basis of brief, even if structured, observations. This task is best undertaken by those with the analytical competence to test correlational and/or causal connections between the full range of factors believed to be relevant (remembering that the department’s scientists believe they have yet much to learn about the interactions between factors in complex ecological systems, even those factors they know about, much less those they do not).

The department does use, and has used for some time, rapid assessment tools that appear to have been developed as codified and validated versions of ‘expert knowledge’, probably in much the same way as the typical codification process referred to above. Examples of these are walk-through surveys, including the five-minute bird count, and forest monitoring, including the ‘foliar browse index’.

In walk-through surveys, observers walk through large areas rapidly to gain information on specific aspects, for example, the distribution of a species within a particular territory. This survey may involve ‘territory mapping’, that is,

following the species until the observer is familiar with its territories. Walk-through surveys involve observers looking for visual clues (eg, the presence or otherwise of particular species, the species composition at a site, new growth, the presence of predators, or possum damage to leaves) or identifying the presence and location of, and counting, birds by playing taped calls, a technique known as the ‘five-minute bird count’.¹⁶⁴

Vegetation and forest monitoring is undertaken with tools such as the foliar browse index (referred to in some department documents as the foliage browser index) to measure the impacts of possums on forest health. Observers check foliage cover, dieback, browse (young twigs), stem use, flowering, and fruiting (specific methods include identifying patterns of leaf and bark damage, damage to fruit and seeds).¹⁶⁵ The index is widely used to assess whether possum control produces the desired benefits (eg, healthier forest canopies).

Not only does the department use these rapid-assessment instruments, it seems from the work plan of years three and four for the NHMS that these instruments, along with several others, will be part of the NHMS monitoring toolbox.

In summary, it is clear, therefore, that tacit knowledge and expert-derived tools definitely enter into the department’s management and decision-making, definitely at the middle and front-line levels of the organisation. In many respects, this is not surprising. Anyone familiar with the complexities and dynamics of contemporary management (rather than having a purely technical background) is

164 Five-minute bird counts are discussed on the department’s website www.doc.govt.nz/conservation/native-animals/birds/five-minute-bird-counts. This methodology also reveals something of the rigour and observational discipline expected to be applied – while not to a ‘scientific’ standard, it is certainly systematic and careful. In short, tools such as the five-minute bird count are not naïve indicators.

165 Tools include identifying the density of the canopy and the abundance of flowers. One interviewee emphasised how these are tools are best used only by experts and with experience of the particular setting: “I was asked to do a summary of fruiting and flowering patterns that had been observed on the Barrier Island. This was to do with kakapo feeding. This was when there was still kakapo on Barrier. And what had happened was over five years or so, different people would have come onto the island and done the survey and actually scored things as to heavy flowering or light flowering, heavy fruiting, light fruiting. And what became apparent quite quickly was that it really depended on your experience. Little Barrier does not have possums. So therefore heavy flowering on Little Barrier is absolutely phenomenal flowering on the mainland. So you’re getting people coming from the mainland that don’t have offshore island experience, going, ‘Wow, this is really awesome’ and it’s actually only a moderate year. And you’ve got other people who have been on offshore islands and seen it and going, ‘Oh, that’s moderate’. Again, it just illustrates the difference in background experience as to how you’re going to perceive things.”

aware that contextual knowledge born of experience always enters into the myriad judgements that must be made on a daily basis.

The remarks from the interviewees also suggest that, despite the strong focus on activities and outputs prescribed by the formal management systems, a perceptible outcomes orientation flows well down into the organisation, even to the front line. The real question is whether the new information system envisaged for the department, the NHMS, will include or build on this orientation by utilising expert information alongside more-scientific monitoring. The answer seems to be yes.

Conclusion

So how to characterise the department in relation to performance management? What are its principal features? And what conclusions and noteworthy points should be drawn from this case study?

Outcome-oriented approach to internal management

The department's Statement of Intent for 2008–2011 (and for 2009–2012) clearly reflects an outcome-oriented approach to internal management (DoC, 2008b, 2009b). Moreover, it attempts to incorporate important new ideas running through international public management about the ultimate role of public organisations being to produce public value. Accordingly, the Statement of Intent shifts beyond the traditional 'kill and save' approach to species and sites that has characterised conservation management to an approach that is ultimately focused on increasing the value attributed to conservation by New Zealanders as a result of those traditional activities.

On close reading, the statement clearly sets out the department's formal promises of its performance for a given year; reveals the detailed and logical thinking going on in the department about the step down from its overall goal to objectives to intermediate objectives to strategies to indicators; and the performance information system that should bring these factors together.

There are gaps but the commitment to ongoing learning and the work being done in developing custom-built, systematic, and telling indicators and monitoring instruments are noteworthy. Overall, it is not difficult to be impressed with the quality of the strategic and performance thinking occurring in the department.

Creation of the Natural Heritage Management System

Particularly significant is the creation of the NHMS. This is an ambitious and leading-edge project driven by dreams of an integrated, national information system that can incorporate copious data and analyse the relationship between various types of data for decision-making, management improvement, and reporting purposes.

The NHMS will include information on both outputs and outcomes and provide a basis for understanding their relationship; in that respect, it will be exactly what prescriptive theory says it should be – if it can be made to work. The NHMS is a fascinating attempt at systematising performance management and warrants monitoring – can the department make it succeed?

Enacted performance management

In relation to enacted performance management, several patterns and points have emerged from this case study. Worth highlighting are that:

- the concern for outcomes occurs throughout all levels of the department not just at the senior management level
- the department sees the benefit in an outcome framework that goes beyond finances and outputs and has a matching high-quality performance information system
- although performance management in New Zealand is overwhelmingly defined in terms of accountability obligations, the department is taking a much broader view
- the department is engaging in a long-run and deliberate attempt at learning what good public management should be and valuing knowledge as well as information
- ‘performance’ is complex, so simple, technocratic prescriptions are unhelpful
- performance management is an art that requires more mature and sophisticated approaches than are currently used.

Concern for outcomes throughout all levels of the department

Formally, the department seems to assume a formal division of labour in relation to performance management with senior management most focused on articulating the strategic framework, ultimate, and intermediate goals and objectives, what they mean, and how they might appear when realised. Mid-level managers and front-line staff are defined as mostly concerned with the delivery of activities and outputs as prescribed in a system of targets and budgets.

In fact, front-line staff and their managers are increasingly concerned with outcomes, albeit at the immediate and (lower-end) intermediate levels and particularly in understanding the connections between their outputs and those outcomes. Research scientists work according to outcomes defined by the practices of conservation science rather than by organisational or governmental goals and objectives. However, possible tensions are reduced by the department's intervention logic assuming that, if conservation and ecological outcomes are achieved (as defined scientifically and in line with what are taken to be intrinsic conservation values) then the conditions are there to achieve the broader political and social effects described in its strategic framework.

Benefit in an outcome framework beyond finances and outputs

Much management and reporting focuses on finances and outputs. Any organisation will pay significant attention to these as part of its ongoing internal management, but public management is also about achieving policy outcomes. New Zealand public service departments are supposed to be moving in this direction, managing for outcomes and reporting their performance in those terms as well as in established financial and production terms. There is widespread agreement, as the Auditor-General has pointed out, that the quality of outcome-oriented performance reporting is still patchy.

The department is doing considerable work to develop its outcome framework and develop a high-quality performance information system to match. There is considerable scepticism and frustration inside the organisation at the continuing emphasis on onerous requirements for output management and performance. The belief is that, ultimately, outcome management and performance are at least equally important and insufficient resources, including time and space, are available to progress this aspect of the work at an appropriate rate.

Performance management broader than accountability obligations

Performance management in New Zealand is overwhelmingly defined in terms of accountability obligations. However, the department, appropriately, has taken a much broader view.

The department uses its performance monitoring system as a pathway to continue developing its internal theory and practice of outcome-oriented management, for ongoing management improvement of its internal functioning and external effects, to help it allocate resources to areas of priority, and to account for its efforts to the minister and parliament. In this respect, the department is closer to the internationally accepted view of what performance

management in public management could and should be than to the official rationale and justification applied in New Zealand.

Deliberate attempt to understand good public management and value knowledge as well as information

The department is engaging in a long-run and deliberate attempt at learning, using a variety of information and knowledge to conceptualise and define what it understands good public management to be (in both its output and outcome dimensions), to convert those learnings into practice, and to continue learning. The department's efforts also reveal the time, effort, and other resources that are needed to achieve this goal. In that respect the creation of the NHMS is an ambitious and interesting attempt to build an integrated performance information system to serve important management and reporting purposes.

The NHMS will also incorporate some of the most important and meaningful performance information that any organisation with professionals providing delivery has available to it, namely, rapid expert assessments of the immediate context, status and effects of the objects of policy that can be derived from the front line. Insufficient value or significance is placed on this knowledge in New Zealand, but the department shows signs of being an exception.

'Performance' is complex, so simple, technocratic prescriptions are unhelpful

The different workplace groupings in the department seem to operate on different but symbiotic definitions of performance. Therefore, the overall assessment of the department's efforts cannot be captured by any one of these definitions alone. This illustrates the important principle that simplistic and mechanical conceptions of the meaning, significance and value of performance in the public sector context risk reducing performance to meaninglessness. The same point applies to how performance should be addressed, presented, discussed and assessed in relationships with ministers, parliament and citizens. Performance is a complex notion and should be treated as such.

In some respects, this last point may be the most important one arising out of this study. It illustrates something of the complexity of understanding performance in public organisational and system settings and challenges simple, technocratic prescriptions for monitoring frameworks and performance management.

As the department's Statement of Intent demonstrates and enacted practice confirms, the department is not an agency where a single, limited range of indicators is sufficient or where a mechanical, production-oriented information

system can be created that weekly or monthly churns out reports that link effort and impact. The array of work and the intersecting cultures and norms of the different workgroups make that idea nonsensical, to say nothing of the complexity of causality in ecology, difficulties in the observability of outcomes, and the contestability of any interpretation of their emergence or attribution.

Performance management: An art requiring mature and sophisticated approaches

Trying to evaluate the performance of public organisations such as the department is complex and problematic. Performance management is a messy and difficult business with heterogeneous, sometimes parallel, sometimes discordant, aims and logics but always rich with detail and needing wise heads to interpret.

The practical trick is to make these clumps of knowledge combine symbiotically, to point in illustrative directions that enable meaningful debate about ongoing policy contexts, settings, and outcomes, each kind of information providing a certain sign as to performance. This is the art of performance management. It needs mature governance processes to work that way and much more sophisticated approaches to performance management than are prescribed and encouraged in New Zealand.

Further reading

DoC (2007) *A Short History of the Department of Conservation: 1987–2007*. Wellington: Department of Conservation. www.doc.govt.nz/publications/about-doc/a-short-history-of-doc.

Case Study – Department of Corrections: How the department defines and assesses performance and how its operational arms regard performance information

Bill Ryan, Derek Gill and Rodney Dormer

Introduction

This case study analyses how performance was defined in the Department of Corrections and how the department's main operational arms used departmental performance information in 2008.

This case study is not an evaluation of the department. We examined how the department handled performance management to learn what patterns emerged under the conditions that applied at that time in order to improve the general theory. Since the research was conducted, the department has put considerable effort into developing its outcomes and performance management frameworks. Recent departmental initiatives are noted in this case study.

The story that emerges is of a department attempting to achieve a variety of goals within the overall justice sector strategy. This department has to deal with tension between two of its goals; namely, ensuring offenders comply with their sentences and orders and reducing re-offending through the rehabilitation and reintegration of those in the system – although the department believes that to achieve the latter goal, offenders first have to comply, whether those controls are afforded by imprisonment or community sentencing. In part because of this belief, the performance management system emphasises offender compliance over reduced re-offending. This is reinforced by a context wherein the department is a target of frequent criticism – sometimes unjustifiably – emanating from politicians, the media and the public.

The overall effect of this criticism is that the department is driven away from an outcome orientation of reducing re-offending towards a 'retreat to rules', emphasising adherence by staff to standard operational procedures and compliance by offenders to their punishment. This applies as much in the probation and rehabilitation activities as it does in prisons even though the

everyday practice of staff in both areas is focused on outcomes as much as processes.

Analysis

The analysis proceeds in three steps. First, key features of the departmental context that impact on the definitions and management of performance are discussed. Secondly, aspects of the departmental performance management framework found in recent Statements of Intent are identified. Thirdly, the chapter turns to how a sample of managers and staff in the Public Prisons Service and Community Probation Services described management and performance in the department, particularly in relation to the departmental system and the kinds of information they collected and used to monitor and assess performance in their own practice.

The main sources from which we identified the departmental performance management framework were the Statements of Intent for 2007/08, 2008/09 and 2009/10 (Department of Corrections, 2007b, 2008c, 2009d). We paid most attention to the 2007/08 statement since this was in place when the interviews were completed. We also examined internal documents and the department's Annual Reports for 2006/07, 2007/08 and 2008/09 (Department of Corrections, 2007a, 2008a, 2009a).

Twenty-nine semi-structured interviews were conducted during 2008 with national, regional and local managers and with staff from the department and external stakeholders.¹⁶⁶ These interviews were augmented with a further seven semi-structured interviews with a former minister, an external stakeholder, the current chief executive, and four members of the senior executive team. A summary of the interviewees is in Figure 9.1.

The research focused on the main operational arms of the department, namely the Public Prisons Service, now known as Prison Services (and hereafter referred to as 'Prisons'), and the Community Probation Services. Structural changes (in December 2009) after the research was completed, saw Psychological Services and Programme Facilitators transferred from Community Probation and Psychological Services to become part of the new Rehabilitation and Reintegration Services Group. Community Probation and Psychological Services then became Community Probation Services, which manages community

166 Rodney Dormer conducted the research interviews. See Dormer (2010). Interviewees who were Department of Corrections corporate staff are identified as 'COR', staff in the Public Prisons Service as 'PP', and staff in the Community Probation Services as 'CPS'. Interviewees who were external stakeholders are identified as 'ES'. See Table 9.1.

sentences and orders. In this chapter, ‘Community Probation’ means the Community Probation Services or its antecedents.

After the interviews were completed, the Auditor-General released a highly critical report on the department’s procedures for managing prisoners released on parole into the community (OAG, 2009c). This report led to calls for the department’s chief executive to resign (discussed in the Annex to this chapter). Before the release of the Auditor-General’s report, the department had initiated a programme of improvements. The effects of this programme postdate the research, so they are not reflected in the research findings.

Table 9.1: Summary of interviewees

Interviewees	National	Regional	Local	Total
Department of Corrections corporate staff (COR)	4			4
Department of Corrections staff in the Public Prisons Service (PP)	2	1	10	13
Department of Corrections staff in the Community Probation Services (CPS)	5	2	7	14
External stakeholders (ES)	5			5
Total	16	3	17	36

Note: The abbreviations COR, PP, CPS and ES are used to identify the interviewees associated with quotations in this chapter.

Context

At the time of the research, the Department of Corrections was the second largest employer in the New Zealand public service. Prisons employed around 4,055 staff across 20 prisons (17 prisons for men and 3 for women).¹⁶⁷ The 20 prisons could accommodate up to 9,131 sentenced and remand prisoners. Māori (15% of the general population) comprised around 50% of New Zealand’s prison population, which overall represented the fourth highest incarceration rate in the OECD.¹⁶⁸

Community Probation employed around 1,600 staff across 150 centres nationwide, managed around 38,000 community-based sentences and orders each

¹⁶⁷ At the time of research and writing, all New Zealand prisons were publicly owned and operated by the Department of Corrections.

¹⁶⁸ New Zealand has the 61st highest incarceration rate in the world but amongst OECD countries it is ranked fourth highest behind the United States (highest in the world) and Mexico and the Czech Republic (ranked 57th equal in the world) (King’s College London, 2010).

day, and provided information and reports to judges and the New Zealand Parole Board.

The Department of Corrections (along with the Department for Courts and the policy-focused Ministry of Justice) was established after the break-up of the conglomerate Department of Justice in 1995. The old department, while it had a proud history, was perceived by the early 1990s to have fallen behind and failed to adapt to the challenges of the public sector reforms. The immediate trigger for the break-up of the Department of Justice came from pressure over the poor performance of courts, but publicity surrounding a ministerial inquiry into the dysfunctional start-up of a new prison and staff problems at a prison also contributed to its demise.

The newly formed Department of Corrections inherited ageing infrastructure and old-fashioned systems, but by the early 2000s had used a variety of strategies to positively transform this situation. The department was recognised internationally as a major innovator and regularly invited to address conferences of practitioners on “the New Zealand experience” of providing a “world class prison service”. In New Zealand, the department was a “Pathfinder agency”.¹⁶⁹ It was seen as an exemplar of Managing for Outcomes, using an integrated cascade from external accountability documents to individual performance agreements. Is this potential realised in the present?

The period from the early 2000s until 2008/09 has been one of consolidation for the department rather than transformation. A significant achievement has been managing the growth in the number of offenders sentenced, initially through a major building expansion programme that added four new prisons. Another achievement was the transition, in 2004, from the founding chief executive, former Treasury official Mark Byers, to the incumbent, Barry Matthews, former commissioner of the Western Australia Police Service. Also worth mentioning is the Integrated Offender Management System (IOMS) initiative, which focused on reducing re-offending. This initiative was underpinned by the research and evidence base of the department’s Psychological Service. The initiative involved developing a structured approach to programme design, placement, and review and establishing outcomes measures for the department.

169 For details about Pathfinder, see the Pathfinder website <http://io.ssc.govt.nz/pathfinder>.

Public image and implications for performance management

The Department of Corrections has a higher public profile now than in the years immediately following its establishment. Compared with the early days, performance has improved: prison musters and sentences administered by Community Probation has increased but internationally benchmarked quality performance measures, such as prevention of escapes and the number of prison suicides, have improved. However, this improvement in performance has not manifested in an improved public image of the organisation. When the department features in the news, it tends to be for something that has ‘again gone wrong’ and for which the department is to blame, even if the circumstances are outside its control.

The public’s concern with crime and the perceived risk of crime ensures that the functions of both Prisons and Community Probation are politically salient. For instance, department staff reported large amounts of time and effort spent responding to parliamentary questions, some of which they considered to be repetitive or petty. Further, a succession of high-profile incidents reported in the media have provided political ammunition to opposition parties and embarrassed the government. A former minister observed:

In a portfolio like corrections there are always problems. People escape – there’s just a myriad of issues – and its endless – it’s just a difficult portfolio because you’re never really on top of it. (ES)

The public also does not distinguish the department from the rest of the criminal justice system or, indeed, Prisons from Community Probation. The chief executive has been described in the media as “the boss of prisons” when commenting on the performance of Community Probation. Similarly, the role of Prisons is perceived simply as “locking people up” and getting criminals “off the streets” but ignores the complexity of offenders and the legal processes involved and “the fact that they will one day return to the community” (PP local). Likewise, the public and media assess the role of Community Probation, which at times is even more complex than that of Prisons, simply in terms of their perceptions of whether the community is safe. The range of complex integrated outcomes sought by Prisons and Community Probation staff are barely recognised by the public much less understood.

Table 9.2 discusses the response of the Select Committee on Justice and Law Reform to the release of new performance information on re-offending. It suggests an environment in which public servants are “damned if you do, damned

if you don't" (Gill, 2008b, p 37) but also that improved information on effectiveness does not shield the department from parliamentary criticism.

Table 9.2: When things don't work – parliamentary accountability in action

To better evaluate its programmes aimed at its reducing re-offending outcome, the Department of Corrections developed measures of effectiveness, including the comparative rehabilitation quotient and a recidivism index. Evaluations using these measures suggested that several programmes were not producing positive results and some were causing harm by reinforcing undesirable behaviours. As a result, in 2005/06 these underperforming programmes were discontinued.

Before 2005, detailed information on reducing re-offending was available only internally to the department. It was then decided to publish this information in the department's 2005/06 Annual Report (Department of Corrections, 2006). The information initially attracted no comments, but some eight months later, at a parliamentary select committee, an opposition member of parliament accused the department of having wasted money on ineffective programmes and acting too slowly to withdraw them. This criticism was widely reported by the media.

The chief executive of the department had been advised by some of his staff not to publish the rehabilitation quotient results for the unsuccessful programmes. Notwithstanding this advice, the chief executive considered transparency to be important. The department has continued to use the rehabilitation quotient measure and to report against the reducing re-offending outcome.

As Gill (2008b, p 37) observes, "gathering information on effectiveness and acting on it still results in criticism – it just comes in a different form". Two issues arise from the event described above.

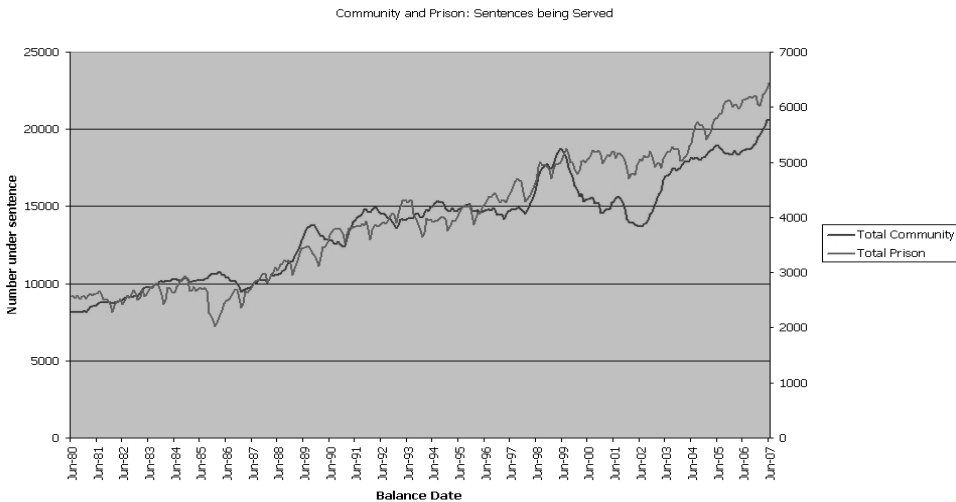
- 1 Information on effectiveness does not guarantee immunity from political attack. If a department's political profile or saliency is high, then such information is likely to be used by the parliamentary opposition to try to embarrass the government of the day. It is, therefore, an open question whether departments will 'publish and be damned' or whether they will act cautiously by restricting what and how they publicly report on their performance.
- 2 Prisoner rehabilitation programmes will never deliver clear-cut results, because their targets are complex human beings. Therefore, trial and error in the administration of programmes is essential for progress and learning, but the choice of interventions may be constrained if organisations become more averse to political risk associated with a lack of success in implementing programmes.

Public opinion is strongly influenced by 'sentinel events' given prominence by the media. In 2001, a high level of community concern following the murders committed by parolee William Bell was directed at the department. In 2006, the performance component of the department's chief executive's remuneration was reduced after the murder in the back of a prison van of teenager Liam Ashley, who at the time was in the care of a private contractor used to transport prisoners. The high profile case of Graeme Burton in 2007 concerned the release of an offender from prison on parole who subsequently failed to attend several meetings

with his parole officer and then committed murder. The media suggested that had Community Probation acted sooner, this loss of life might have been prevented. The significance of the adverse media coverage and uninformed but critical public opinion is significant in terms of the approach to management and performance in the department.

The operating environment of the department has also been affected by substantial legislative changes (which are discussed in the related case study of the Effective Interventions programme in chapter 14). In 1999, there was a 92% ‘yes’ vote in a citizen’s-initiated law and order referendum in favour of tougher sentencing and more emphasis on victims.¹⁷⁰ Although the referendum was non-binding, subsequent legislative changes by the newly elected Labour-led government impacted significantly on the department. Amendments to the Corrections Act 2004, effective from 1 June 2005, codified the widespread call for improved protection for the public against those in the criminal justice system. ‘Public safety’ became the central objective for the department. The prison population and the number of former prisoners on parole accelerated after 2003 (see Figure 9.1), but the government put a moratorium on building new capacity beyond the four new prisons then under construction.

Figure 9.1: Number of people under community-based and under prison sentences, 1980–2007



170 The question in the referendum asked, “Should there be a reform of the justice system placing greater emphasis on the needs of victims, providing restitution and compensation for them, and imposing minimum sentences and hard labour for all serious violent offenders?”.

The Sentencing Amendment Act 2007 attempted, among other things, to relieve some of the pressure on prisons by introducing new non-custodial sentences based on home detention, community detention, and intensive supervision. These new community-based sentences, effective from 1 October 2007, were described as “the single biggest changes to community sentencing in New Zealand history” (Department of Corrections, 2008b, p 3). In this briefing, the department signalled the pressure on Community Probation from rising offender numbers and the possible risks to standards of compliance, offender safety and security.

A public outcry in January 2007 over the Burton case also raised the questions of whether and to what extent under-funding was responsible for problems in Community Probation. This led to the Auditor-General investigating the department’s management of offenders on parole. After the release of the report (OAG, 2009c), the Minister of Corrections described the report findings as “damning”, declined to declare confidence in the chief executive, and called for a report on accountability by the State Services Commissioner.¹⁷¹ In the event, the commissioner concluded there was no basis for removing the chief executive because the department’s delivery against performance standards was improving and the chief executive was instigating significant improvements. Further details on these reports and events are in the Annex to this chapter.

These types of events and the public outcry that accompanies them inevitably disrupt the workflow in the department and add to the workload of managers and staff at all levels of the organisation. At the national level, much time and effort is put into responding to the minister and trying to focus the media on the real story out there. Events such as the series of inmate escapes in early 2009 are “isolated incidents but behind [them] is a huge prisons machine that’s actually doing a pretty good job” (PP national). In other instances, departmental staff are regularly dismayed at what they regard as biased and incorrect media coverage: “We’re being totally scrutinised by the media, politicians, and everyone else and having our performance judged on the basis of, frequently, a bunch of lies” (PP regional).

These aspects of the context in which the department works can have significant effects on the approach to management adopted in the department, what is defined as ‘performance’ and how performance is monitored and assessed. A department that is constantly in the public eye and criticised for apparent errors and omissions, even if false, will adopt a cautious and risk-averse approach to its operations and focus on following the rules, defaulting to standard

171 NZPA (2009).

operating procedures, and running a compliance and control framework. Whether this applies in this department's case will become evident as the analysis proceeds.

Strategic and performance management frameworks

To get a sense of the approach to performance management in the overall strategic framework in the department, we analysed the organisation's Statements of Intent and Annual Reports.

The core business of the department is to manage offenders on sentences and orders that are imposed by the courts and the New Zealand Parole Board.

Since 2007, the department has had five outcomes, each aligned with the broader objectives of the justice sector. These outcomes are:

- sentences and order are complied with
- offenders are managed safely and humanely
- re-offending is reduced
- sentence options are used effectively
- victims of crime are supported.

These five outcomes cascade down to the 10 lower-level 'intermediate' outcomes shown in Table 9.3. It is also clear that by 2009 the department was conceptualising the impact of each output on each objective – the visual representation of outputs and objectives is in Department of Corrections (2009d, p 6).

The 2007/08 Statement of Intent was the first occasion in which the department included its outcomes framework, so it may not be surprising that it does not deal with intermediate outcomes (Department of Corrections, 2007b). As will be seen shortly, the framework jumps from overall outcomes straight down to operational activities and their interconnection with outputs. In other words, the Statement of Intent shows a strong sense of its outcomes but the cascade down to outputs and activities is missing. Because of space limitations, only two end outcomes have been selected for further exploration: sentences and orders are complied with and re-offending is reduced. These two end outcomes are clearly connected to the overarching focus of the department.

End outcome: Sentences and orders are complied with

According to the department, making sure offenders comply with sentences and orders is a critical aspect of its work. It is also:

fundamental to an effective justice system and offenders being held to account for their crimes.

... Attempts to breach the requirements of the sentence or order must be dealt with effectively, appropriately and in a timely manner. (Department of Corrections, 2007b, p 24)

The Statement of Intent does not show the two intermediate outcomes that, according to the outcomes framework, contribute to this end outcome; that is, “offenders complete the correct imposed sentence or order” and “offenders comply with the specific restrictions and requirements of the custody regime, sentence or order”. Instead, the statement lists several “initiatives that support this outcome”. An example of these initiatives is “Progressively implement an Offender Placement System across all prisons (also contributes to safe and humane offender management)”. (Department of Corrections, 2007b, p 25).

None of the initiatives is explicit about how it will contribute to each or either intermediate outcome or the end outcome, the current state of play, or the quantum or quality of contribution to the outcome to be achieved within the three-year planning period. However, the outputs expected to contribute to this outcome are shown.

Table 9.3: Outcomes framework of the Department of Corrections

Justice Sector End Outcomes	A safe and just society									
	Safer communities							Civil and democratic rights and obligations enjoyed		
Justice Sector Intermediate Outcomes	Impact of crime reduced		Crime reduced			Offenders held to account		Trusted justice system		
Corrections End Outcomes	Victims of crime supported	Re-offending is reduced			Sentence options are used effectively	Sentence and orders are complied with		Offenders are managed safely and humanely		
Corrections Intermediate Outcomes	Eligible victims notified	Offenders acquire employment-relevant skills and qualifications	Offenders' criminogenic needs are assessed	Offenders' re-integrative needs are assessed	Judiciary and NZPB make informed decisions	Offenders complete the correct imposed sentence or order	Offenders comply with the specific restrictions and requirements of the custody regime, sentence or order	Offenders are not harmed	Offenders are treated fairly	Offenders legitimate health, physical, cultural, spiritual, and social needs are met

Note: The layout has been changed slightly from the original source to fit the page.

Source: Department of Corrections (2007b, p 23).

End outcome: Re-offending is reduced

The 2007/08 Statement of Intent identifies the theory (intervention logic) that underpins the search for this goal:

A large proportion of sentenced offenders are reconvicted within five years of being released from prison or completing a community-based sentence. The Department is focused on reducing re-offending through rehabilitative services which target the characteristics of offending behaviour, and providing activities and programmes to help offenders reintegrate into society after completing their sentences. (Department of Corrections, 2007b, p 27)

In recent years, the department has developed a sophisticated framework for rehabilitation based on psychological premises and theories. Accordingly, criminogenic conditions – certain factors that are believed to be associated with re-offending – are made the focus of strategy. For example, under this outcome, the Statement of Intent states:

Corrections delivers a range of rehabilitative programmes and activities that target specific characteristics of offenders that are known causes of offending (criminogenic needs). Specific characteristics targeted include violence (including domestic violence), alcohol and drug use, criminal association, and others referred to as criminogenic needs. By reducing the strength of these characteristics, actual re-offending may be reduced.

Offenders who are usefully employed are less likely to commit crime. Many offenders, however, lack the educational qualifications and/or the occupational skills required to become employed. By assisting offenders to gain work skills and qualifications, Corrections helps increase the employability of offenders. (Department of Corrections, 2007b, p 27)

Some statements suggest that, in addition to these objective factors, subjective factors such as motivation, willingness and responsivity are also important for rehabilitation. For example, the 2009/10 Statement of Intent says:

Rehabilitative programmes are targeted toward offenders who are most likely to benefit [and] those who are otherwise likely to re-offend and who have expressed a willingness to address factors that led to their offending. These long, hard and intensive programmes are based on the three core principles of the psychology of criminal conduct: risk, need, and responsivity. (Department of Corrections, 2009d, p 11)

In the 2009/10 outcomes framework, this end outcome is broken down into three intermediate outcomes: offenders acquire skills and qualifications relevant

to employment; offenders' criminogenic needs are addressed; and offenders' re-integrative needs are addressed. However, these intermediate outcomes were not discussed in the 2007/08 Statement of Intent. In that document, a list is presented of "Initiatives that support this Outcome" but without a systematic explanation of how they will contribute or the performance indicators associated with them.

The same comment can be made here as for the previous outcome. These initiatives do not identify causal connections between the actions and the desired outcomes or state what contribution they will make to achieving the outcomes. They do not identify performance indicators, the information to be collected and analysed, or criteria of success. In fact, they are presented as mere activities, without reference to how they are supposed to contribute to achieving the department's goals. Therefore, in the absence of other information, it raises the question of whether understandings of performance in the department are focused on activities (outputs) rather than outcomes. Under this outcome, it seems that success is defined in terms of completing these activities, rather than whether they had a desired impact or took the department closer to its goals and objectives.

The 2009/10 Statement of Intent has an important addition – in this sense, reflecting a comment made by one senior manager that "Corrections has moved on since [2007/08]". It uses the same general format as the 2007/08 and 2008/09 Statement of Intents but the discussion of each outcome now includes a subsection on the planned "impact" (Department of Corrections, 2007b, 2008c, 2009d). This is a more explicit attempt to identify the assumed effect of the work done by various groups in the department ("How the Department contributes to this outcome") and is a step forward in elaborating the logic of action in the department. Performance indicators are also identified, providing further evidence of improvements in the performance management framework.

So far we have discussed the prescribed system within the department – the 'theory' – as apparent in the Statements of Intent. What about the practice? What do managers and staff in Prisons understand as their job? What do they define as performance and how do they assess it and report it? Most of all, do their conceptions of their job and performance coincide with the assumptions made by the departmental system? The next section explores these and related issues.

Manager and staff views of performance and the prescribed performance management framework

This analysis focuses on the understandings of staff and managers in the two operational arms of the department, Prisons and Community Probation.

Public Prisons Service

Following rules and meeting targets – and reporting, too much reporting

Interviewees from all three levels of Prisons referenced the department's performance measurement and management framework back to its Statement of Intent and business plan. One national manager made these connections:

The theory is that we have the kind of accountability framework which gives us a broad set of volumes and a broad set of initiatives flowing out of the Statement of Intent, into the [general manager's] performance agreement, into my performance agreement or the regional managers', and cascaded down. (PP national)

Similarly, a regional level interviewee commented:

We set targets and we have those targets which are aligned with, that drop out of, our Statement of Intent and strategic business plans and such like. They are more the numeric things around how many programmes did we provide to prisoners, and what were the hours of court attendance, and how many Parole Board reports did we write? So those kinds of things are the measurements. (PP regional)

Targets are set from the top down (PP local), are usually quantitative, and include matters such as unlock hours for prisoners, hours of work for prisoners, supervision hours of community work (90,000 hours), prisoner attendance at programmes, drug testing (no more than 16% positive results) (PP local). Other matters include financial targets such as for staff costs, salaries, overtime, and leave and for prisoner costs such as bedding, food, and cell maintenance costs (PP local).

These targets seem to be entirely based on activities and outputs with the performance measures expressed only in numerical, process, and financial terms; nothing, say, relates to immediate or intermediate outcomes that might connect to the overall goals and objectives discussed in the Statement of Intent. Moreover, standard operating procedures are pervasive and compliance is demanded. When discussing various tasks to be completed and recorded within the Integrated Offender Management System (IOMS) (the computer system), one unit manager said, "I'm really measured on timeframes and adherence to business rules" (PP local). Those rules are in the *Public Prisons Manual*, which another unit manager described as "our bible, basically" (PP local). This fact frustrates some:

[P]erformance, at the moment, here, is set towards compliance rather than prison performance. It's all about are we ticking the right boxes

when we check to see if a prisoner is in his cell ... You can become more focused on compliance than performance (PP local)

The expected reporting compliance load seems to be heavier than it is productive. Considerable time and effort is required to remember and record all actions relevant to targets, and staff sometimes forget or fail to keep accurate records. Even when they remember, those staff interviewed showed little motivation to do so since they did not see a close link between achieving targets and receiving a reward. For these reasons, regular performance reviews often fell victim to the general workload. Strict adherence to numerical targets can also have the unintended consequence of creating motives to do only that which is specified. One interviewee spoke of targets for finding two illegal cell phones every month:

Say you find four and get a red in the box because you've exceeded the target. However, looking beyond that ... I've actually done the job properly by finding these additional ones [and] perhaps not putting them under the table or saying, "oh well I'm not going to report them". And there is a danger that you could under-report or you could not do the job properly just to maintain your targets. (PP local)

The volume of reporting against national targets is what generates the greatest concerns. One interviewee commented that the job is "all just about reporting and giving the right information to the right people" (PP local). Others suggested that meeting reporting requirements deflects attention from the department's central role, becoming instead a "reporting agency as opposed to a prison agency" (PP local).

The demand for compliance emanates from the centre and requires attention to indicators that have little to do with helping the front line do its job effectively. An interviewee observed:

We are driven by policy, we are driven by the government, and we are driven by national office [but] [t]here is little understanding of the practical implications that this creates ... The unfortunate fact of life is that these people that drive our policy and drive everything else have no experience, have never set foot in a prison, and do not understand our business. They are the majority of people making decisions. They do not have to implement any changes; they do not have to bear the brunt of any of the changes that they may make. Yet operationally we are the ones that have to implement the changes and have to make it work. (PP local)

One manager observed that there are also sanctions for stepping outside or going beyond operational policy, “you get slapped down, basically” (PP local). At least some senior managers acknowledge the issues. As one said:

It’s one thing to have ... quite clear and specific performance agreements that people are reporting against and saying ... it’s either achieved or it’s not achieved. It’s quite a different thing for people to be seeing that it’s a tool that’s helping them do their job well. And that’s the bit that I think that we fall down on. (PP national)

Regular audits are applied for quality assurance. Internal control requirements are checked, as are the numbers of faults and repeat faults (PP regional), whether staff are managing prisoners according to their plan, the files maintained by prison staff – “And sometimes, just to make sure we are not making it up, ... they will go and check with the staff and with the inmates” (PP local). Regular audits, of course, reinforce the hegemony of processes, procedures, and outputs over the more difficult and intangible aspects of outcomes. The disciplinary ethos of audit serves to deepen that further.

In short, management and performance in the department is governed by standard operating procedures and performance and defined in terms of adherence, with a high level of expected reporting against national targets. Departmental performance measurement and management are rolled down through the organisation and, at the operational level are focused on staff meeting prescribed procedures, standards, and targets and complying with their demands. However, although operational managers and staff in Prisons recognise the legitimacy of performance management processes, what is done in the department does not express the limits of their interests and concerns. They are also interested in concerns more aligned with the end outcomes of the department as identified in the Statements of Intent.

Other aspects of performance: Trying to achieve departmental outcomes

It is clear from the interviews that at least some Prisons managers and staff have concerns about the demands and emphases of the departmental performance management system. Is that a simple case of workers resisting being made accountable? Some of the interviewee responses suggest something different: that they see their roles as being much more than ‘turnkeys’, workers merely delivering outputs, process workers. Several interviewees seem to have a strong commitment to the department’s outcomes and want to do what they can to

achieve them.¹⁷² They ascribed a wider and deeper meaning to their work, to achieving organisational objectives, and so maintained a broader definition of performance and how it might be monitored. They were frustrated with the departmental process-oriented performance management system and shortcomings in relation to outcome monitoring. A national level manager acknowledged, for example, that, as yet, there was limited performance information about the reintegration of offenders, saying, “We’ve got measures around the numbers of people doing stuff ... but we don’t have measures of the effect” (PP national).

The outcome concerns that came through most in the interviews with Prisons managers and staff were about managing the safe and humane confinement of prisoners and their rehabilitation and reintegration, so it is worth examining in detail some of the points made.

Safe and humane confinement and its relationship to rehabilitation and integration

One of the five end outcomes in the department’s Statement of Intent was “offenders are managed safely and humanely”. One interviewee defined this as relating to the safety of both prisoners and the wider public, “It’s about the incarceration of prisoners and making sure they can’t escape; but also making sure that the prisoners are kept safe as well” (PP national).

Many people, including some in the department, see incarceration as Prisons’ primary, or even only, role. The traditional culture was that prisons are there to lock people up in, “Prison officers are just turnkeys; they unlock the door in the morning and they lock it back up at night and that’s all they do” (PP national). But as the department started thinking about integrated end outcomes, the notion of being a turnkey gave way to a broader conception of managing confinement. The same interviewee characterised the change thus, “Over the years we were able to raise the expectations of our managers so they started to raise the expectations of staff and we quite successfully changed the culture” (PP national). What are those expectations? In essence, the role of Prisons management is to provide the safe, secure and humane containment of offenders and to maintain prisoners in an environment that is safe for both them and staff (PP regional; PP local).

Moreover, as Prisons managers and staff are aware, no side of their job is more closely scrutinised by the public. As one national manager explained,

172 Our research design gave us no way of testing the extent or distribution of these views. We are simply reporting that some respondents expressed these views.

“We get into more trouble if they get their core security stuff wrong than if they get the other stuff wrong” (PP national).

The outcome of safe and humane confinement is achieved by “continually monitoring [prisoners] and ensuring the safety and security aspect of being inside a jail” (PP local), involving “getting [prisoners] basically into a routine, having their day structured” (PP local), if for no other reason than stability helps motivate prisoners to behave constructively.¹⁷³ But, despite the demand for humane confinement, managing prisoners can necessitate direct intervention and the use of force. A local-level unit manager explained the effects of pressure building up in a prison unit:

if prisoners don’t like what they’re hearing we come back to the use of force which has been a problem when they become non-compliant. Or we have ... what we call ‘non-vol [non-voluntary] segregation’ ... till they can pull their heads in and behave. (PP local)

Therefore, if managing prisoners by these safety and security principles is a big part of the job as understood by managers and staff, are any indicators used to monitor the situation, the immediate effects of their efforts, and the level of their performance? The 2007/08 Statement of Intent identifies performance indicators for this end outcome as numbers of assaults, unnatural deaths, suicides, and justified complaints. Interestingly, these were mentioned by interviewees at only the national level. According to two such managers:

There’s a series of well-accepted measures around ... escapes, and incidents in prisons, and deaths in custody, suicides, and unlock hours, which are well-accepted measures internationally amongst like jurisdictions [in terms] of doing that core work of prisons well. (PP national)

[T]he safety and security stuff is quite easy to measure and I’ve got to say that New Zealand stacks up pretty well against most overseas jurisdictions. Suicide levels, escape levels, assault levels are reducing all the time, generally; there’s a few bumps along the way, but generally. So we stack up pretty well on those. (PP national)

Therefore, active monitoring is undertaken and overall performance in the eyes of the practitioners seems positive. But it is also curious that no interviewees working in prisons discussed this – although we can draw no conclusion from this absence.

173 The department’s 2006/07 Annual Report states “a stable social environment within prisons helps to motivate prisoners to comply with the restrictions of their sentence” (Department of Corrections, 2007a, p 11).

On the other hand, several interviewees in Prisons spoke at some length about rehabilitating prisoners; remember that these individuals are employed in the incarceration side of the department, so are not responsible for rehabilitation and reintegration. In other words, their responses seem to suggest an understanding of the connectedness of two of the department's end outcomes (offenders are managed safely and humanely and re-offending is reduced (on the assumption that rehabilitation leads to this outcomes)) and that all employees should recognise the contribution that everyone makes to both outcomes.

Rehabilitation and reintegration were mentioned frequently by interviewees from all three organisational levels but particularly by those at the regional level. In this respect, what comes through in several of the following responses is a sense that the interviewees are as interested in the *outcome* of compliance as they are in the *process* and not doing anything that gets in the way of possible rehabilitation and reintegration for individual offenders. In other words, a definite view is apparent that the prison officer's job is defined much more broadly than simply one of providing 'safe and secure confinement'. If the officer is not directly responsible for rehabilitation and reintegration, they should at least be aware of the interdependence of the two end outcomes if not to enable their mutual realisation then at least not to constrain it.

Rehabilitation is about providing programmes to help rehabilitate prisoners and successfully move them back into the broader community. Rehabilitation includes services such as alcohol and other drug treatment and violence prevention. These services are believed to provide offenders with opportunities to address the issues that contributed to their offending and to help them return to their home situation or community better placed in terms of education, work, or basic living skills (PP national).

The importance of rehabilitation and reintegration are widely recognised both as values in themselves, but also because of their potential contribution to the department's overall outcomes:

Just locking people up certainly wouldn't be of any benefit to any society. So we have a huge role to play in rehabilitation and re-integrative services and that's an endeavour, of course, to reduce re-offending in our society, and particularly among this criminal fraternity. (PP regional)

The interviewees, however, were generally not rosy-eyed about what can be achieved. One asked:

Are our expectations realistic? If we do put a kid through a number of courses, or an adult through a number of courses, even over a two- or

three-year period, [can we] address all of the harm that's happened in the 20 years prior to that? (PP regional)

He answered his own question thus:

We're often able to have an effect. But there's a very, very small group of people who you will never rehabilitate and actually you shouldn't waste any time and resource on them; we should just shut them up and throw away the key (PP regional).

Another interviewee made a similar point:

If you think you are really a social worker and want to change these poor misunderstands, it's not going to happen; and I think that's quite difficult for some people to get to grips with. (PP local)

Nonetheless – a telling remark made in one form or another by several interviewees draws attention to the outcome-oriented commitment of at least some Prisons staff:

You couldn't do this job if you didn't think that you can make a difference and people can change. (PP regional)¹⁷⁴

There is clearly a belief among Prisons managers and staff that they play a definite, albeit background, role in assisting prisoners to deal with their issues and to successfully integrate back into the community on the completion of their sentence. As one manager noted:

If corrections officers are not being fair and consistent, if they're not treating people with dignity, and if they're not making some attempt to positively influence, then that's a huge opportunity that's gone missing. It's an opportunity to demonstrate the behaviour, the language, the pro-social stuff; really you're just talking about dealing with people in a polite, humane way and trying for that to positively influence them in some way. (PP national)

More than one local-level unit manager talked about training staff and discussing with them the idea of "active management" whereupon prison staff work with prisoners, "talking with them one-on-one, trying to exert influence, trying to just give them the bigger picture. It's just, as I say, active management and that's part of the job of a prison officer nowadays" (PP local). By the same token, others also acknowledged that Prisons staff usually lack the specialist skill

174 A parallel may be drawn here with the comment from a Work and Income case manager in chapter 10, "If I wasn't helping anybody and all I was here for was just to dish out money, I wouldn't be here to be quite honest". The number of occasions on which such remarks are made by public sector employees says much about the motivations and expectations of those who choose to work in the sector.

sets required to turn around a prisoner who has significant psychological, emotional, and behavioural issues, but they do contribute to the general tenor of the prison and at least try to treat prisoners positively in the hope that prisoners will respond in kind (PP local). Moreover, managing discipline in the prison environment can conflict with working constructively with prisoners. Prisoners regard coercive action by staff to ensure prisoner compliance with sentences and orders negatively, so prison staff can find it difficult to convince prisoners “that coercion is good for them” (PP local). In fact, some interviewees suggested that equating prisoner compliance with staff performance created an unmanageable tension for staff who hold to the beneficial effects on re-offending if prisoners are treated constructively.

The responses reported here tell a story about the commitment of Prisons managers and staff to achieving the department’s outcomes. The responses reveal that, despite stereotypical conceptions about the nature of prisons and the work of prison staff, some staff, perhaps many, have an outcome orientation. Staff bring to surface what they see as the purpose of their job, how they define performance, and the basis on which they expect to be judged. These individuals have a keen sense of the dual obligation to be forceful when required and helpful at other times, and how a careful balance of both is required. Staff increasingly see confinement as something that must be not only secure but also safe and humane in both the setting and the manner in which prisoners are treated. They also believe that secure, safe and humane confinement contributes to the other major outcome, rehabilitation and reintegration (which are explored in the next section). The fact that staff are making this shift and recognising the interrelatedness of both outcomes and the complexity of achieving both outcomes, contributes to their frustration with a process-oriented national performance management system that gives greater weight to compliance than to reducing re-offending.

Some national managers are also asking whether the national performance management system could be improved. The department has developed indicators for its end outcomes, namely a recidivism index that measures “the extent to which people are reconvicted and reimprisoned” (PP national) and a rehabilitation quotient that measures the impact of rehabilitation programmes. One manager wondered out loud about whether research should seek out:

any evidence that our interventions reduce the severity of the crime ... [and] the extent to which prisoners’ behaviour changes when they’re with us – that’s about drug use incidents, holding down a job, progressing through from high security care to low security, and really self[-management]. (PP national)

Another national-level manager acknowledged there was limited performance information about the reintegration of offenders:

We've put some proper resources in place to manage the reintegration processes; reintegration case workers, whānau liaison, but they've only been in place over the last two or three years [when] we've started to plan and get consistent practice around the country, and working with other agencies outside Prisons. So I think it's too early to talk about measures in that area. We've got measures around the numbers of people we're doing stuff with but we don't have measures of the effect. (PP national)

The department has obviously been doing a considerable volume of work around these issues and, clearly, more is to come.

Community Probation Services

Cost, quality, volume and variance

Community Probation employs over 2,000 probation officers, psychologists, community work staff, and programme facilitators. In 2008/09, staff managed about 85,000 community-based sentences and orders, and provided information and reports to judges and the New Zealand Parole Board to help them make sentencing and release decisions.

Front-line Community Probation staff manage offenders on community work and manage and deliver programmes to offenders in prison and the community. Specialist staff in the area of psychological services undertake clinical treatment and assessment advice and design, implement, and monitor rehabilitation programmes. Staff also deliver interventions to offenders and prisoners to address their offending behaviour and prepare them for rejoining society. Consistent with the psychological underpinnings of the department's intervention logic, the objective of rehabilitation and reintegration is to motivate offenders, teach them thinking and behavioural skills, and help offenders to focus on what they need to change.

Similar to the findings for Prisons, as far as the departmental management system in the department is concerned, performance in Community Probation focuses on activities, outputs, and differences between actual and planned results. In general:

We try and bring cost, quality, volume and all the other metrics of the different pieces of work together. So there's an overall summary on the front and we look at that on a region by region basis – where we are year to date against the expected volumes [and] the expected time being

spent. ... if we've got a variance of plus or minus 5% we have to provide a variance explanation. (CPS national)

The focus on variation seems to be fine-grained:

Each month we have our rolling forecast so we need to work out our variances against where we had predicted it was going to be, estimate where we're going to be, and provide explanations against that. Also, in terms of our volumes, if we estimated that we were going to do a 150 reports to court this month and, in fact, we've done 180, so why have you done 30 more than you thought? (CPS local)

Community Probation managers and staff are frustrated with the national performance management system. As an outputs and process oriented system, it says little about the achievement of outcomes. The system is useful in setting a consistent frame. The reported year to date results are an aggregate, over time, and across different local sites, but the overall numbers are not meaningful for understanding local performance. The imperfect nature of some of the base data was also acknowledged; information expressed in terms of a "notional unit of time" allocated to each task is provided by a time-recording system that all front-line staff complete each week – to which:

We get a lot of resistance and I think that we accept that the information we get from the time-recording system is averaged based on a reasonable level of compliance. As with any similar system, it's full of people driving their own results to suit what they think is an end. But we believe, on the basis of the averages, we're getting an indication which we think is realistic ... The reality is that they do miss deadlines and they do step on some of the manual standards when the work quota is above their resource. That happens not just because we got the forecast wrong for the year but because we've set a resource level ... based on the funding we've got available. Or there's a seasonal pattern to some of the workload ... So there are a number of factors that come into it that aren't necessarily visible from what we're measuring. (CPS national)

However, several senior managers suggested that although the national system dealt in aggregates, the senior executive often looks beyond them when checking performance. One manager, for example, pointed out that despite the inevitable incompleteness of national performance information, it reveals issues that can be analysed "on an ad hoc, almost anecdotal, basis in many cases". This manager explained:

I think for senior managers or managers in head office what the tools do, what the data does, is give you something that you can talk about that's

quite tangible. So you have that discussion and you think what you can do about that and then you have a discussion about what's not in there or what you can't see in there. (CPS national)

Treating the hard data as a starting point for discussion was also reiterated at the area level:

We look at that result and then we have a meeting together with our service managers and senior probation officers who are like our clinical leaders, if you like, to discuss ... why have we got this result? What's happening? And we'll talk about ... the things that we've noticed. We've noticed that people aren't putting bits in the right place; all the information's there but it's just in the wrong place. Or, people don't know how to do this piece of work. We'll try and identify what is contributing to that result. What are some strategies that we will put in place to try and address it? And I report on those to our regional office. (CPS local)

In fact, the information in the national performance management system is often treated as an incident reporting system that captures negative, or potentially negative, incidents such as offenders absconding, threatening staff members, or being of interest to the media. As one national level interviewee commented:

That whole thing is a sort of offender risk management system where we are picking up incidents and working out whether we need to go in and review something. (CPS national)

In summary, it seems that managers and staff in Community Probation take a less rigid view of the national performance management systems than in Prisons. There is a departmental system that must be complied with that is mainly about achievement of output and activity targets. The interpretation of variation by managers, however, is both objective and quantitative and qualitative and focused on meaning. This seems sensible. However, the fact remains that the system is based on process data, gathering information regarding the operational management of the organisation rather than the strategic management of policy, which may be due to the relative absence of immediate and intermediate outcomes found in the examination of the Department of Corrections Statement of Intent. In that respect, performance is defined in mechanical terms, in terms of organisational production rather than effects.

Other aspects of performance: Achieving outcomes

There is little doubt as to the goal of Community Probation within the internal culture. As a national manager observed:

The ultimate measure of our performance, although we're not the only ones that contribute to that measure, is whether or not we've reduced re-offending rates and/or the severity of offending from the offenders that come through our sentences and orders. (CPS national)

It is the goal that motivates many in Corrections especially in Community Probation. "It is our job", declared one interviewee, "That's why you have a probation service. Every probation officer that manages a parolee, someone who's got out of prison, considers their job is reintegration (CPS national).

But doing this work can be complicated. This person spoke for many in observing the tension between managing offenders' compliance with their sentences and their reintegration. It is, they said, "the most common dilemma that our staff would have":

We do have a bit of a battle between enforcement action and reintegration sometimes because a staff member will say that Johnny is ... yes, they're not complying but I think that, if they were to get breached and end up back in prison for a month they would lose their house, their job, etc, etc and we'd have to start all over again when they came out in two months time.

This contradiction stands out in the remarks made by interviewees and was referred to constantly. Community Probation management contains within itself two different but interconnected types of activity. Expressed as polarities, enforcement means prevailing on offenders on parole and community sentences to abide by the conditions of their sentence or order. Enforcement is coercive and can be heavy-handed. It might contribute to reducing re-offending but only through threat, fear and the certainty of sanction. Simultaneously, Community Probation and Rehabilitation staff encourage, enable and motivate offenders to act in more socially acceptable and personally beneficial ways and may do so variously by advocating for them, helping them through difficulties and being flexible as they learn to better manage the obligations sitting on them through their sentence or order. In this respect they may act more like social workers, which many once were and some still are.

Equally, those in probation and rehabilitation services make assessments and reports on individuals to the judiciary and others in authority while trying to build a relationship of trust with those same individuals. In short, probation and rehabilitation entails a complex set of relationships between offenders and officials that push simultaneously towards hard and soft modes of interaction, towards control and enablement. This contradiction constantly confronts Community Probation managers and staff as they try to achieve the department's

goals and objectives. As many quotes in the next few pages reveal, they must continually work out the appropriate point of balance between coercive and facilitative approaches to managing each offender, of impersonally enforcing the fixed conditions of a sentence on the one hand and, if and when required, being flexible and human enough to help them overcome obstacles to completion, on the other.

Difficulties of enforcing sentences and orders while motivating to rehabilitate and integrate

Overall, the job is defined in terms of ‘managing offenders’. A regional manager explained that offenders “either come to us directly from the court on a community-based sentence or they come through a sentence of imprisonment back into the community”, suggesting that managing offenders comprises two parts of an “interlocking system”:

[W]e still have the social work sense that it’s all about the relationship and [we also have] risk management that says it’s all about the procedures and the process of holding someone accountable. To me they are just two parts of the same solution because we’ve got these two roles. (CPS regional)

Ultimately, according to one senior community work supervisor, the enforcement side is about:

setting boundaries and telling them right from the start this is what’s going to happen and this is what’s going to happen if you don’t. ... I won’t hesitate in sending you back to Court. (CPS local)

Many cases fall into that category. According to one interviewee about 50% of offenders present officials with problems. In those cases:

Either you must push them along and drag them through the sentence, and phone them every so often to help them through the sentence, basically. A lot of them will not comply and then you’ll write them a final warning letter and then they’ll start complying. About 10% of the cases won’t comply and you’ll take them to court and they’ll get re-sentenced and a lot of ... those, will get a warrant for their arrest because they disappear. (CPS local)

In fact, the message coming from the department’s senior management is that enforcement is the expected mode of behaviour for Community Probation staff. One manager made the point clearly, saying:

We took ourselves out of that whole social work field. We still employ people that have been social workers but they come in on the

understanding that they are to be probation officers not social workers.
(CPS national)

Emphasising the coercive mode of Community Probation is a strategic concern of the department. Staff who “believed they were all offender advocates” (CPS regional) are required to focus on managing offenders’ sentences and reducing risks to the community. To this end a national office manager “got rid of the word ‘client’ as offenders have not come to ... Probation ... by choice but because they have committed an offence”. In this manager’s view, this does not mean offenders are treated differently or with any less respect but recognises that “these are people that the public must be protected from”. This manager expects staff to make sure and help offenders to comply with their sentence and “if [offenders] don’t do that you’ve got to take action against them” (CPS national).

It is not difficult to appreciate why senior management might take that line after episodes such as the Burton case. Nonetheless, several interviewees closer to the front line think that facilitative approaches to help offenders to meet the terms of their sentence may be more effective in reducing re-offending. Despite the central prescription by head office, several still spoke in terms of a context-dependent and case-by-case mix of enforcement and assistance, seeing balance and flexibility as the means to an end rather than seeing enforcement as an end. For example, staff might motivate offenders “to get over other barriers before we ... get them on their conditions” (CPS local) or “help... that person out of a bad situation ..., as a Samaritan” (CPS local).

These remarks reveal the tension between enforcement and assistance as interdependent ways to reduce re-offending through probation and rehabilitation, of the interplay of senior management expectations framed in the context of public criticism and accumulated experience at the front line about the best ways to be effective. Generally, despite the corporate emphasis on enforcement, the interviewees regarded case-by-case flexibility as essential for making the necessary judgement calls as required.

Because definitions of performance differ, particular types of performance indicators can cause problems. As performance is defined in mechanical terms, so too is the performance management system, fixed and categorical. One individual illustrated the conflict when discussing a case of scoring an offender in the Quality Assurance System when he had not met all the requirements of his sentence:

[You have to account for] whether you had to battle to get him through, whether he skipped three or four weeks in between. If he had, does that make the sentence unsuccessful? He completed the sentence within the

time ... even if it takes a full year I would actually [assess under the Quality Assurance System] that person at the minimum because he's gone through more time than he should have to get him through the sentence. [But] in failing to send him a warning letter after the second time that he did not comply with his sentence, I failed everything, if you look at an audit. But I got him through the sentence. That should jump my [Quality Assurance System assessment] on him to four despite all the failures. (CPS local)

A performance framework focused entirely on compliance by offenders to the terms of their sentence or order and compliance by probation officers to standard operating procedures might be relatively easy to develop and implement. Such a framework would be strongly process oriented and could be regularly audited. It would also be consistent with a top-down approach to control. This framework would also be consistent with risk elimination (rather than risk management) and achieving the outcome of compliance with sentences and orders. But such a framework might not say anything about achieving (or not) the department's outcome of reducing re-offending – unless the view is taken that following process is an end itself or inherently leads to the desired outcomes. (However, this view cannot be sustained in the face of decades of implementation research (see, for example, Barrett, 2004).) Therein lies a major tension in developing performance management and reporting systems around strategies such as probation and rehabilitation aimed at reducing re-offending. Are these strategies about maximising control or enabling learning? Can they do both simultaneously? And how can successes best be expressed and indexed under either strategy? We return to this issue later.

It is worth noting the view of the department's management in 2008/09 that inadequate emphasis had been placed on sentence management and the risk offenders posed to the community. More recent initiatives have sought to maintain that concern to move from a rule-based approach to a judgement-based approach. This approach is based on probation officers using their professional judgement within clear guidelines – “staff ... making more decisions within a new, well-structured, supported decision framework”.¹⁷⁵ This approach may help front-line staff to find justifiable and effective ways through the tensions.

175 See Department of Corrections (2009b). A feature of the new approach is the targeting of time, effort, and resources according to the risk each offender presents, not just according to their sentence.

Particular performance and performance information issues

Many offenders represent difficult cases and, despite the best efforts of staff, success rates can seem quite low. In respect of rehabilitation, a national office manager observed:

What the data says is, that appropriately targeted, high-quality programmes bring about reductions of between, probably ... 10 and 25% in re-offending ... So what you infer from that is that those are certainly worthwhile benefits to have and justify the provision of the programmes. (CPS national)

On the other hand, a national-level interviewee expressed the view that:

At the same time, the inescapable fact is the programmes don't work for the majority of people who receive them, even the good programmes that are appropriately targeted. (CPS national)

As already noted, the department has a high-level complex indicator called the rehabilitation quotient. One manager explained that the rehabilitation quotient is used:

as a sort of indicator of the success of some of our programmes. There are two programmes that we cancelled in the last year because the reconviction or recidivism rates have shown that those programmes haven't worked. (CPS local)

It seems that multiple, unpredictable matters may enter into whether rehabilitation and other strategies to reduce re-offending work. These matters include the learning styles and abilities of individual offenders and, perhaps most of all, offender motivation. "They basically have to be motivated because when I want to put a person on a programme and they're not motivated, we're actually setting them up to fail" (CPS local).

Another local-level interviewee observed that measuring the success of programmes is more difficult when offenders have self-referred to a community programme. This interviewee explained:

Sometimes we put them on community programmes ... well, we say to them, "Go and do a programme but you will have to do a self referral". Sometimes that's good because they don't have to pay for it; you can either pay a koha [a gift or honorarium] or they'll just flag it and put it under the health budget. But sometimes we can't actually monitor how [the offenders] are getting along; we just have to rely on the comments when we ask the offender what they've been doing. (CPS local)

Another manager questioned the extent to which the department's processes and outputs connect to the outcome of reducing re-offending:

There is a whole range of social indicators that contribute to that outcome measure so we have found it difficult to just use that bald figure of recidivism rate as [a performance] indicator. (CPS local)

These points lead again to the question of the adequacy of monitoring and reporting. As noted earlier the department is only now developing immediate and intermediate outcome statements and indicators. Therefore, little information is pulled together that might enable a better understanding of whether rehabilitation strategies are fundamentally poorly designed or whether intervening matters complicate and reduce effectiveness. In fact, the performance management system seems to be overwhelmingly process and output oriented. Interestingly, although staff in Community Probation seem to have a definite and integrated outcome orientation, unlike professionals in similar situations elsewhere, none talked about developing informal tools or rules of thumb that might give them that information or counter the dominance and bias of the national performance management system.

Being accountable by following procedures: Controversy, risk, and effects on 'performance'

For some time, the department has been subject to public controversy. In that context, it would be understandable if the department sought to reduce risk to the lowest possible level by insisting on tight operating procedures and high levels of compliance. Performance then would be tied very much to compliance. From what the interviewees said, it seems that this defensive logic has been widely accepted in the department and shapes the character of work, as well as the definitions of work performance and how such performance should be monitored.

For one senior manager, a reliance on process is central to managing performance. This manager asked (rhetorically):

If following our procedures doesn't matter then what we do doesn't matter; and why do we do it? Why does the government bother having us here? (CPS national)

From this perspective, compliance with standard operating procedures is the only way "anybody knows what our success is".

[I say to staff] if I know we've got procedures, I can get up and publicly defend you if you follow those procedures. If we don't have procedures, I can't defend you because I won't know what's in your head about why you did things and why you didn't. (CPS national)

Protection and defence result from following rules. This logic appeals at the local level. One area manager suggested:

I think that's a reflection of why we are drawn, pushed, into the process stuff. If you are having to be so reactive to unanticipated, unexpected things that are going to pop up all the time, one of your protections is, 'we've followed the process properly'. (CPS local)

Standard operating procedures also constrain the exercise of discretion so a Tayloristic approach¹⁷⁶ to organisation and work emerges – clearly evident when a senior manager says:

You don't want them [staff] thinking too much because they haven't got much discretion and sometimes, when they use the discretion they have got, it's a bit of a disaster. (CPS national)

This is how probation officers experience their work:

We're guided by management guidelines and job practices. We have a standard sentence management profile that we use to manage those sentences. So basically it's black and white really. (CPS local 8)

One manager compared the present department with his experience with the earlier Department of Social Welfare¹⁷⁷ and observed, "We are a lot more prescriptive in what is expected so, in a way, you can measure all those interaction points and whether they are done" (CPS regional). And if work is defined in terms of following standard operating procedures, performance management becomes its equivalent, expressed in terms such as "feeding the internal machine" (CPS regional) and "ticking boxes" (CPS local).

The conclusion suggested is that the meaning and character of performance and hence the systems devised to measure it are determined by the context in which an organisation finds itself. Managers will figure out how best to respond, and if an organisation finds itself under challenge then the likelihood is that defence and protection will figure strongly, particularly if the overriding political culture equates accountability with blame. The department's emphasis on standard operating procedures and a production conception of organisation and work has a strategic rationality. But it does also mean that short, medium and long-term outcomes will not receive the management attention required.

Conclusion

The department's activities need to be seen in the context of the entire justice system, which includes, in particular, offenders, police, judges and the law makers who decide on the sentences and orders for different offence categories

176 This approach is discussed in chapter 2.

177 The Department of Social Welfare was a prior organisational incarnation of Work and Income.

and apply them to individual offenders. This system dictates most of the demand for the department's services, so a significant part of the challenge for the department is to manage available resources and programmes to cover the range and quantity of sentences and orders imposed on offenders.

Tensions exist between the policy objectives of compliance, safe and secure confinement, and reducing re-offending through rehabilitation and reintegration. First, there are internal contradictions in confinement. What is safe for prisoners and staff or secure for the public may not necessarily be humane for the individual prisoner. Second, there is the tension between the outcomes. One outcome demands control – locking up offenders and closely managing every aspect of their lives in prison – while the other outcome demands staff to build trust and use their discretion to enable and encourage offenders to lead independent lives without again breaking the law.

But all this occurs in a societal context. Much public and political opinion is adamant that offenders should be punished for what they have done, which leads to a focus on secure confinement. A high level of public concern means a focus on agencies charged with protecting the public from criminals and seeing that they are punished for their offences.

Moreover, the rapid growth in community sentencing and probation has increased the absolute risk of 'pipeline offending' (offending while in the justice system), which attracts particularly virulent criticism. Every major incident committed by someone already in the justice system is, rightly or wrongly, seen as an occasion for challenging the department. These sentinel events generate a political response that significantly disrupts the organisation. This response also sends powerful signals to the department's management about what ministers think is important about the department's performance. It pushes the department towards minimising risk in its operations by taking defensive approaches to offender management. Adhering to standardised operating procedures becomes a shield, protecting the department from the consequences of failure by prescribing what should be done in managing offenders and emphasising compliance with these processes.

This case study describes the department's 'retreat into rules', of bureaucratisation from the top in response to conflict and ambiguity. In this respect, the department is uncannily similar to Child, Youth and Family (see chapter 7).

Public and political criticism has pushed the department towards defensive strategies that focus on following process first and achieving policy outcomes second. More often than not, this is an ineffective strategy since, by definition,

policy outcomes that are different from those that exist in the present demand different ways of acting. In this respect, the department has followed a pattern we have observed elsewhere in similar circumstances; the more that threat and uncertainty bite, the more likely it is that a public sector organisation will default to a reliance on process ('Did everybody follow the rules?'). As a result, manuals and procedures are decisive in Prisons, and have increasing salience in Community Probation (although, for the reasons covered in the Annex, this has recently changed). Management in both areas puts a great deal of weight on standards and procedures, which are made central to definitions of performance – and non-performance.

The effect of a movement towards defensiveness shifts the balance between confinement and rehabilitation in practical priorities. Prison officers were once turnkeys but are now expected to ensure the safe and secure confinement of prisoners. Community Probation officers and their colleague are, like social workers, expected to ensure that offenders comply with their sentences and orders. The national information system is centred on presenting targets and recording activities and outputs relative to procedures and sentences throughout the offender life cycle. Organisational plans are weighted towards compliance with numerical targets derived from national and regional objectives – according to some, such plans place too much weight on correct process relative to outcomes. Compliance with recording requirements is checked through internal audit processes conducted weekly, monthly, and quarterly. The result is a system of performance that, to repeat an earlier quotation, "is set towards compliance rather than prison performance" (PP local). Even so, this was not enough to prevent an Auditor-General's report that uncovered failures of compliance and set off another train of developments (see the Annex).

Many staff in both Prisons and Community Probation, despite their awareness of public and political concerns (many of which they believe are ill informed), are sceptical that standard operating procedures alone are sufficient to achieve the outcomes to which they still aspire – more actively and decisively in Community Probation than in Prisons. These staff struggle with the tensions and, in some circumstances, also maintain their own informal operating practices based on their accumulated experience of how best to achieve the department's objectives, particularly in relation to reducing re-offending. It is probable that they will continue to do so, just as other professionals do elsewhere in the public service. In better times ahead, the department may start drawing on that knowledge to develop and expand the immediate and intermediate steps between everyday practices and ultimate outcomes and to develop monitoring instruments built on any rules of thumb that staff may have tacitly developed over the years.

Annex: 'Heads will roll' – External accountability in the public service

Introduction

After the research interviews were completed, the Auditor-General released a report on the findings of his audit of the Department of Corrections' procedures for managing prisoners released on parole into the community (OAG, 2009c). This annex discusses the audit report and subsequent events, which illuminate the comments of those interviewed for the research and provide further insight into how accountability mechanisms affect public service departments. In particular, the events described here highlight the significance of performance measures for the chief executives of public sector organisations and the importance of maintaining public trust and confidence.

Auditor-General's report

The Auditor-General's report was commissioned in response to public concerns about high-profile cases of offenders committing further offences while released on parole. In particular, there was extensive media coverage in January 2007 of the murder of one person and injury of three others by Graeme Burton (already a convicted murderer) while he was on parole.

The Auditor-General's investigation included the review of 100 case files open between 1 May 2007 and 4 May 2008. The cases were selected from four geographic areas and included 52 cases where the parolees were on the departmental Warning Register because of the potential danger to themselves or other people. Interviews were conducted with the management and staff of the Department of Corrections as well as of the New Zealand Parole Board, the New Zealand Police, the Office of the Ombudsmen, New Zealand Prisoners' Aid and Rehabilitation Society, and Victim Support.

The report found "gaps and omissions" at every stage of parole management and did not discover 100% compliance with any of the Department of Corrections' standard requirements at any stage in the parole process. Problems were identified with preparations to release offenders on parole, such as the failure to assign a probation officer before release, as well as with communications breakdowns between Prisons and Community Probation over travel arrangements.¹⁷⁸ The supervision of offenders on parole was hampered by incomplete induction and re-integration processes, and home visits were not

178 In this Annex, as in the main part of the chapter, 'Prisons' means the Public Prisons Service and 'Community Probation' means the Community Probation Services and its antecedents.

carried out in a timely manner with the required frequency or, in some cases, at all.

The report made 20 recommendations, “most of which urge the Department to always follow its own procedures” (OAG, 2009c, p 3). The Auditor-General considered five recommendations to be a matter of priority. These recommendations were that:

- the proposed accommodation of offenders will not be problematic for victims;
- probation officers regularly visit offenders in their homes;
- senior staff oversee how probation officers manage high-risk offenders;
- enforcement action is consistent and prompt; and
- victims are notified promptly about certain enforcement actions relating to an offender’s parole. (OAG, 2009c, p 4)

Although it was left unclear how the recommendations would be resourced, because they all involved additional activities, in his foreword to the report, the Auditor-General said:

it was clear that staffing issues had a significant effect on the Department’s ability to manage offenders on parole. However, in my view, recruiting more probation officers will not fix all the problems my staff found. The Department also needs to identify and address the reasons for the recurring non-compliance with important requirements for managing offenders. (OAG, 2009c, p 4)

Minister’s reaction to the Auditor-General’s report

In commenting on the release of the Auditor-General’s report, the new Minister of Corrections, Judith Collins, refused to express confidence in the ability of the department’s chief executive, Barry Matthews, to continue in that role:

What really concerns me is that this is not simply one office, one probation officer, one manager. This is every single office. I’d call it a damning report, a damning failure. I’m not just going to blame the system. I want to know who is accountable for this. (*The Dominion Post*, 22 February 2009)

The media coverage was equally condemning, with headlines that included, ‘Damning report: Corrections under scrutiny’, ‘Prison boss’ job on the line’, and ‘Matthews has to go’.¹⁷⁹

The minister’s response at a press conference that “heads will roll” also included a request to the State Services Commissioner that, within 10 days, he should “work with the chief executive of the Department of Corrections ... ‘to establish who will be held accountable [in the Department] for the findings in the Auditor-General’s report and what should be done to restore public confidence’” (SSC, 2009a, p 3).

During the subsequent media coverage and parliamentary questions, the minister continued to refuse to express confidence in Matthews. On 20 February, after having initially refused to comment, Matthews announced that he believed he could work with the minister. Furthermore, he stated that he held no fears with respect to the findings of the State Services Commissioner, pointing out that his performance was already being reviewed. He, therefore, announced that he would not resign.

State Services Commissioner’s findings

On 9 March 2009, the State Services Commissioner released the results of his inquiry, noting that before the Auditor-General’s report the Department of Corrections had:

identified concerns around non-compliance with departmental procedures through its quality assurance reporting and case reviews [and the] Department was addressing these and was actively promoting the importance of compliance to ensure public safety. (SSC, 2009a, p 4)

The commissioner’s report noted that legislative changes had shifted pressure from Prisons to Community Probation, which then had to deal with higher than expected volumes, more complex sentences, and more demanding offenders (who might previously have been imprisoned). These changes had come on top of existing growth in the number of offenders above the levels for which the department was funded, which was already stretching the capacity of Community Probation. The department’s post-election briefing for the incoming minister warned that the combined effect of these pressures, along with inexperienced new staff, “has affected the ability of staff to follow key procedures

179 ‘Damning report: Corrections under scrutiny.’ *The Dominion Post*, 17 February 2009; ‘Prison boss’ job on the line.’ *The Dominion Post*, 22 February 2009; ‘Matthews has to go.’ *Sunday Star Times*, 3 March 2009.

in a timely manner. It has the potential to seriously impair achievement of service delivery standards” (Department of Corrections, 2008b, p 13).

Shortly before the Auditor-General’s report, the department released its own report on plans to improve compliance with procedures for managing parole orders (Department of Corrections, 2009c). This report was based on an internal review during 2008 of each of the 554 parolees who were identified as high-risk offenders, together with the results from the department’s regular Quality Assurance System, which reviews a sample of cases each month. The internal report detailed a variety of initiatives that had been undertaken or were in progress and that aimed to ensure:

- the provision of an appropriate level of resources to manage the volume of work according to the expected standards and procedures
- that operational procedures and systems are appropriate, easily understood, and well communicated
- that appropriate support is in place for probation officers and managers, including training, the ongoing communication of changes, an appropriate organisational structure, and administrative support
- that the organisational culture supports compliance with procedures and accountability, including an appropriate level of management oversight so performance is managed and action taken as required to address issues.

The commissioner’s report stated that “Public confidence in the public services is positively influenced when public servants are held accountable for their actions and inactions” (SSC, 2009a, p 5).

The commissioner noted that during 2007/08 the department had achieved most of its external performance targets associated with offenders’ compliance with the conditions of community-based sentences and with the completion of those sentences. In relation to internally focused performance targets, associated with staff compliance with operational procedures, the commissioner suggested that the Auditor-General’s report appeared to be based on 100% compliance whereas the required standard was only 85%. It noted that, although the Quality Assurance System showed that results for these internal targets had varied during 2007/08, overall they had improved from 60% to 80% compliance with the standards.

The commissioner concluded that the dismissal of the department’s chief executive would *not* be justified, as there was evidence of a broad range of management responses having been initiated and the performance measures showed a “significant improvement” in procedural compliance.

The commissioner also explored the performance of the general manager responsible for Community Probation. Specifically, his report noted it was the chief executive's role to hold the general manager to account, but added:

Notwithstanding this, I am satisfied that the general manager was aware of the issues of non-compliance, had been keeping her chief executive fully informed and had been proactively addressing the issues, resulting in improved levels of compliance with parole procedures. (SSC, 2009a, p 5)

Turning to the issue of ministerial confidence, the commissioner observed that the department had kept the minister informed about the impact of the new community-based sentences and the pressures these sentences were placing on Community Probation, but suggested that it was also necessary to continue to manage "a two-way relationship" in which the minister and chief executive agreed to a set of "clear and achievable expectations and priorities". To facilitate this, the commissioner recommended that, in consultation with the minister, the chief executive appoint an independent person to establish and chair an advisory panel of (external and internal) experts to oversee the department's programme of initiatives. That independent person and the chief executive would then, on a regular basis, report to the minister on progress made and develop appropriate mechanisms to report this progress publicly.¹⁸⁰

Analysis

The presenting issue was the failure to fully follow standard operating procedures. This occurred in the context of:

- funding levels that transparently and explicitly allow for the purchase of only a 'satisfactory' level of performance at forecast volumes
- pressure from the demands for the services of Community Probation that exceeded the forecast level
- an increase in the complexity of community-based sentences
- an increase in staff numbers that led to a reduction in the average level of staff experience.

Given the political saliency of crime and the perceived detrimental effects of crime on personal and public safety, the minister's strong statements in relation to the department and the wide media interest generated are perhaps unsurprising. The fact that neither the department's chief executive nor the general manager of

180 The first report – a "comprehensive change programme" – was released in March 2009 (see Department of Corrections, 2009b).

community probations and psychological services lost their job can be explained by several factors, including the:

- role of the State Services Commissioner, as the employer of government department chief executives, acting as an independent third party
- department operating a ‘no surprises’ communication policy with respect to its minister, starting with the post-election briefing in November 2008
- department managing its ‘bottom line’ of output delivery and demonstrating improved performance in terms of compliance with standard procedures;
- department proactively establishing a performance improvement plan and seeking incremental funding (the 2009 Budget included an additional \$225 million for probation services for the next four years)
- department instituting an expert panel to assist its chief executive to manage the change programme in the department.

The expert panel, established in the wake of the State Services Commissioner’s inquiry recommended moving away from a rules-based approach to an approach allowing probation officers to use “professional judgment” within guidelines. This approach is described as “a new model of practice, where staff will be making more decisions within a new, well-structured, supported decision framework” (Department of Corrections, 2009b, p 6).

Underpinning the case discussed in this annex is a deeper issue common to a range of government entities involved in risk screening. The case study of Child, Youth and Family (chapter 7) raises an identical concern, and analogies may also be drawn with risk-screening activities in relation to the health, customs, and immigration areas. The underlying issue is that when making judgements, errors will inevitably occur. This involves a trade-off between ‘false alarms’ and ‘failed alarms’. In the case of the justice sector, this means having to trade off the release of a prisoner on parole who may go on to commit a crime (failed alarm) with keeping a prisoner in custody when, if they were released, they might not commit a crime (false alarm). Errors will inevitably occur in any complex human-made system, at times with tragic consequences. However, there is a public intolerance for this because the consequences of a failed alarm are real and transparent whereas a false alarm is hypothetical and, therefore, unobservable.

The risk and fear of undesirable consequences are also important influences on decision-making. They encourage defensive practices, such as following procedural rules and recording information. This “retreat into rules” (Wilson, 1989) does not change the underlying nature of the risk of error in the face of uncertainty nor does it improve the quality of decision-making. It does, however, reflect the inevitable tension in bureaucratic administration between ‘doing things

right' (ie, following the rules) compared with 'doing the right thing'. The effects of the decision by the Department of Corrections to move away from a rules-based approach to an increased emphasis on 'professional judgement' within guidelines occurred after the research for this case study was completed. Accordingly, these effects could not be included in the analysis in this chapter.

Further reading

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Case Study – Work and Income: How staff define their role and the performance information they use

Derek Gill and Rodney Dormer

Basis of this analysis

This chapter begins with a brief historical background to the formation of Work and Income and its parent organisation, the Ministry of Social Development. It then provides an analysis of how staff at Work and Income define and manage their organisation's performance. It compares the 'formal' model of performance measurement and management required for purposes of external accountability with the model in use by managers and staff in the organisation.

The analysis draws on doctoral research by Rodney Dormer.¹⁸¹ The research on the formal model is based on a review of the Ministry of Social Development's external accountability documents. The understanding of the in-use model is from a review of several Work and Income internal management reports and 12 semi-structured interviews that were conducted in 2008. The interviews were of three national managers (identified as WI national), two regional managers (WI regional), six local staff (WI local), and one external stakeholder. The chapter reflects a snapshot in time and does not take account of changes in emphasis in organisational performance management since 2008.

Context

Work and Income is the largest service line, or business unit, within the Ministry of Social Development, New Zealand's largest public service department. As at 30 June 2008, Work and Income employed 4,190 of the ministry's 9,543 staff. The ministry's other service delivery business units include Family and Community Services and Child, Youth and Family (discussed in chapter 7), as well as a policy cluster and corporate services.

181 Dormer (2009).

In 2007/08, the ministry was responsible for the payment of about \$13.365 billion in welfare benefits and other transfers, including \$7.36 billion in New Zealand Superannuation payments. As well as its national office, Work and Income operated 11 regional offices, 141 service centres, 5 contact centres, and a central processing unit over the period of the research. Its staff reflects the general labour force, with no professional group dominating.

Over the last 20 years, the functions of Work and Income have been organised in different ways. As Work and Income New Zealand (WINZ), the organisation was formed from the merger of the Department of Labour's Employment Service and the Department of Social Welfare's Income Support Service in 1997 (see Petrie, 1998). This merger, which established a strong organisational platform, was seen as the combination of a 'process' organisation dealing with the accurate payment of benefits, and a 'client-centred' organisation focused on tailoring services to clients. WINZ was a standalone department until 2001, when the Ministry of Social Development was formed from the merger of WINZ and the Ministry of Social Policy.

The main functions of Work and Income are providing general tax-funded financial and employment assistance (under the Social Security Act 1964) and promoting "social development" (a mandate established by the 1999–2008 Labour government). The four main output classes of Work and Income's operating budget in 2007/08 reflect these functions. The output classes are:

- services to minimise the duration of unemployment and move people into paid work
- services to provide benefit entitlement and obligations to working-age beneficiaries and to promote self-sufficiency
- services to seniors
- social development leadership.

Operating environment

Work and Income operates in an environment of moderate political salience. This contrasts with a decade earlier, when WINZ was often in the headlines, largely because of its then chief executive's flamboyant leadership style. This continued until she was unsuccessful in legal action against the State Services Commissioner for failing to renew her contract.

With the establishment of the Ministry of Social Development, the salience of the organisation has been reduced. The ministry's national office has successfully managed the external authorising environment. The fall in the

number on the unemployment register and the positive labour market conditions between 2000 and the end of 2007 assisted with this change. Being ‘under the radar’ and no longer the regular target for media attention, Work and Income has been able to reinvent itself in powerful and positive ways.

Under its founding chief executive, Peter Hughes, the ministry as a whole and Work and Income in particular have moved from a transactional focus to an outcomes focus. This change was assisted by the re-integration of policy and delivery functions within the ministry. In 2005, the move was supported by the re-designation of the former regional commissioners for work and income as regional commissioners for social development. As a result, this gave high-level regional representation for the whole gamut of ministry services, and signalled that the social development approach was not solely driven out of Wellington (Schwass, 2007).

As a result, front-line operational management and regional commissioners have been allowed greater operational space to move beyond the process role of paying social assistance to having a greater focus on the client-centred roles of social development and sectoral leadership. The most significant difference between WINZ and Work and Income is the level of local autonomy that managers are entrusted with and the variety of ways in which they exercise that autonomy. Both formal and informal initiatives, discussed further below, ensure that staff at all levels are aware of the wider operating environment and the departmental direction.

Work and Income’s core functions of paying benefit entitlements and placing people in jobs are not generally perceived as complex or difficult to measure, but the organisation’s role in social development is. Therefore, Work and Income experiences a degree of operational freedom in which it is able to “go outside the agreement that we have with government” (WI national). Meeting formal targets is fundamental to this.

Hughes has emphasised that bold and innovative managerial approaches are possible only when an organisation does its core business exceptionally well. This means that formal frameworks must be effective, operational, and respected.

You cannot do this outcome stuff unless you are in control of your core business. It’s a graduating staircase if you like. And you cannot be in control of your core business if you’ve got an organisation that is characterised by low levels of integrity and trust and all the rest of it.¹⁸²

182 Schwass (2007, p 5).

If a chief executive must account to the minister for ‘bottom-line’ problems with information technology systems or call centres, there is unlikely to be ministerial confidence in meaningful discussions on the stretch and motivational ‘top-line’ outcomes.

As an organisation that routinely pays out nearly two billion dollars of benefit entitlements each month, Work and Income must be able to demonstrate that its internal controls are “absolutely there” and being complied with:

there is having internal controls and there is compliance with internal controls. We had a huge audit after [a recent high profile case in which a fraudster assumed multiple identities to claim a range of benefits] and one of the big things from that was we do comply with our internal controls. (WI national)

Work and Income’s network of offices gives the ministry the widest national coverage of all but one public organisation (that being the New Zealand Police). Its premises are periodically used for whole-of-government service delivery. As a result of this wide geographical spread and a reputation for a ‘can do’ attitude, Work and Income has become the first port of call for a variety of social emergencies.

Working to focus on client outcomes

Once upon a time ... you were just a case manager sitting at your desk, delivering [a] benefit. And when they walked out the door, they walked out the door; and when they cancelled the benefit, they cancelled it and that’s good, that’s gone. Now you become quite involved and a lot of the staff enjoy it. (WI local)

The ministry’s 2006 Statement of Intent noted the need for its functions to be undertaken with a shift in focus “from a transactional approach to one of achieving outcomes” (Ministry of Social Development, 2006, p 21). The move to a greater client outcomes focus has had a significant impact on how Work and Income’s core business is seen by those working within the organisation at every level of management, as well as on the front line. Rather than ‘handling cases’, it introduces a more holistic approach to the management of clients, where an individual is seen as part of a family. The resources involved in returning a person to paid work might include services delivered by other agencies. It implies “talking to people not at them”, avoiding “judgement and sermons” (WI local) and establishing long-term relationships with clients that take cognisance of cultural and social differences. This has implications for the skill sets required,

especially on the front line, for the information technology systems and other information requirements, both formal and in use.

Beyond paying benefits

Getting people into paid work and paying people's benefits are no longer seen as ends in themselves but as part of a 'social investment' in the wellbeing of families and society.

I guess we started out thinking that getting people a job would make a difference when we started getting people off the unemployment benefit. But we found ... it made a difference right across their lives and [to] their families if they were in employment just because of the way it makes them feel; it gets them out of that dependency frame and provides opportunities for them and the kids. (WI national)

Similarly, the greater emphasis on client outcomes implies that income support involves much more than ticking off the timely and accurate payment of a benefit.

[I]ncome support is a safety net, social safety net, for a range of New Zealanders really ... that includes people who are looking for work, those people who have sole parent obligations, who are sick or have disabilities, and also those who are in retirement. (WI regional)

Another regional-level interviewee observed that case managers now "think of themselves as more a broker, somebody who's interested in what's going to happen to this client after they leave us" (WI regional).

[W]e have our core business when we have to see people within two days and all those kinds of basic measures that we've had in place for years; but now we've got this more holistic view of the client ... we look at people from a family perspective, an individual perspective, a community perspective and just attach them to services that they need. So we are doing a lot more in the way of health interventions and that sort of thing. (WI national)

A powerful example of this broader approach to client management was the story of a case manager who was able to intervene to gain a refund for a client who had been fined for an offence they did not commit, and then frustrated in efforts to explain to people at court:

that they're not this person, this is not their debt, they shouldn't have to pay it. They didn't know any more how to deal with it so they just gave up and said it's easier, it's only 10 dollars a week, I'll just give up. I can't be bothered. (WI regional)

At the local level, a broader focus on clients as people not cases was also described as being:

more about understanding what that person is and attaching things to support them ... I think it's about helping people, in plain English ... For me it's about doing the best we can for the people that we service in our community. (WI local)

New skills, new relationships

This broader approach to managing clients called for front-line staff with a different set of skills and introduced opportunities for more entrepreneurial approaches.

You're looking for a very different person than you would have been, five or 10 years ago. Previously it was about making sure that they could type and capture all that information, whereas now it's "Can these people have a conversation? Can they get the information that we need?" Yes, you still need to be able to type to put it all in, but you've got to be able to have a conversation with the person and ask the right questions to get that information out. (WI local)

Another local-level interviewee reflected on client relationships built up since 2003:

So I know lots and lots and lots about their lives and where they are at and what they are doing. Working with them for that length of time you get to know what they need and what you can do best to help them. ... If I wasn't helping anybody and all I was here for was just to dish out money, I wouldn't be here to be quite honest. (WI local)

From reaction to prevention

As the role of Work and Income was redefined to place greater emphasis on social development, this led to attempts to prevent problems before they arose, through proactive initiatives linked to other agencies and service providers. There are two ways to reduce benefit numbers, according to a regional manager:

one is to stop people going on the benefit, or helping them so they don't need to; and the other way is to help people who are on the benefit move off it ... [Y]ou can actually become more connected with schools, and trades training, and a whole range of other things, as pro-active initiatives if that's going to help you in the long run; that's a judgement that you can actually make. (WI regional)

This implies taking a much wider view of who could be described as a 'client'.

[Y]ou can't demarcate it and say the youth and those clients who aren't receiving a benefit [are not our clients] because, if we don't have some engagement at that end, the flow of people likely to come into our negative funded area is never going to change. (WI regional)

Work and Income also took a more proactive approach to identifying potential employers. A work broker described being “out talking to employers about opportunities for the unemployed” then listing their vacancies and trying to “locate the best person we've got on our register for the positions we've got available” (WI local).

A regional commissioner further explained that, in addition to developing training programmes applicable to a particular industry sector, such as roading, Work and Income has developed several corporate partnerships, including one with a major listed company “because they have a huge number of jobs that are reasonably low skilled, high in number and nationally spread” (WI national).

Examples of ‘preventative work’ are the partnerships established with councils and community organisations through the Youth Transition Service, working to ensure that youth at risk of becoming unemployed or getting into trouble make a successful transition to work.

These new approaches have substantially recast Work and Income's role in the wider community, making it a central resource and prompting it to take a leading role in joining up government activities.

people come to us to say I want you to have a look at this, we want you to be involved in this. Because of that ‘can do’ attitude, you know. It doesn't really matter whether you've got a formal mandate. It's just how you work with others to support them. (WI national)

Formal and in-use functions

As noted above, the formally espoused functions of Work and Income focus on four key areas: services to the unemployed (eg, to minimise duration of unemployment), services to working-age beneficiaries (eg, to promote self-sufficiency), services to seniors (eg, to promote independence) and social development leadership. Local staff in particular identified getting people into paid work and paying people's benefits as a major focus of the in-use functions.

However, Table 10.1 shows that staff saw their roles as encompassing a wider set of functions than were described in external accountability documents. For example, in interviews, staff at the national, regional and local levels commented on managing connected government and local community issues. This represents a much broader mandate for the organisation than that which,

according to anecdotal evidence, is perceived by the New Zealand public, who still see Work and Income as responsible simply for paying benefits and assisting people into employment.

Table 10.1: Formal espoused and in-use functions of Work and Income

Espoused functions	In-use functions
Services to minimise the duration of unemployment and move people into paid work	Getting people into work Managing employer relationships & opportunities
Services to provide benefit entitlement and obligations to working-age beneficiaries and to promote self-sufficiency Services to seniors	Paying people's benefits Managing providers
	Managing clients
Managing the organisation's capacity and capability	Managing external accountabilities Managing the organisation
	Managing joined-up government and community Managing local community issues and risk
Social development leadership	Managing social development Managing broader social issues

Interviewees at all three organisational levels commented on activities associated with managing the capacity and capability of the organisation. These activities were particularly important for national and regional managers. Compared with other case study agencies in this research (eg, Prison Services in the Department of Corrections), interviewees from Work and Income placed less emphasis on managing external accountabilities and more on managing relationships with other government agencies and community groups

The following sections summarise the performance measurement and management practices explained by Work and Income's staff in the semi-structured interviews.

Impact of the formal model

As part of the Ministry of Social Development, Work and Income does not have direct responsibility for producing external accountability documents. However, interviewees did provide comments explaining the role of this formal framework

within the service line. A national-level interviewee described preparing information for the quarterly report to the minister, for a contribution to the ministry's Annual Report, and for parliamentary questions to the minister or information requests under the Official Information Act 1982. Along related lines, a local-level interviewee explained how pressures to provide performance information can come from members of parliament other than ministers.

I could be sitting here filling my day, and it all goes to [pot] because, if [the] government's in the House, you know damn well that someone's going to ask a question and they come running back to national office; the phone goes red hot, we've got to drop everything and get every bit of information we can because one of the [members of parliament] wants to know what happened with blah, blah, blah. (WI local)

At the regional level, measuring and managing performance was described in terms of quantified targets that 'come back to the [minister's] Purchase Agreement, ultimately' (WI regional). Two local-level interviewees explained that measuring and managing performance is 'in respect of what the government of the day is asking around the Statement of Intent' (WI local); about what the 'government and the ministry have agreed to – they'll give us the money if we do it like this' (WI local).

In addition to achieving such agreed targets as the timely and accurate payment of benefits to the right people, a national manager explained that the manner in which services are delivered is also important so that 'the government and the taxpayer have a level of confidence in the integrity of the system and how we are maintaining it' (WI national).

Interviewees also explained that the formal targets set in external accountability documents are subject to change. For example, another national-level interviewee commented that 'our focus shifts depending on how well we are doing and for political reasons as well' (WI national). The point was also illustrated by a regional-level interviewee who provided an example of how a target in respect of the number of unemployed Māori youth was superseded when the minister decided that "it wasn't acceptable to have this many Māori over-represented in the unemployed. So we increased the target, doubled the target" (WI regional).

Another aspect of the formal model of performance management mentioned by interviewees from Work and Income relates to the role of central agencies.¹⁸³ For example, a national manager explained that, 'We have some constrictions,

183 Central agencies are charged with managing the state sector as a whole; namely, Treasury, the State Services Commission and the Department of the Prime Minister and Cabinet.

obviously, that we need to work within. Treasury has told us that we need to be financially sustainable [ie, by self-funding new initiatives] to 2010” (WI national). Likewise, the role of the State Services Commission in overseeing the broader performance of the Ministry of Social Development as a whole was explained:

State Services ask a range of questions of other agencies and other people about the organisation and, I guess, the chief executive’s performance in relation to that, and seek feedback about how we go about doing that kind of work. (WI national)

It is interesting to note that much of the performance information in respect of chief executives’ performance gathered by the State Services Commission is non-numeric in character. Chapter 4 discussed how only limited use was made of formal, quantified performance information in the chief executive performance review process.

Information accessed and how it is used

Formal measures relating to nationally set targets, such as the number of people on the unemployment register and the number of job opportunities available, are important in an operating environment that encourages autonomy. Regional managers and local staff of necessity draw on information from a wide range of sources relevant to performance management.

Managers noted that national key performance indicators are “divided out and rolled down to a site level” (WI regional) and described the monthly reporting process as follows:

A lot of our performance comes back to the overarching target of sustainable employment and registry reductions. Then there are a whole lot of variables around client service ... there’s timeliness around the maintaining of the benefit system and how quickly you actually grant benefits and deal with people who want to make appointments; how long our waiting times are; and of course our client satisfaction survey that’s undertaken every month as well. On top of that we are required to develop a regional strategy, a regional approach to other things that we actually do and other projects that we are involved in, and monitor and report back on those projects as well. (WI regional)

Similarly, at the local level, staff commented on how performance was “checked and measured all the time. It’s constant”. A case manager explained:

We have to meet targets ... and then it’s broken down again as to who goes into employment – whether it’s sustainable employment, whether

the client has found the position themselves, whether we've helped them into employment through our own list of vacancies. (WI local)

In relation to monthly targets a service centre manager observed:

All of the ones I don't meet I've got to report on. Even the ones I do meet I have to report on as well because it's important to see what we are doing because it might mean that we are doing something really good that we can share with everyone else. (WI local)

In contrast, another service centre manager suggested, "You try and get all the targets so you don't have to do this report. It's 45 pages long!" (WI local).

Work and Income's core functions of paying benefits and placing people in jobs suggests it is a 'process' type organisation as both what the staff deliver and the results or outcomes are readily observable (Wilson, 1989; Gregory, 1995b).¹⁸⁴ However, as discussed above, Work and Income's broader focus on client wellbeing involves activities and results that are much harder to attribute and measure.

With its expanded role and the move from a rule-driven to a more client-driven organisation, Work and Income now needs an expanded range of both qualitative and quantitative information from a variety of sources. In a more rule-driven organisation, performance can be more readily measured by numbers. In a more client-driven organisation, there is ambiguity around measuring success or at least around connecting success to the particular intervention by the organisation. While some of this information contributes to the management of external relationships, either directly or indirectly through the ministry, most is used to assess the performance of the service line. This is made considerably more difficult by the outcomes focus and the extended reach of Work and Income's activities.

Hughes, the ministry's chief executive, has acknowledged that measuring outcomes is very hard "and almost impossible to do at an individual level". He points out that no one can be held accountable for an outcome, because so many factors affect outcomes. Current performance measurement, therefore, still centres on outputs, although efforts are made to articulate the relationship between outputs and the contribution they make to outcomes. Thus, there are still volume targets to achieve, as well as measures of client outcomes such as increased sustainable employment placements.¹⁸⁵

184 For an elaboration of the four-way classification of organisations, see chapter 6.

185 Schwass (2007, p 11).

The importance of procedural compliance, what forms should be used, and how fields on various computer screens must be populated, is a regular component of the weekly Wednesday team briefs that form a key component of intra-departmental communication. Both formal and informal information, such as observations made by managers on staff–client interactions or contributions to a work team, is used to contribute to a culture of continual improvement.

If we haven't got it quite right, what happened in our process and what do we need to do to change it? Was it a particular person, was it something that we didn't deliver quite right? I like to find out what it is and then combat it to make sure that it doesn't happen again, or try and minimise the risk as much as possible. (WI local)

Several interviewees reported receiving “myriads” of weekly, monthly, and less frequent reports:

We've probably got more information than most people on everything we do. ... I've got information systems, that report every Monday, that tell us everything about our centres and about our clients across every area that we measure. (WI regional)

We get a report that comes out at the end of every month and that tells us exactly who we've placed where and gives us a whole variety of columns on how long they've been on benefit, what their duration was in our work system, who their case manager was, who referred them, where the job or the opportunity number is linked to the employer whether a subsidy has been initiated, and several other bits of statistics. (WI local)

A local-level interviewee noted that, every month, a team from the national office checks selected paper work for accuracy:

They check it and then we get the results for that month. Our super team are 100%; now they're a very experienced team and they are so proud of what their achievements are. And they very rarely miss out on that. (WI local)

One manager prepares a six-monthly spreadsheet for each staff member:

and down the side it has sort of the things we are measuring and then it has what the targets are for the individual – the percentage. At the end of every month ... I'll update it and enter what they've achieved in respect of that month. We'll keep monitoring and doing that so when I sit down to coach them, I'll be able to talk to them about what they achieved ... and what we have got to do to either lift performance, keep going, all those sorts of things. (WI local)

Quantitative and qualitative ways of making sense of performance

Most interviewees highlighted the importance of non-numerical information in assessing individual performance. It was suggested that managing performance requires a focus on something other than just the formal targets:

There's also part of it that is about their individual contribution to the soft skills like team work, dealing with people, communication skills, the overall running of a site, making it all work, working together. (WI local)

Some interviewees cautioned against an over-reliance on targets:

[W]hat gets measured gets managed so we have to be careful that there aren't some adverse behaviours that happen because we are measuring ... we need to get our reductions [in people out of work], but it's not enough just to get [the] quantity of people reducing. It's the quality of the work they get into; it's the quality of the assistance they get if they're a solo mum; and all that sort of thing. (WI national)

Similarly, at the regional level, a manager suggested:

Targets tend to become the things that people aim for, at the cost of anything else. Quite often people will be deceptive and organisations will, by default, allow that to happen if it means their targets are being achieved. The risk is that people will go out there and they will do a range of different things ... to make it look like they are actually achieving it but in actual fact it's just superficial. (WI regional)

A further frustration was explained by a local-level interviewee who noted:

shifting the goal posts in terms of our targets [so] half the time the staff don't know where they are at because they keep introducing different things during the fiscal year. They keep adding other things we need to do on top of the original targets they set us. (WI local)

Managers at all three levels relied on formal quantitative information, augmented by informal information to make sense of performance. Interviewees at different levels emphasised different functions. But processes, for example, are important at all levels; as are outcomes. Local-level interviewees also mentioned that some elements of their work are not captured in this formal system. Therefore, they keep their own records.

Qualitative information about *how* services are delivered is provided by feedback (from clients, external organisations, and other elements of Work and Income), stories, and direct observation of work practices. The narration of actual

events and experiences also plays a large role in ‘sense-giving’¹⁸⁶ processes by which performance is managed locally, nationally, and externally.

Information was actively used to manage workload and detect potential problems. This was reinforced by an open office policy that allowed informal monitoring of interactions and clients’ experience of services.

Performance is very, very much targeted around what we’re doing for the client. From a national office perspective it’s very targeted around how we can assist our front line to do that. We try and think about that each day and in every decision that we make. (WI national)

Nationally managed client surveys provide evidence of *how* clients experience the organisation’s services. In the past, clients might be asked, “Did the person introduce themselves?” or “Were they wearing their name badge?”. They are now more likely to be asked, “Did you feel your case manager was respectful?” or “Did you feel that they care about you?” (WI local). However, some interviewees felt such client satisfaction surveys should be “taken with a grain of salt” (WI local). The client’s perspective might well be different from that of Work and Income staff:

Potentially we’ve got 40 people that are registered unemployed; we see them every day; if we don’t see them we ring them. They don’t always like that. ... They would moan about us because we’re harassing them. But that’s part of what our role is; not so much the harassment but just to stay in touch to try and help them, to keep them up, refer them for jobs; but at the bottom they don’t want to work. (WI local)

Computer information systems

Interviewees offered contrasting views on the role of Work and Income’s computer systems in providing information for the measurement and management of performance. Some see them as:

the spine or the life blood of how our case managers work out there in the front line. They enter data into SWIFTT [the core application that managers use to calculate and record payments of social security benefits] or SOLO [the core application that managers use for managing the placement of clients into employment] and that not only advises them how they should proceed next in terms of what their interview should be, but it provides them with how much benefit this person

186 Gioia and Chittipeddi (1991) define sense giving as the process of attempting to influence the sense making and meaning construction of others towards a preferred re-definition of organisational reality. Chapter 6 elaborates on these concepts.

should get or what opportunities there are for employment in certain areas. (WI national)

Similarly, a local-level interviewee described:

[the] tool called Briefcase ... that will let you download all your clients, who they are assigned to, if they've got plans in place, if they are registered in Jobz4U [an electronic job matching tool that matches vacancies to Work and Income clients], if they are enrolled in SOLO. It gives you a myriad of information in a spreadsheet that you can just filter as you need it. (WI local)

Front-line staff use up to seven different systems. Because these have been seen as “unwieldy, hard to manage and unfriendly” (WI national) a lot of case managers have developed their own customer database. This has the advantage that they can retrieve information on an individual “in seconds as opposed to going through a number of [screens]”, but a national-level interviewee has concerns, “Longer term you can't continue with that because you can't report on it. You can't get information out of each and everybody's [Microsoft] Excel spreadsheet” (WI national). The same interviewee also noted that not all the work undertaken locally is captured in these reports. For this reason, many case managers supplement formal reports with their own records of daily events.

They can have someone that comes on the books today and they can work with them intensively and then they go and get their own job. You cannot capture that. Case managers would have a feeling that there's a lot of stuff that they do that's important that we don't capture. (WI local)

A local work broker noted that a lot of information about redundancies is not automatically captured by the information system:

People have been made redundant and the work brokers carry around a folder of CVs [curricula vitae], show them to employers, talk to them about the clients who potentially aren't even on our register but go into employment. So we are required to keep statistics ourselves to ensure that that's captured in our performance appraisal. (WI local)

It was explained that the age and lack of integration of Work and Income's legacy computer systems provides front-line staff with some freedom in terms of the exact nature and sequence of the procedures that they undertake. It was also noted that the planned development of a new, single, integrated case management system was likely to constrain that freedom.

Understanding the organisation in its operating environment

Several mechanisms ensure that intra-departmental communication is at a high level. Several interviewees cited the Wednesday team brief, when offices are closed to the public until 9.30 am, as playing a significant part in making sense, in the local context, of operational guidelines set from a broader regional and national perspective, as well as both local and national issues.

We get a Wednesday Brief sent to us from national office and we are to talk about the things that come up there; ... [I]t's interesting and there's an hour and a half that we are allowed to have ... that is very important, because you don't get any other opportunities unless you want some training up at region. (WI local)

Intelligence about the labour market provides updates and warnings of events such as the pending closure of a big plant:

We should well and truly know that stuff before it even happens; and if we do, let's get in there and stop them from coming in the door by being proactive and averting people from unemployment into jobs. (WI regional)

Interviewees also described the use of longer-term information. As a regional-level interviewee explained:

One of the other key indicators for us is *The Social Report*¹⁸⁷ which is published every year and it gives us an index of key performance areas that the OECD monitors. Those are things such as road deaths, infant mortalities, imprisonment; and they're largely fairly negative indicators really. There's a whole raft of them and every region has a rating around how well it's doing against each one of those sectors. (WI regional)

Similarly, a national-level interviewee commented that:

What we are doing, or are planning to do this year, is make sure we have a key performance indicator report that is really aligned to [the ministry's] Statement of Intent and our Output Plan whereby we could quite happily present that externally and it's, sort of, the public face of our reporting. (WI national)

This observation suggests that, in the past, internal and external reporting have been more loosely coupled.

187 *The Social Report*, published annually, provides a regional analysis of a broad range of social indicators (eg, Ministry of Social Development, 2008, 2009, 2010).

Anecdotal evidence and success stories

Significantly, in the ministry's regional strategic plans, and in other approaches discussed by Work and Income interviewees as designed to measure and manage public expectations, the emphasis is on narrative rather than on numerical information (ie, “telling that story” and “talking externally about some of the things that we do”). But a national-level interviewee makes plain that mistrust of the media remains, “Because Work and Income has been burned before about having bad press and media [attention] we are very, very focused and risk averse on those kinds of things” (WI national).

Narrative, story, and anecdotal evidence had an important part to play in conveying performance in areas that were difficult to measure and manage, such as assessing what is working well in light of the different factors influencing a particular region, and individual client reactions.

I'm a great fan for ... anecdotal evidence because we are bereft of a lot of other 'science' to determine that [ie, performance]. We know when we've reduced unemployment. We know when we've kept people into work for more than six months. It's defining exactly what parts of our programmes we do better than others. We have a raft of things we are doing; it's trying to isolate what works best that is the hardest thing to do. (WI national)

Success stories, such as that of a young Māori man who was a sole parent and sickness beneficiary but who had found full-time employment, are used to reinforce the quantified performance information. As a national-level interviewee explained:

[W]e back up a lot of our Cabinet papers and things like that with anecdotes because they are the most powerful way of actually demonstrating that our interventions made a difference. Otherwise, you'd have a real attribution problem in Work and Income, huge. Just because we've looked at you and trained you, would you have got a job anyway? (WI national)

Success stories also have a significant role to play in motivating staff and fostering a culture of achievement and excellence. One manager described asking staff to put stories of their successes in a specially designated folder on their local computer network. “I can go in there and know that this month we did [this] and I've got the evidence because they've told me who the person was, what they did, all that sort of stuff” (WI local).

Again, this is effective only if staff take the initiative to record what they have done. The same manager explained that a chart, Growing Our Communities,

had been put up in the lunch room to celebrate successes reported or observed. “That’s something that you can’t pull from anywhere so we are reliant on the staff or clients or external organisations to give us that feedback. We encourage that” (WI local 4).

Another local service centre manager uses Work and Income’s intranet to learn of success stories from other centres:

Every day they do a story on a staff member, nationally, about what people are up to ... I often go into other regions to have a look; ... it’s always interesting to go and glean some ideas and see what they are up to ... the regions that are quite proactive, and are talked of highly at a national level, and are performing really well. You go and have a nosey and see if you can find out what they are doing. (WI local)

Capability for the future

In relation to the ‘stewardship’ functions of managing performance, interviewees at all three organisational levels commented on activities associated with managing the capability of the organisation. These activities were particularly important for national and regional managers.

Interviewees showed enthusiasm for developing and communicating strategy and ensuring that appropriate organisational capability was developed. As one interviewee asked, “What can you actually do to influence direction and have people thinking in different ways?” (WI national).

[My role is to] put Work and Income in a place three to five years ahead and say, “this is where we want to be”, or collectively “this is where we feel we want to be. How are we going to get there? What do we want to focus on? How do we communicate that to our staff? How does it relate in a practical way to the operational side?” (WI national)

Similarly, reflecting the strategic element of their function, national managers mentioned their roles in “setting targets that our regions need to perform to” (WI national) and allocating funding on the basis of “where do we get the best bang for our buck” (WI national). As a regional-level interviewee noted, it was time to step back to focus more on “how we do things” and:

to develop our foundation, to make sure that it’s really strong and we have the capability and the capacity to do the best possible job that we can; that everybody understands why they’re here; that we invest heavily in our training so that people know how to do what we expect them to do. (WI regional)

A service centre manager highlighted the importance of painting the bigger organisational picture and then drilling down into the detail:

so that [staff] know that what we are trying to do is not because I am telling them to do it, it's because it feeds into this and then that feeds into this and ... the bigger picture stuff as well. So they see what they do on a daily basis is important and it's meaningful. (WI local)

Similarly, at the national level an interviewee observed:

[I]t's not just looking at results, it's looking across our HR stats and all those kinds of things. Once you understand what is a good performance and one that is not so good [you can] actually start to understand what is an issue of leadership. [That means] getting a profile of what is a good leader and what you are looking for in your recruitment and development of those people. (WI national)

A regional manager stated that, although it was harder to measure than targets being achieved and exceeded, qualitative information on the organisation's health was also important:

Other measures for me are core human resource measures such as sick leave usage, such as attrition ... Are staff more satisfied with their job? Are we an attractive organisation when we go out for recruitment? Do we have the best possible candidates lining up to get in the door because they see us as an employer who provides an opportunity ... [and] we are attractive to the kind of people who we would like to do the work that we have to do? (WI regional)

The exchange of views and understandings between the different levels of Work and Income is essential to ensure everyone moves in the same direction. A local-level interviewee likened a visit to the national office to “going to a different planet” where they are thinking about what will look good “way up at [the] strategic level” while “I'm sitting there thinking, now hang on a minute ... that's not going to work at a site” (WI local). Another local-level interviewee says the relationship with regional offices and the national office is essential because “I get that feedback – good, bad, or otherwise; because if I don't get it I don't know how we are doing” (WI local). At a national level:

We want to know what's happening at site level – which are the centres that are affecting regional performance and either making it better or worse? – so that we can sort out what is best practice and start to look at what we can replicate in other places. Or [find out], if we are making assumptions that this region is good when actually you could have your worst service centre within that region but you have never noticed it

because it's just averaged out and just gone under the radar.
(WI national)

Conclusion

Work and Income represents a balance between process activities (paying benefits accurately and on time) and client-centred activities (providing tailored services). It is a complex mixture of issues that are tightly managed and those that are more loosely managed with staff having greater discretion. At one level it is a tightly coupled hierarchy where performance is managed and measured actively from the centre, but this is done in the context of an organisation that is tightly focused on the needs of its clients. The role is defined broadly – social development – not narrowly – for example, reducing welfare dependence. This enables staff to go beyond the accountability documents and be empowered to take a problem-solving approach where “no one ever got fired for doing the right thing”.

As part of the larger Ministry of Social Development, Work and Income has limited responsibility for providing information for the formal framework of external accountability. However, interviewees did describe the impact of this framework on internal management practices, including the existence and use of a significant amount of quantified performance information. Performance is measured and managed both in terms of the outputs (paying people's benefits and placing people into employment) and the client outcomes (duration of benefit dependence). The internal management framework includes targets, such as the number of people on the unemployment register and the number of job opportunities available, that are rolled down from the national office to individual service centres. This quantified performance information is augmented by qualitative information about *how* services are delivered. This is provided by feedback (from clients, external organisations, and other elements of Work and Income), stories, and direct observation of work practices.

Interviewees from Work and Income described a concern to measure and manage performance in terms of the procedures associated with paying people's benefits and placing people into employment. However, at all levels of the organisation, interviewees also placed significant emphasis on the broader outcomes of client wellbeing and social development. Particularly at the national and regional levels, interviewees described a focus on the organisational factors associated with communicating the organisation's strategy and measuring and managing its culture, capability, and capacity. The narration of stories of actual events and experiences also plays a large role in sense-giving processes by which

strategy is communicated and performance is managed locally, nationally, and externally.

Several local-level interviewees commented on the different perspective of performance adopted by managers at the national level. As might be expected, performance information is provided at local and regional levels for what are perceived to be national office reporting requirements. Nonetheless, there was little evidence of loose-coupling between local operational and national office performance focus and objectives. Similarly, although there is some development and use of local and independent performance measurement and management systems, there was also general acceptance of the value of Work and Income's core applications in decision-making processes at all three organisational levels.

Compared with several of the agencies in this research, interviewees from Work and Income provided few comments about managing interactions with the media. The research was undertaken after a period of sustained economic growth and falling unemployment rates. As a result of this, at least in part, Work and Income's activities are not particularly politically salient. Work and Income's core function of paying benefit entitlements is not perceived as complex or difficult to measure, but its role in social development is. Therefore, Work and Income experiences a degree of operational autonomy in which it is able to "go outside the agreement that we have with government" (WI national).

Work and Income "is very reliant on technology" and the computer systems can be used to drive work practices as specifically as advising users how to proceed next in terms of the interview they are conducting. However, managers use seven legacy computer systems, which gives managers some operational space, which some have used to develop extensive personalised suites of information. It remains to be seen if the pending installation of integrated information systems will constrain this freedom.

The role and the public profile of Work and Income have changed dramatically over the past eight years. The effect of these changes has been to expand the need for information with which to manage and monitor performance. Although these changes have placed increasing importance on informal measures such as anecdotal evidence, they have, at the same time, reinforced the importance of working within formal reporting systems.

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Case Study – Ministry of Women’s Affairs: From poor performer to award-winning public sector organisation

Lynley Hutton

Introduction

Once struggling for respect and credibility, the Ministry of Women’s Affairs now enjoys a good reputation, based on the quality of its work and the relationship management skills of its staff. This chapter examines the role that performance information has played in transforming the ministry to an award-winning and standard-setting organisation.

The ministry is a population ministry with a policy role but no operational responsibilities. The main focus of the ministry’s work is policy and research to help improve the lives of New Zealand women. In addition, the ministry runs a nominations service that aims to increase the number of women holding positions on state sector boards and committees and influence private sector appointments.

The ministry was established in 1984 and is the second smallest employer amongst New Zealand government departments. Its 38 staff, all based in Wellington, work in the Policy Group, Corporate Group or Nominations Service. The ministry’s total revenue for 2008/09 was forecast to be \$4.7 million (New Zealand Government, 2008a, p 310).

This analysis is based on a review of the ministry’s external accountability documents and internal reports. Semi-structured interviews were conducted in 2008 with a former minister (identified as MWA external 5) and five ministry staff (identified as MWA national 1–4), including the chief executive, senior managers and other staff.

Driving improved outcomes for women in New Zealand

Principal functions

According to the Estimates of Appropriations (New Zealand Government, 2008a, p 328), the ministry’s three principal functions are to:

- provide policy advice on improving outcomes for women in New Zealand
- provide suitable women nominees for appointment to state sector boards and committees
- manage New Zealand's international obligations in relation to the status of women.

The ministry is focused on responding to a unique customer – the Minister of Women's Affairs. The ministry has only one appropriation, that being Policy Advice and Nominations Service. The ministry's objectives are detailed in the Information Supporting the Estimates (New Zealand Government, 2008b, p 175). These objectives are:

- policy decisions by government, and other agencies' policies and programmes, consider impacts on women and groups of women
- women are appointed to state sector boards and committees
- government policy aligns with international obligations in relation to the status of women.

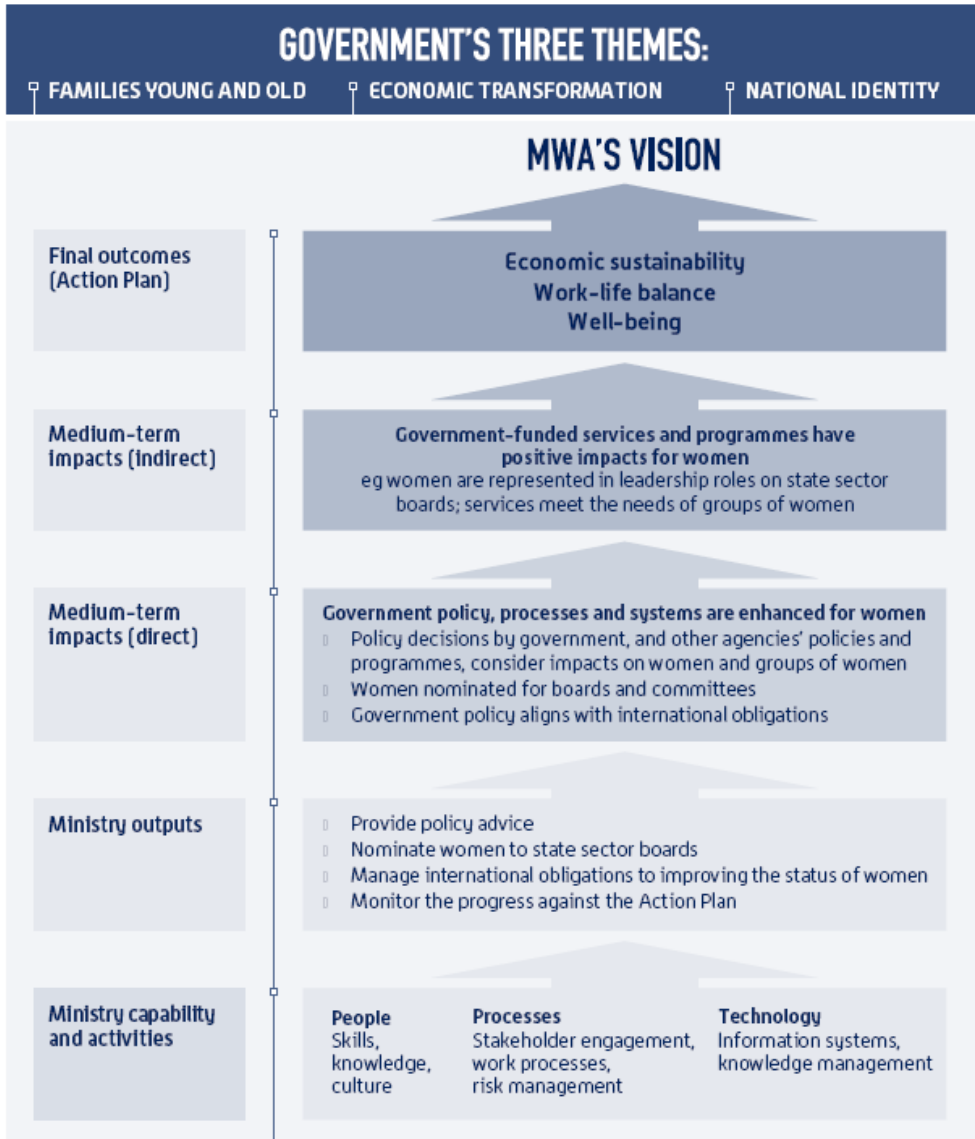
As required, output performance measures and standards are provided in the Estimates of Appropriations. Four measures are of quality and two measures are of quantity.

Accountability documents: Annual Report and Statement of Intent

The ministry's Annual Report for the year ended 30 June 2008 (MWA, 2008a) articulates performance measures and targets against actual performance in the Statement of Service Performance. Performance against the Output Plan is also included, linking high-level outputs with the outcome sought and the final goals for the outputs specified.

The ministry's Statement of Intent for 2008–2011 (MWA, 2008c) reiterates the functions identified in the Estimates with an outcomes framework linking activities to outputs impacts and outcomes (see Figure 11.1). A focus on outcomes is reflected in the ministry's internal reporting and quarterly reporting to the minister.

Figure 11.1: Ministry of Women’s Affairs’ interventions to achieve its outcomes and be aligned with the government’s themes



Source: MWA (2008c, p 10).

The ministry points out that:

What we do, and who we influence, creates change. This begins to make a difference, by reducing impacts on women, which in turn improves outcomes for, and the well-being of, women in New Zealand. (MWA, 2008c, p 10)

This carefully worded statement suggests that although the ministry's intervention logic indicates a link to final outcomes, as articulated in the Action Plan (MWA, 2004), there is no direct causal link between the work of the ministry and the outcomes. As a policy ministry with no operational functions, and with the additional complexity arising from working across many policy areas that are directly the responsibility of other ministries and departments, the ministry can play only an influencing role in achieving final outcomes.

Action Plan

The accountability documents referred to above are linked to the *Action Plan for New Zealand Women*, which was developed by the ministry and launched in 2004 (MWA, 2004).

The Action Plan is a five-year plan for the government that aims to improve women's lives in various areas (home, workplace and community). The Action Plan identifies desired outcomes, key indicators, objectives, actions, lead agencies and milestones in relation to economic sustainability, work–life balance and well-being. Various lead government agencies are responsible for implementing the Action Plan, with the Ministry of Women's Affairs being responsible for driving the process and monitoring progress.

Indicators for Change: Tracking the progress of New Zealand women (MWA, 2008b) reports on progress made towards achievement of the high-level outcomes in the Action Plan. The report, however, notes that “the purpose of these indicators is not to measure performance in relation to accountabilities”, rather it is “for the purpose of understanding how well women are doing overall” (p 5). The indicators contribute to monitoring progress towards outcomes for a “system”. Therefore, although the ministry has responsibilities in relation to the Action Plan, the ministry is not judged on the basis of the indicators. As a policy ministry working across many areas that are the responsibility of other government agencies, the ministry cannot be attributed with the success or otherwise of interventions that it has not designed or implemented.

The challenge of being a policy ministry

Performance for a policy ministry is known to be complicated by the distance between the policy advice and its effect on desired outcomes. A former minister acknowledged other challenges such ministries face. The minister pointed out that it is comparatively easy for a department that has clear operational functions and focus to address expectations and priorities, including how those are measured. She concluded that:

I think for those chief executives of ... population ministries, it’s really hard for them to be accountable for delivering in a way – compared to an operational organisation. You have to judge them in different ways. (MWA external)

The minister recognised the differences between a small policy ministry and other agencies and the resulting tensions, as did other interviewees.

There is a big difference between ministers of agencies like [Child, Youth and Family] and agencies like [the Ministry of Women’s Affairs]. Whenever reports come out for [Child, Youth and Family], the media and the opposition will jump on any figures that focus on the things that put the minister at fault in some way. You will know, and can imagine, all of these. This is not the case in a policy agency, although it *is* the case with the Nominations Service. If the numbers of women on state sector boards go down, all the women’s groups will notice. However, getting a high number of women is not in the control of [the Ministry of Women’s Affairs], it is ministers who decide, and not the Minister of Women’s Affairs. All we can do is show that we have put up good women, and this is qualitative. (MWA national)

During the period the minister was in office, the ministry went through a transition from being viewed as underperforming to being viewed as a high-performing organisation. When discussing the issues concerning the performance of the ministry over this period the former minister stated that:

I think the most important thing for a population ministry is that they have the respect of the key other agencies. And tragically that is quite dependent on personal relationships. ... It shouldn’t be dependent upon personal relationships, but like lots of things it is in the end. (MWA external)

The complexity of the role of a policy ministry was also a factor in the way the ministry was perceived.

colleagues and the public, stakeholders especially, expected things from the [Ministry of] Women's Affairs which they weren't charged to deliver ... they were judged in the public mind and by other departments in a way that was never part of their job description. So I actually found that really frustrating. (MWA external)

The minister identified areas where performance improvements needed to be made, including relationships with other departments, policy development, and the Nominations Service. To address some of the performance issues staff changes were made, for example senior policy people were appointed to provide policy leadership. In addition, new processes were developed to improve quality, with performance measures being used to show progress and determine further improvements.

Performance: Learning to improve and turning small size to advantage

The political salience of a government organisation is influenced by many factors, including mandate and size. Organisational size may create a higher profile by virtue of the number of offices and staff members, but big is not necessarily better. Although size can be a disadvantage for an organisation if it lacks sufficient resources, such as staff, to fulfil its mandate, being small with relatively few staff can be turned into an advantage. In the case of the ministry, the size of the organisation was an advantage when the ministry sought to improve its performance.

With a ministry of only 38 staff members, it is easier for the chief executive to communicate with all staff, including sharing feedback from the minister.

The neat thing about our system being so small is that the feedback from the minister, either written comments, or verbal, is fed back directly to the analyst. And it can be quite a source of encouragement. (MWA national)

Information is shared rapidly between all levels of the organisation, enabling prompt reactions to improve performance and meet expectations.

On the whole, senior managers value the results the minister wants very highly, and I am sure that staff get the general message very quickly about what it is that matters to the minister (eg, rapid replies to ministerials) and that this definitely alters the priority that is put upon aspects of our work. (MWA national)

The ministry recognises that, as a small population-based ministry, it depends on its reputation to have any influence, and managing external relationships is critical to its effectiveness. This view was reflected in comments by the former minister, and was a key driver behind changes made at the ministry. Another interviewee highlighted the importance of relationships when describing performance as really meaning “influence – it is about making a sustained difference over time on the things that matter – tilting the tiller” (MWA national).

That influence, however, is not dependant on relationships alone: respect for the work of the ministry is an important factor that helped establish and sustain that influence.

Collective responsibility for quality

According to all the staff interviewed, the ministry is an organisation determined to learn and improve its performance, with the achievement of quality being a collective responsibility. Interviewees described systems and processes that aimed to ensure high standards were maintained. As one senior member of staff explained:

Well, we’re heavily into quality and into ensuring that the work we produce is of high quality ... because we are so small and we need to have leverage and we need to have a profile and we need to be listened to if we’re going to make any impact for our policy goals, which is improving women’s outcomes. So we have a very heavy focus on quality. ... It’s building our reputation as being high quality and worth talking to, and worth involving because we’re going to add value to the work. (MWA national)

Other senior managers share this belief that the perception of quality is connected directly to the ministry’s reputation. Striving for quality is given as a rationale for the work processes described by interviewees. In addition, although the chief executive had ultimate responsibility for decision-making, quality was seen as a collective responsibility.

Quality is owned by the staff ... very strong emphasis on collegiality and owning the outcomes and the products as a team. Very much a good shared team goal rather than individualistic kind of culture here. (MWA national)

Any failure was also seen as being a collective responsibility, while achievements were cause for celebration.

There's a strong emphasis here too that talks about the culture of team goals being celebrated, being shared – top down again, policy managers, [chief executive], noting key achievements. (MWA national)

Achievements were viewed as providing lessons for further improvement, for example lessons learned sessions are run on “what we did right – what we can do better”.

Performance assessment: Internal and external, formal and informal

Various sources were used to provide information to support the assessment of quality and performance, including regular stakeholder reviews and ongoing checking with community representatives. A feature of the performance information gathered by this small organisation is its reliance on external observations and benchmarking.

One formal mechanism is the Gallup Q¹² survey,¹⁸⁸ which examines the relationship between staff engagement and performance. The survey provides a rich source of benchmarked data that measures the ministry's progress, as well as that of other organisations. Work groups prepare action plans based on the results of the survey.

Other formal qualitative information is obtained from a New Zealand Institute of Economic Research (NZIER) review, which involves the NZIER determining a mean score ranking of policy papers. The ministry uses the NZIER's quality criteria to guide the ministry's assessment of its policy work and develop performance measures.¹⁸⁹ ‘Hard’ measures, such as the NZIER benchmark, are particularly important for assessing performance, with both qualitative and quantitative feedback used to address identified performance issues. Recommendations are followed up to ensure actions are taken and progress has been made. In addition, the NZIER has met with the minister to “describe the nature of [the ministry's] performance” (MWA national).

The minister actively seeks feedback on the ministry's performance from other ministers. She shares this information with the chief executive and uses it to inform her assessment of the chief executive's performance.

188 “The Gallup Organization's Q¹² survey measures an employee's level of engagement against 12 key elements. Over the past four years, 86,000 State sector employees have provided their opinions, with the highest response rate recorded in 2009 of 85 percent” (SSC, 2010).

189 The criteria include indicators for communication, analysis, grounding and risk. The Ministry of Women's Affairs has consistently been in the top ranking for policy in recent years.

The information ministers use to assess performance is much more what other ministers say to her, whether we respond quickly, anticipate things, give her the information that she can use to influence and how we manage the media. (MWA national)

Interaction with the minister has a large impact on the organisation. While formal feedback is obtained and conversations are held in relation to the quarterly report, it is the regular weekly conversation with the minister that provides feedback on how the ministry should adapt to her needs and assessments.

Other tacit informal information was used to gauge the ministry’s performance in relation to its impact and reputation, such as whether other departments were happy to work with the ministry and comments from agencies that could be communicated by ministers, the State Services Commission, Treasury or others.

More formal sources of performance feedback include various surveys and interviews. An annual survey of the performance of the Nominations Service gathers quantitative and qualitative information on the satisfaction of all stakeholders. The results of the survey are used to improve the service. Benchmarked climate surveys are used to provide information on organisational culture. Valuable qualitative data is also obtained from staff exit interviews, which are undertaken by an external person, and other qualitative data from post-appointment interviews. Ministry stakeholders are surveyed and interviewed to determine their view on how well the ministry is perceived.

Although the ministry had no formal, integrated information management system, performance information was shared formally through reports and informally in meetings and conversations. With all staff at one location, much of the feedback can be face to face. The chief executive encouraged and facilitated the formal sharing of performance-related feedback at fortnightly all-of-staff meetings and informal discussions at other meetings, talked to staff while “walking around”, and shared information one on one in other situations.

Organisational performance was clearly linked to personal development, with professional development and performance actively managed through individual performance agreements and performance reviews. Interviewed staff attested to there being a clear cascade between the Statement of Intent and performance agreements, with robust evidence used to support reviews (MWA national). An exception to this was in relation to the performance management of the chief executive. The State Services Commission uses only tacit qualitative information in the chief executive’s performance review.

Although assessing personal performance has its difficulties, it is relatively straightforward compared with assessing the impact of the ministry's work. Few, if any, formal mechanisms measure impacts or results apart from judgement and subjective feedback in relation to reputation. Performance measurement for outcomes is seen as having been a struggle, because of the definitions of outcomes, the associated difficulties with measurement in relation to the outcomes, and attribution (MWA national). Cost-effectiveness measures are seen as particularly problematic. The ministry recognises such measures are an important part of the performance story, and has attempted "in every way possible to try and assess how effective we are in our policy work and it is very difficult to do so" (MWA national).

Motivation for immediate information

The ministry's interaction with the minister has a large impact on the organisation. Although feedback is obtained from formal reports and conversations held in relation to formal reporting, it is in the regular weekly conversations between the chief executive and the minister when the minister provides feedback on how the ministry should adapt to her needs and assessments.

It is acknowledged that the Annual Report is important in showing that the ministry has completed its work programme as described in its Statement of Intent, but it has few, if any, other uses from either an internal or external stakeholder perspective. Therefore, while the formal accountability system may espouse the virtues of the Annual Report, the ministry's senior managers struggle to see its relevance to their real accountability experience.

I don't see the value and staff are not remotely interested. It is compliance focused and we don't have policy brain involved in preparing it ... the Annual Report is retrospective and policy focus is prospective. (MWA national)

The impact of the Annual Report on the ministry's reputation is negligible. More timely systems and processes in the ministry provide real opportunities for learning or reflecting on performance.

I think it's important that we have fulfilled what we said we would in [Statement of Intent]. And I don't want to underestimate that at all. So that is important. I just mean when I think about it as a document we might send around to people, that we might use with people ... For instance I quite often print out from our Statement of Intent, our intervention logic in what we're doing. That's important. So what I really mean is that the Annual Report – it is important that we do it,

but as a document it’s not something that is spread around very much. ... I don’t think a lot of people read it in a lot of depth. But it is important to do. (MWA national)

The ministry made extensive use of the formal ex ante accountability documents and immediate ex post reporting as motivational and learning devices. The Statement of Intent is a central document, not only for sharing with external parties, but also for staff in relation to its development, which then cascades down into organisation planning and reporting systems and individual performance agreements.

All ministry staff meet formally for two days during the development of the Statement of Intent. This meeting has multiple purposes, including team building and planning. Much of the thinking and detail of planning takes place in the three months before the formal planning days. The Policy Team focuses on the supporting intervention logic, while the whole ministry contributes to the environmental assessment and comments.

The planning for the [Statement of Intent] – all the work that went into the thinking and the way you end up with an intervention logic, actually that was the most important thing. It wasn’t just the conversations; it was the analysis that was behind it and the extent to which we involve staff in it so that they understood what we were trying to achieve. ... The [Statement of Intent] should just fall out onto the page if you like, from all the rigour of the analysis and discussion that takes place in the planning period. So the value is the planning and the thinking about priorities and the [Statement of Intent] is a product that comes out of that. But each year you should have that re-thinking and planning to make sure – because the environment changes and data changes and you make improvements, so it’s that that should happen every year. And the [Statement of Intent] is a product of that. (MWA national)

The outcomes in the Statement of Intent are aligned with the Output Plan, which is agreed with the minister, and the policy work programme. The view was expressed that:

Attention to the Output Plan is not significant: I think many ministers really do not take that much notice of it in the policy agencies where you cannot count number of operations/number of notifications etc. Our results tend not to get into the media! (MWA national)

It is recognised that slipping against a target would not generate any repercussions externally, but internally it is seen as a “learning opportunity – what could we do to improve” (MWA national).

The Output Plan is important internally because of its linkages between the external accountability documents and the work programme. As it is an aggregation of the work programme, it is a high-level representation of what the ministry does. The policy work programme that underpins the Output Plan has more detail about milestones and deliverables and is also shared with the minister. The policy work programme is also linked to individual performance agreements with identified deliverables and time-frames and with performance against these deliverables influencing remuneration and promotion. Thus, performance objectives can be directly linked to the work programme, Output Plan, and Statement of Intent.

Similarly the individual performance agreements take into account the reputational aspects of the ministry. Our competency section of the performance agreement will have, for every single member of staff, requirements for timely results, positive communication, good relationships etc, and all of this links to our culture assessment and our responsiveness to our minister and stakeholders. (MWA national)

The ministry reports to the minister on the Output Plan quarterly. These quarterly reports are not merely external compliance documents; they are actively used in the ministry to provide information for management, including promoting learning within the organisation. Each business unit produces a quarterly report on key achievements and progress towards delivering outputs as outlined in the Output Plan. This report is circulated to team members for feedback before being finalised. There are no formal business systems for gathering the information included in the report, but the size and nature of the organisation enables staff to easily keep up to date with what is going on in different projects. Various records are maintained using standard office software and the financial system. The reports note all significant progress towards achieving goals in the different project areas, as well as briefings and publications. In addition, the reports forecast key achievements, flags upcoming actions or issues, and identifies project milestones for the next three months. The forecasts are later used to assess achievements and to reflect on variations from actual events to inform practices. Once complete, the business unit reports are given to the executive management team for discussion and form the basis of the quarterly output report to the minister.

The view was expressed that the minister hardly looks at the quarterly report, having provided informal or formal feedback on a weekly basis. As a result, she usually does not need further summary information on performance. The quarterly report also includes a satisfaction survey with questions relating to speeches, briefings, and accountability documents. The written comments and ratings from the minister are reported directly back to staff.

At one point, the then minister took a more direct approach to improve the ministry’s performance and reputation on the grounds that ‘Over three months you could have a huge variety with a ministry that had been really struggling and it was just coming up to speed’ (MWA external). To get more immediate feedback, a system was put in place whereby the minister took a minute to fill in one line of feedback on each report she received. This feedback identified other formal mechanisms that ministers used outside the formal accountability system for assessing performance, and highlighted their importance in influencing improvement.

Organisational learning

This case study depicts an organisation that actively seeks to learn and improve its performance. Organisational learning is part of the ministry’s culture and is built into its systems, with both formal and informal performance information used to facilitate reflection and improvement. Performance reporting was clearly used for single-loop learning (Argyris and Schön, 1996). Furthermore, a learning culture characteristically involves high levels of employee empowerment and participation, which were evident in the ministry.

Other characteristics of organisational learning were also evident; for example, a precursor to learning is establishing “learning forums” in which dialogue can take place to help team learning (Moynihan and Pandey, 2005; Senge, 2006). These forums are seen as an important component of a learning organisation’s way of operating, encouraging deeper learning that can then help to improve the organisation’s performance. The ministry’s sessions where staff focus on “what we did right – what we can do better” have elements of learning forums as described in Table 11.1.

The management and leadership style portrayed at the ministry was conducive to organisational learning, with the sharing of knowledge, the dedication to continuous improvement, and individual as well as organisational performance management being components of learning. In addition, interviewees explicitly referred to systems thinking, another characteristic of organisational learning, underpinning policy development.

The ministry's improved performance was publicly recognised in 2008 when the ministry was awarded the Institute of Public Administration New Zealand (IPANZ) Public Sector Excellence Award for managerial leadership, in competition with much larger agencies. The award included commendations for all parts of the ministry.

Table 11.1: Elements of learning forums

Routine event
Facilitation and ground rules to structure dialogue
Non-confrontational approach to avoid defensive reactions
Collegiality and equality among participants
Diverse set of organisational actors responsible for producing the outcomes under review
Dialogue centred, with dialogue focused on organisational goals
Basic assumptions are identified, examined, and suspended (especially for double-loop learning)
Quantitative knowledge that identifies success and failures, including goals, targets, outcomes, and points of comparison
Experiential knowledge of process and work conditions that explain successes, failures and the possibility of innovation

Source: Moynihan and Pandey (2005).

Conclusions

In the ministry a mixture of formal structured and informal tacit performance information was used at all levels. However, the minister relied more on informal tacit information. Indeed, the more senior the level, the more subjective the information that was used. For example, the minister relied on the ministry's reputation with colleagues and other stakeholders interviewed by State Services Commission as part of the chief executive performance review process. Within the organisation, however, extensive use was made of the formal ex ante accountability documents and immediate reporting as motivational and learning devices. Although the Annual Report was perceived as an exercise in compliance and was not actively used in the organisation, the development of the Statement of Intent and production of quarterly reports were actively used to inform and contribute to improving the ministry's performance.

A past minister described the ministry as being "in a terrible space", with considerable doubt about its ability to perform its functions credibly (MWA external). Changes, such as new personnel appointments and the adoption of practices that informed organisational learning, helped to transform the organisation. Today, the ministry enjoys a good reputation that is based on the

standard of its work and the relationship management skills of its staff, and is ranked highly by external agencies such as the NZIER and IPANZ. Performance information derived from the formal system was actively used to help the organisation learn and improve, thus contributing to the turn-around in its performance.

While it could be argued that the size and comparative lack of complexity of the ministry in relation to its outputs has enabled some improvements to be more easily achieved (eg, changes in the culture and development of capability), such changes are not size dependent. A focus of these changes was the development of a collaborative culture, which was evident in the interviews undertaken. The operating environment was one of shared information and feedback, helping to create a small, tightly knit team. A focus on continuous improvement was evident, so that even in areas where the ministry was doing well, staff were encouraged to strive to do better.

All of these characteristics and practices support organisational learning and demonstrate that the ministry is committed to maintaining and improving its performance, with performance information contributing to the success of the organisation.

Working across Organisational Boundaries: Network policy-making in the transport and justice sectors

Rob Laking

Networks or committees?

As attention in the last decade turned to management for outcomes, management through networks became a fashionable concept through which several ideas about public management came together. ‘Outcomes’ of importance to government were frequently ‘wicked problems’ over which governments had only partial influence, and where effective action required collaboration among different public agencies. Frequently other tiers of government and civil society organisations were also involved to ‘co-produce’ the desired outcome. Reducing road accidents and the crime rate come into this category of outcomes requiring the collaboration of several organisations. How would ideas of performance management relevant to single organisations apply when collaboration was required across organisational boundaries?

The case studies in road transport (chapter 13) and the justice sector (chapter 14) illustrate the need for careful definition of a network as a precondition for understanding how it can operate effectively. A pure network is a group of people or organisations connected by some sort of shared purpose. Compared with a hierarchy, a network has no central authority directing the joint activity of its members.¹⁹⁰ The case studies in the transport and justice sector show that the networks in these sectors bear a much closer relationship to interdepartmental committees or working parties with a specific mandate from Cabinet and a requirement to report back on progress.

190 Useful references include Alford (1993) on co-production and Dollery and Wallis (2001) and Powell (1991) on network governance in the public sector.

Need for political direction

Both the transport and justice case studies report attempts to identify an overarching strategic objective and the contributions that each member would make to it. The ultimate objectives of each were quite simple: in the case of the transport strategy (Road Safety to 2010), to reduce injury and death on the roads; in the case of the justice strategy (Effective Interventions), to reduce the prison muster.

The members of each network seem to have been schooled in a form of policy development that led them to think of the network task as being to identify an intervention logic that would turn common goals into operational targets for each participant organisation. A Ministry of Justice adviser indeed argued that the whole intervention logic for Effective Interventions – and the implications for each organisation’s performance – could be found in the justice sector outcomes hierarchy. In both cases, there seemed to have been an acceptance in principle that each member would have to allocate resources in its budget to make its contribution to the joint goal and be able to report progress against its targets. A road safety strategy “gets operationalised by a number of departments, police and the New Zealand Transport Agency and local government” (Ministry of Transport adviser).

Because members of government inter-agency networks owe their primary allegiance to a parent organisation, they are likely to need directives or mandates to give them the incentive to meet the conditions for successful networks. Otherwise commitments to deliver specific outputs for a network plan may not be honoured. Therefore, the development and implementation of a network strategy in government require a high-level political commitment, which in turn requires a clear political driver, and high-level agreement among the significant members on objectives and policies.

Initially at least, both transport and justice sector strategies began with a strong shove from Cabinet. The Minister of Transport at the time believed there was “an issue developing about loss of life and it’s something that the government needs to be seen to be trying to get on top of”. Officials involved in developing the justice strategy said it began with a very strong serve from the prime minister that she did not want to see further increases in the number of people in prison. When the first phase of the strategy had been rolled out, but the prison muster continued to rise, as a Ministry of Justice official put it, “people were keenly aware of the dynamic under the previous administration that had sent officials ashen faced from the Cabinet room when delivery was not to prime ministerial expectations”.

It was this sense of political commitment that enabled the coordinating officials (from the Ministry of Transport and Ministry of Justice) to extract commitments from the executing agencies in the steering committees for the two strategies. But this leverage eventually weakened, in both cases as the strategic initiatives lost political traction. Where both fell down in the end was in the failure of government to provide *enough* consistent central command. In that sense both networks were creatures of hierarchies that failed in their basic planning tasks of setting consistent goals, assigning tasks, and monitoring and correcting deviations from the plan.

Why the strategies failed

The reasons the transport and justice strategies failed to achieve their stated objectives were complex.

First, the case studies make it clear that political enthusiasm eventually waned for the measures that officials deemed necessary to achieve the strategies' objectives. The further policies that officials recommended to continue downward pressure on road accidents were not palatable at the time; and in the justice sector strategy, the objectives of reducing the prison muster and having tougher sentencing directly conflicted.

Second, in both strategies, not all the main operational decision-makers were at the table when the strategy was developed. In the case of Effective Interventions, the judiciary did not participate in officials' work, for good constitutional reasons, no doubt. However, this meant a major source of demand for prison spaces – judges' sentencing practices – was not on the table, although being considered elsewhere. In the case of the transport strategy, local government, which has an important role in engineering for road safety, participated only indirectly through its representative association, Local Government New Zealand, which could not in the end necessarily deliver the cooperation of all territorial local authorities.

Third, in the transport strategy, there seemed to be a reasonable degree of agreement on 'what works', based on an extensive database of information about individual road crashes. In the justice strategy, there were greater differences of opinion amongst advisers about the possibilities for reducing the recurrence of offending by different types of sentencing or rehabilitation programmes.

There were also conflicting in-house priorities for some of the organisational players. In the case of the transport strategy, the engineering requirements of higher road safety standards sometimes fell foul of local authority budgetary considerations; similarly there were continuing suspicions that the Police was

diverting resources budgeted for traffic law enforcement (the central strategy of Road Safety to 2010) to higher priority crime-related tasks.

Finally, in both strategies, it was not always possible to monitor and enforce the commitments made by the participating organisations by identifying and tracking their performance and the allocation of budgets and staff in their reports.

Factors making agency networks successful

The experience with these two case studies seems to confirm wider findings on the operations of agency networks in the public sector.

- When a government subdivides into agencies, network or matrix modes of organisation are always required to achieve some objectives.
- Government inter-agency networks are likely to require directives or mandates for each individual member to have the incentive to meet conditions for successful networks; otherwise commitments to deliver specific outputs for a network plan may not be honoured.
- Development and implementation of a network strategy in government require a high-level political commitment, which in turn requires a clear political driver, and high-level agreement among the significant members on objectives and policies.
- Policy advisers tend to see the basic requirement of a network strategy as getting the players to agree what needs to be done on the basis of rational argument. It is assumed that the evidence and its analysis will clearly point to the actions required from each participant.
- Voluntary or mandated networks share some characteristics for successful operation. Effective networks require a coordinating mechanism, task specialisation, reliable commitments by members to contribute specific outputs, and information flows to all network members on progress towards network goals and task execution. Networks need information to monitor progress towards agreed objectives and task execution by members and to learn about cause and effect relationships.
- Members must translate network objectives into specific commitments. Outputs and expenditure by members need to be identified in sufficient detail to support network monitoring and learning objectives.

Case Study – Transport Sector and Road Safety to 2010: A network approach to public policy

Rob Laking

Basis of this analysis

This case study is based on six interviews in 2008 with people closely connected with the development and implementation of the government's road safety strategy, Road Safety to 2010 (RS2010; LTSA, 2003), and official documents related to the strategy. The interviews were with a senior manager and a manager in the Ministry of Transport (identified as 'MoT'), two managers from the New Zealand Transport Agency (identified as 'NZTA'), a former Minister of Transport, and a senior policy adviser from a stakeholder non-governmental organisation. The chapter reflects a snapshot in time and does not take account of changes to the transport sector since 2008.

A strategy for safer roads

In October 2003, the Minister of Transport launched RS2010 as part of the New Zealand Transport Strategy. The Land Transport Safety Authority (LTSA) published RS2010,¹⁹¹ but it was explicitly backed by high-level political commitment from the government of the day. RS2010 set specific targets for 2010: reducing deaths from road accidents to no more than 300 and hospitalisations to no more than 4,500.

RS2010 contained rare features in New Zealand government policy – explicit policy targets. The government accepted these policy targets with a strong implication it would implement the policy measures necessary to achieve them.

191 When the strategy was released, the three transport Crown entities were the LTSA, Transfund New Zealand and Transit New Zealand. Since the strategy's release, the three entities have been merged into one: in 2004, the LTSA and Transfund were combined into Land Transport New Zealand (LTNZ), and then in August 2008 LTNZ and Transit New Zealand were merged to create the New Zealand Transport Agency (NZTA).

National Road Safety Committee

RS2010 was developed “with the assistance and full support” of the National Road Safety Committee (LTSA, 2003, p 1). The committee’s members are the chief executives of the Accident Compensation Corporation (ACC), Local Government New Zealand (an umbrella organisation for New Zealand local government), the Ministry of Transport, the New Zealand Police and the NZTA. As well as developing RS2010, committee members were accountable for implementing it. An implementation schedule annexed to RS2010 described “how the [committee’s] member organisations aim to achieve the strategy’s initial 2004 targets” (LTSA, 2003, p 1).

When the strategy was being developed, the National Road Safety Committee was meeting quarterly and was supported by the Road Safety Management Group that met eight times a year. The group was made up of officials from the same agencies as the members of the National Road Safety Committee and convened by the Ministry of Transport. Local government was represented on the committee by Local Government New Zealand, but there was also a direct interface between local councils and the core transport organisations through road safety action planning meetings, convened first by the LTSA but then by local councils.

Functions and outputs

The three core organisations of the National Road Safety Committee deliver the principal government outputs contributing to road safety (Ministry of Transport, 2008).

- The Ministry of Transport advises the government on policy and legislation, including regulations and rules (with the NZTA).
- The NZTA is a regulator and funder. Its functions include licensing drivers and vehicles, overseeing vehicle inspections, developing rules, developing safety information and education, and managing the state highway network, including highway maintenance, improvement, and operations.
- The New Zealand Police is responsible for road policing, which includes enforcing speed limits, alcohol laws and seatbelt use, managing the Community Road Watch programme for public reporting of driving offences, investigating commercial vehicles, and running highway patrols.

The road safety outputs are funded largely through the National Land Transport Fund. The Ministry of Transport manages agreements between the NZTA and the New Zealand Police. The NZTA is funded to manage state highway construction, renewal and maintenance and contributes to local roading

expenditure as well as to education and information programmes related to road safety, including national advertising. The New Zealand Police is also funded through the National Land Transport Fund for its contribution to the National Land Transport Programme and its road safety work. Some projects in the National Land Transport Programme are specifically tagged to “safety”, but other construction projects funded by both central and local government may also have a safety component.

The agreement between the New Zealand Police and NZTA budgeted \$273 million in 2008/09, of which well over \$200 million was directly for enforcement activities such as road control, offence detection and attending crashes. The budget funded 1,749.5 full-time equivalent staff.

Other organisations also participate in the work of the Road Safety Committee. ACC funds some road safety education and research. A secondary level of participants includes the Ministry of Health, Department of Labour and Ministry of Justice. Schools involve the Ministry of Education. Furthermore, local governments are directly responsible for local roads and streets, spend rates revenue as well as government grants on construction and maintenance and traffic management, and make many engineering and regulatory decisions that affect road safety. The Automobile Association (with a membership base mainly of individual vehicle owners) and the Road Transport Forum (mainly representing the trucking industry) were outside the formal government network but regularly engaged with ministers and officials on policy issues.

The total contribution of roading expenditure to safety is difficult to identify: most road and traffic engineering will have an effect on road safety. The National Land Transport Programme said (LTNZ, 2008, p 17):

Land Transport NZ provides funding for network management activities. Local network managers routinely review the condition and operating environment of their networks. They implement specific interventions such as intersection improvements to address particular safety issues, and routine works such as resurfacing, when the condition of infrastructure is deteriorating and becoming unsafe.

The NZTA manages an agreement with the New Zealand Police for road policing. In 2008/09 (subject to an increase for the outcome of police salary negotiations) the appropriation was \$272.8 million (see Table 13.1).¹⁹² The National Land Transport Programme reported that new initiatives in 2008/09 (LTNZ, 2008, p 26):

¹⁹² Subject to an increase following the outcome of police salary negotiations.

target specific performance enhancements which improve the Police's ability to address driver behaviours, and specific locations which are demonstrating high social cost caused by crashes in comparison with the policing resources available in those areas. The initiatives are aligned with the Road Safety to 2010 Strategy, in particular drink-driving and speed enforcement.

The budget for the police component of the NTLP specifies dollars and full-time equivalent staff for both activities and roading districts (see Table 13.1).

Table 13.1: New Zealand Police component of the National Land Transport Programme, 2008/09

Category	\$m	Number of full-time equivalent staff
<i>Local road policing</i>		
Speed control	64.2	412.1
Drinking or drugged driver control	69.5	446.3
Restraint device control	13.8	88.3
Visible road safety and general enforcement	44.1	283.4
<i>Network-wide road policing</i>		
Commercial vehicle investigation and road user charges enforcement	16.8	106.0
Crash attendance and investigation	33.8	217.0
Traffic management	11.4	73.3
<i>General road policing support</i>		
Resolutions	7.8	49.9
Police community services	4.9	31.3
School road safety education	6.5	42.0
Total programme	272.8	1,749.5

Note: Totals may differ due to rounding.

Source: Derived from LTNZ (2008, p 160).

Operating environment

Political salience

RS2010 “was a government strategy; it was not a Ministry [of Transport strategy]” (MoT). Although the strategy was published by the Ministry of Transport, the foreword from the Minister of Transport made it clear that the strategy and its targets were owned by the government. The minister described the goal as “ambitious, but I know it is achievable through action in each of engineering, education [and] enforcement” (LTSA, 2003, p 1). The former minister agreed that the target seemed “quite realistic” and could be achieved with the assistance of some additional policy change.

Getting government commitment to a specific strategy was something of a coup for the minister and his officials. In 2003, the number of road deaths had been decreasing more or less steadily for 16 years. Nevertheless, the road toll was still a big enough public concern to be a political issue. The political benefit of setting a target for reduction in road deaths and injuries was that the government would be seen to be responding decisively to this issue, “there was an issue developing about the loss of life and it’s something that the government needs to be seen to be trying to get on top of” (former Minister of Transport).

On the other hand, committing to a specific target carried political risk. According to an NZTA manager, specific targets for transport outcomes are not unusual, “every single country I went to had transport targets” and “all the funding mechanisms were funnelled in to achieving those targets”. In New Zealand, Cabinet’s acceptance of a specific road accident reduction target was unusual. New Zealand politicians are usually reluctant to commit themselves to measurable targets because they can be hostages to fortune. “If you don’t achieve them then it’s a constant whipping that you get every year when another year goes past and the target hasn’t been met” (former Minister of Transport).

To officials, there seemed to be the prospect of easy wins ahead for RS2010. The road toll in jurisdictions similar to New Zealand, notably Victoria in Australia, had been falling significantly for some time, although it was beginning to level out. In the end, ministers accepted the target for road deaths mostly because they were persuaded that it was achievable based on Victoria’s experience and because RS2010 included initiatives to maintain the momentum.

we were actually making significant inroads against a significant increase in vehicle use. So therefore [officials] were saying that on that basis, what we are wanting to be able to achieve is a reasonable

expectation. ... And I think that's why you end up with a foreword in here from the minister. (MoT)

Major risks of the strategy

Road safety is a 'wicked problem': the relationships between outputs and outcomes are loose, complex, contingent, and contested. Addressing wicked problems requires many different government players to work together and often to change deeply entrenched behaviours such as drink driving. The risks to working together include difficulties in:

- getting agreement on objectives and the policies required to achieve them
- translating policy objectives into specific outputs
- delivering the outputs to specification
- achieving stability in the relationship between the outputs as specified and delivered and the actual result (ie, reduced death and injury from accidents).

Agreement on objectives and policies

RS2010 began well with a top-level commitment to its objectives. But the targets also required a commitment from ministers to implement the policies and provide the resources necessary to achieve them. Cabinet's acceptance of the target gave the Minister of Transport leverage on policies to achieve the reduction. But it was not something the Minister of Transport could drive on his own. Cabinet as a whole had to commit to the policy and resource consequences of the road safety targets:

If we just go to the transport minister and we're trying to get through policies that are contentious in nature ... the minister finds it hard because it's one person against a gaggle of other ministers. So if you can get [to other ministers] who all have some exposure to these [issues] from their officials, then by the time the Cabinet paper and important policy decisions come to the table, there's a group of ministers who have a demonstrated understanding and you can then again have that considered discussion. (MoT)

Initially at least, the support was forthcoming. The first iteration of RS2010 included an implementation framework for policy and operational changes. It explained how this would be achieved through initiatives on the "three Es of road safety": engineering (eg, median barriers on busy motorways), education (eg, targeted road safety advertising), and enforcement (eg compulsory breath testing) (LTSA, 2003, p 6).

Linking outcomes to outputs

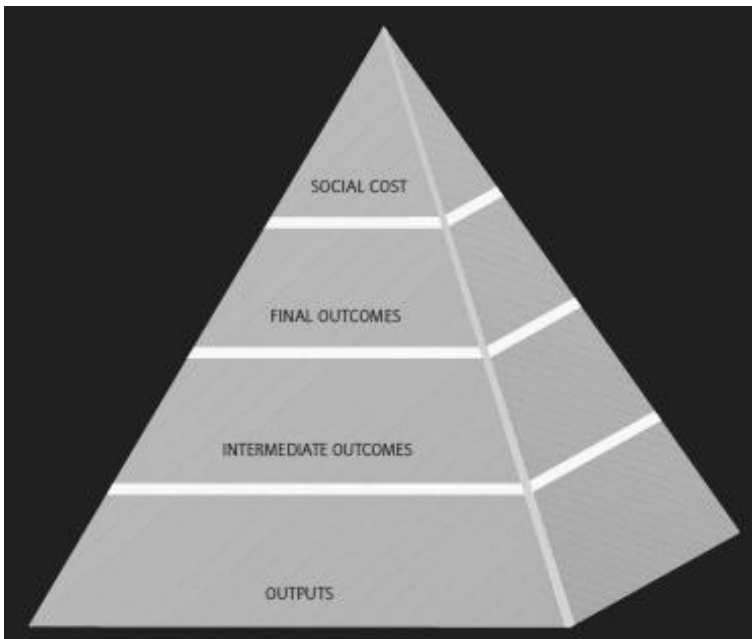
RS2010 used:

an ‘outcomes management’ framework that links what we do (outputs) to what we are trying to achieve (outcomes), and focuses attention on providing the safest possible road network for New Zealanders. We have established goals for social cost ... deaths and hospitalisations to 2010. Intermediate, user group and regional outcomes for 2010 will be set as new programmes are put in place during the next decade. This approach will enable us to fine-tune the strategy as it proceeds. (LTSA, 2003, p 11)

Attached to this statement was an outcome hierarchy (Figure 13.1), where:

Outputs are associated as much as possible with intermediate outcomes (alcohol, speed, restraints) which are necessary to achieve final outcomes (reductions in deaths and hospitalisations). Social cost represents the total burden of injury, and can be broken down by user groups and regions. (LTSA, 2003, p 11)

Figure 13.1: Outcome hierarchy



Source: LTSA (2003, p 11).

Working together

Getting the public organisations involved in road safety to work together was a key step in RS2010. The agencies involved in road safety formed a managed network, with a clear strategic mandate and leadership, initially in the hands of the LTSA and then the Ministry of Transport. The network leader chaired the road safety network and sought to get real agreement out of it, but could not impose the network's view on the other agencies. A ministry senior manager commented, "one of the important things for me to remember is that I can't dictate to the other agencies. We're in it together. So it's a partnership". Another ministry manager noted that the ministry

certainly shows the leadership in policy from a transport point of view because that's what we're tasked with. But we will now share a lot of the common sort of goals and recognise some of the other elements. (MoT)

Ministry of Transport officials believed that on the whole the network worked well: information was exchanged freely and there was a well-informed debate about policy priorities and the implications for individual agency business plans. There were:

areas where we still don't know exactly what's happening in each other's agency. And sometimes some of the things they will do on a shorter, or annual, or three year cycle, we're a bit confused about. But on the whole the 2010 Road Safety Strategy delivered that 10-year programme and we can already start to [ask] "have we achieved the outcomes?". (MoT)

Therefore, from the ministry's point of view the result was:

definitely some strong coordination between the agencies. Particularly between ourselves, Transport, Police and the ACC. And that's where we start to get some strong delivery. (MoT)

Effective coordination had to be translated into action: policies both developed and implemented. Our respondents identified two key factors in this coordination: relationships and leadership.

Relationships are going to be really, really important. It's the partnership approach. Because if you don't have good relationship management then the accountability documents come out – you put them on the table and you end up getting into disputes and you have arguments with each other. And that will get in the way of delivering outcomes. (MoT)

RS2010 also needed a champion at the working level to drive the implementation and keep the strategy focused on what was needed to achieve the safety objective. Several respondents mentioned the leadership role played by the LTSA, in particular by Tony Bliss, a second tier manager who acted as the sponsor and “guardian angel” for getting the strategy in place. Bliss was widely regarded as a “safety champion” at the bureaucratic level.

Constant restructuring in the transport sector took its toll on relationships. There was a continued turnover of key people at all levels: ministers, secretaries of transport, senior managers in the transport Crown entities in various incarnations, and staff in other organisations. Bliss departed, and with him some of the high profile that safety had within the transport sector. Despite the turnover of key people, the network continued to operate, but the drive dissipated as a result of the restructurings and impermanence of key players.

A clear top-level commitment to specific outcomes undoubtedly helped spur cooperation at official levels. In RS2010, shared outcomes seemed to have gone beyond “a nice cliché”: “in Road Safety we’ve given effect to [shared outcomes]. And the 2010 strategy has been instrumental in being able to do that” (MoT).

Similarly, an NZTA manager explained that “it really becomes a behavioural and leadership thing to get them all in the room and [driven off the same outcome]” (NZTA). A Ministry of Transport manager believed these organisations did now share a lot of common goals, “it’s more of a collective now” (MoT).

Road safety strategy and how it is implemented also has effects on other sectors, and this ‘outer group’ was not neglected. The two Ministry of Transport managers described a variety of initiatives through which the ministry attempted to “share the load, because if you didn’t ... we would be tinkering around the edges because we wouldn’t have the resources to do it all” (MoT). The Ministry of Transport had to collaborate with the Ministry of Education to deliver road safety education in schools. ACC contributed directly to the New Zealand Police ‘booze bus’ programme and in promoting the use of child restraints in vehicles. The Ministry of Transport also needed to understand the Department of Labour’s role “because, after all, a vehicle is a workplace” (MoT). From a broader social policy objective, justice was important:

if we’re not aware of the broad strategy that justice has for who goes to prison and who doesn’t, and the sort of social arguments around that – social constructs around that – then we get out of alignment. (MoT)

The general commitment to a shared strategy was reinforced by consultation. RS2010 as originally developed through the LTSA involved extensive

consultation, justified both to pool expertise on what was effective and also to gain acceptance. It produced a ‘middle way’ of both engineering and enforcement. Our stakeholder interviewee agreed that the LTSA “had a good consultation culture”:

so they did ask for input and they went out with a strategy which was kind of like A, B or C, and everyone chose B because that was the middle ground. Which I think was quite a good consultation strategy – which was engineering, enforcement or mixed, and let’s all go with the mixed which makes sense. (Policy adviser, stakeholder organisation)

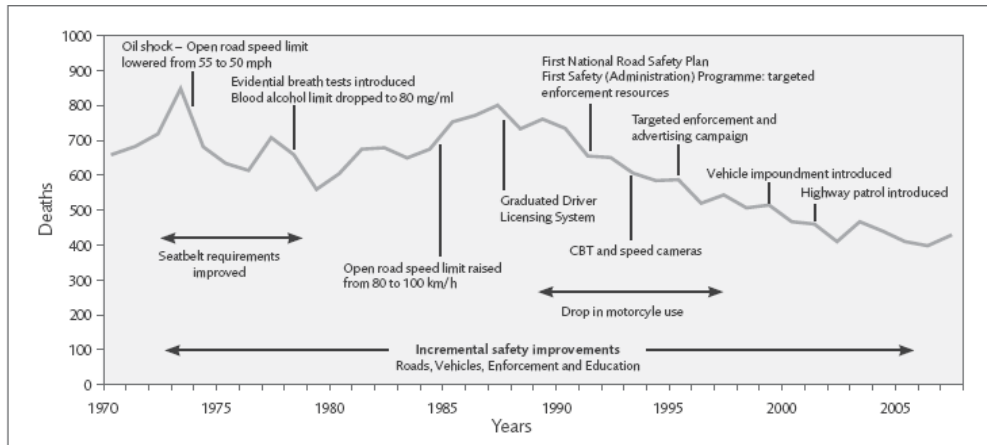
In summary then, our interviewees identified several factors as important for effective network coordination: a shared outcome, good working relationships amongst network members, a champion who could drive the strategy at a working level, and meaningful consultation with other stakeholders outside the core network – all glued together by a continuing political commitment to the strategy’s goals and methods. This commitment eventually began to wane in the face of competing political priorities.

Diminishing returns to policy

The government has looked at a number of things over the time and we’ve looked at issues, whether it’s demerit points on speed cameras, whether it’s covert speed cameras, whether it’s lowering the drink driving age, whether it’s increasing the driving age. All of these issues have been elements that you need to think about ... Because at the end of the day, the lower you get with the road toll, the tougher it’s going to be. (MoT)

Most key players in road safety shared a strong belief that the statistics told a compelling story about how effective road safety measures could be. The downward trend in road deaths over two decades (see Figure 13.2), given the significant increase in road use over the same period, was “quite an impressive sort of outcome for the government dollar” (NZTA) that could be attributed to “a bit of political resolve, some clear interventions and some clear metrics” (NZTA). All three factors were necessary: officials may have dreamed up the targets and the measures to implement them and then “convinced ministers to get behind [them]” (NZTA), but:

you can talk accountability of government departments and agencies, but there’s got to be a political accountability. If that’s missing then you’re setting government departments up to fail. (NZTA)

Figure 13.2: Impact of road safety initiatives on the road toll, 1970–2007

Source: Ministry of Transport (2008, p 16).

In the struggle to reduce the road toll, the easy wins come first. Further reductions get harder and harder and require more and more intrusive interventions. So the period of easy wins for transport safety may be nearing its end. More – and potentially politically unpopular – policy measures would be required to continue the downward trend in road deaths and injuries. There is debate amongst the experts about what the ‘next big thing’ is in road safety, but attention is increasingly turning to the part played by inexperienced and/or distracted drivers. According to the Minister of Transport, “young and novice drivers, and driver distraction [are] two of a number of key issues to address to bring down the road toll” (Ministry of Transport, 2008, p 16).

The logical response to these risks is to, respectively, raise the legal driving age and ban cellphone use in vehicles – neither of which would be at all popular. Politicians react to public resistance to safety regulation. Ministers are well able to put themselves in the shoes of their constituents and understand that, however eminently logical a policy measure might be (such as banning cell phone use in cars), it can still be politically untouchable. And part of the problem is, as one interviewee said, every minister drives a car (and some quite senior ones use cellphones while they do). Other measures were also unacceptable to ministers. The government deflected a proposal to tie demerit points to speed camera offences:

mainly because they’ve said “well, we’ve [already] got a number of initiatives here and let’s follow those”. Refreshing road code abilities also looked politically unpopular – how would you do it without creating the problem of everyone sitting their licence again, which would be

administratively a nightmare and you'd get chucked out of government for that. (Former Minister of Transport)

As some officials saw it, then, the government lost its nerve. There was a feeling that the government accepted accountability for a road deaths objective but then increasingly failed to front up on the measures required to achieve it; that the government “bought into those strategy options that would deliver those targets [but then] unfortunately they walked away from a lot of those because they've become politically not so nice” (NZTA).

Linking strategy to action

Complexity of outcome–output relationships

Tracking total expenditure on road safety is difficult. Road safety programmes are traditionally classified under the three Es of education, enforcement and engineering, but outputs that fit each label may contribute to objectives besides road safety. Some expenditure is not reported in enough detail: it is subsumed into larger budgets – for example, outside the specific nationally funded road safety education programmes in schools there may well be other classroom activity relating to road or driver safety. Also, the relationship between outputs and outcomes in the sector is ‘many to many’. Many outputs have joint outcomes, including safety. For example, when the police stop and check a truck to see that it has paid road user charges, at the same time they:

can check its certificate of fitness, ... can check the driver's licence to make sure it's the right thing, ... can look at its load and other stuff and say is it overloaded, ... can check tyres – there's a whole lot of stuff.
(MoT)

Conversely, when police stop a vehicle, they may well discover other offences such as drug use, unpaid fines, driving while disqualified or breach of probation conditions.

The ministry senior manager also argued that mapping these relationships was inevitably difficult for road safety because of the complexity of the transport sector was more complex. There were some genuine joint outcomes, particularly in road construction and maintenance; road design serves objectives of getting people places more easily as well as more safely. Conversely, the outputs of several organisations contribute to road safety:

Each [Crown] agency produces a number of outputs that contribute to those things. How do you measure them? And often people think it's a

one-to-one relationship and it's not ... because the responsibility for the outcomes is a shared outcome. (MoT)

So there wasn't always a clear-cut 'best way' to transport safety. Sometimes cause and effect does seem clear:

the seat belt campaign is a classic, where we were able to show fairly definitively, the number of lives saved through wearing seat belts [compared to the years before they became compulsory]. Compliance went up, road toll came down. (MoT)

But quite often the information and empirical relationships are not so clear. The road toll came down in the early 2000s for many reasons, some of them (such as high fuel prices) unconnected with government action. It is also difficult to identify the separate individual impact of any one policy action on accident rates:

Quantitatively in terms of this intervention actually achieving these numbers it's a little bit hard because there's so many things happening all at once and you can't hold everything else constant and just vary that. (MoT)

For an NZTA manager, the basic problem was that with transport safety it was impossible to "just test one intervention, measure it, see what the result is, like you do in a health-related drug study" (NZTA).

Linking the safety strategy to organisational planning

Developing RS2010 required political commitment, effective coordination within the network, and consultation with other stakeholders. The complex relationship between outputs and desired outcomes and the needs for packages of interventions to be provided by a variety of public organisations called for the operation of a network. Turning the strategy into effective action required a whole additional set of relationships and commitments. In this phase of the policy, the network itself complicated the translation of higher-level outcomes and policies into specific performance objectives and associated budgets. The next step, of turning outcomes and policies into specific agency business plans required cooperation in the network at a management level. Ministers and chief executives might agree at the level of outcomes and strategies, but they then get "operationalised by a number of departments, Police and the New Zealand Transport Agency and local government. If that doesn't work well, you get it disconnected at that stage" (MoT). An NZTA manager believed that RS2010 worked because "the machinery to make it happen was actually put in place" (NZTA). But changing national and local organisational priorities is not always that easy.

The link between road safety strategy and delivery in RS2010 was through road safety action plans, developed by the NZTA. These “are implementation plans that record local road safety risks that are identified by the evidence base” and set objectives for “the three Es of road safety”. Each plan “covers an area determined by the local partners” (LTNZ, 2008, p 164). Local road policing priorities (see Table 13.1) are based on road type, focusing on the high-speed roads where the majority of serious accidents occur¹⁹³ but “fine-tuned at the local level” (LTNZ, 2008) based on the evidence of crash risk and offences and the local priorities set in road safety action plans. Road safety action plans are expected to influence local government plans as well.

That was the theory, but the direction of policy in the transport sector was complicated by the number of agencies and semi-autonomous status of some of them. Although the Minister of Transport took ownership of the strategy at a political level, a minister has limited power to influence operational decisions by Crown entities. “You can’t direct them operationally. You can influence them, but you can’t direct them the same way as you can a ministry” (former Minister of Transport). Agency inertia contributed: “people get locked onto a line that they’re on and you’re trying to do something in one particular area that you want progress on, and trying to get that together is quite difficult” (former Minister of Transport). Agencies might be “looking to deliver” but “if they don’t really want to do it, or think it’s a lower priority than yours, then unless you stick with it, it will always be a lower priority” (former Minister of Transport).

At an official level, getting common acceptance of a strategy to recommend to government was further complicated because:

there’s always this patch-protection stuff in the safety area, and you get all these conflicts, and people wanting to do what they’ve always done.

You know – if I don’t say this then I won’t get money next year. (MoT)

Different perspectives between the Ministry of Transport and other sector agencies may have contributed, for instance:

a feeling in the ministry that there were a few cowboys in here who basically thought the money was theirs to do as they like. And a feeling from entities that the Ministry of Transport weren’t up to the job to monitor properly. (Former Minister of Transport)

From an outsider’s point of view, at the operational level, “working together” was quite often trumped by agency self-interest and bureaucratic inertia:

193 LTNZ (2008, p 163): “about 70% of the social cost of crashes occurs on high-speed roads”.

there's the National Road Safety Committee which has got Police, ACC (I think), Land Transport (NZTA) – however many of those – and [the Ministry of Transport] I think, on it. ... you'll find that it's quite difficult to get anything through that group because they're not open to much more than the status quo. (Policy adviser, stakeholder organisation)

Agency priorities tended to be driven not by the overall strategy but by a desire to maintain existing programmes:

Think about it from the point of view of the police. They want to continue getting their funding. They don't want a budget cut. So they've got to say well enforcement's the most important thing. (Policy adviser, stakeholder organisation)

People also tended to focus on hazards that were within their competence to address and to shift risk onto others where possible:

Yes – there's finger-pointing going on. Like “that's an engineering problem mate, go and fix it – it's not an enforcement issue”. And our engineers are saying to them “that's an enforcement issue – the road's in perfect condition mate, it's as smooth as”. (Policy adviser, stakeholder organisation)

ACC was possibly the only agency that had a direct financial incentive to improve road safety outcomes, so was prepared to think more widely about causes and solutions:

ACC actually have a fiscal involvement in the outcome so they want to be involved in things that work. ... So they're prepared to fund stuff which isn't to do with seat belts, speed and alcohol. (Policy adviser, stakeholder organisation)

Contract with the New Zealand Police

The road policing priorities set out in the National Land Transport Programme are turned into a formal contract between the Ministry of Transport and the New Zealand Police. A senior manager in the Ministry of Transport believed “the performance agreement we have with Police is a useful model for us to work on with the other agencies”. But it has been a challenge to specify the contract well enough to be sure that the New Zealand Police will allocate resources according to the safety priorities in the evidence base:

it was very, very unclear [whether] a considerable amount of funding, being given over to Police out of the land transport bucket, was actually being used on land transport matters ... it was always a suspicion from me and others that the Police were taking the money and using it to offset

budgetary issues they had within their own internal budget. (Former Minister of Transport)

Despite the performance contract, the NZTA may have little real leverage on the New Zealand Police. Crash analysis could provide useful information on where the Police should deploy resources, but there was still the problem of getting the Police to respond accordingly, “we don’t own the Police and we don’t fund them. So we really we don’t have any levers to get them to use more speed cameras or employ ... more resources out on the road” (NZTA). In its 2007/08 annual report, the Police announced that:

A new outcomes-based performance framework for quarterly reporting to the Ministers of Transport, Transport Safety and Police has been developed. This links enforcement activities with the effects on driver attitudes and behaviours, and the effects on crash rates and injury severity. The development of systems to monitor the quality of crash reporting and police pursuits has further enhanced police understanding of, and response to, the road safety environment. Improvements in the research capability within Road Policing Support have also improved the ability to determine the appropriate responses to risk. (New Zealand Police, 2008, p 13)

Influencing priorities in local government

Because of the importance of local government in both road and traffic engineering, getting an effective response from local authorities was important for the strategy’s implementation. Road safety priorities cannot be forced on local government. Local road safety committees were the vehicle for linking local authorities to the RS2010. An NZTA manager believed such committees could work well if there was cooperation and if they focused on the available evidence about accident rates and causes.

Councils love to be compared with one another, because if they are on the bottom of the heap they can then go to their councillors and ask for more money. It’s good justification. And it’s evidence-based. And they can say we need more road safety. If they’re at the top of the heap and the top of the league table they can tell their ratepayers how wonderful they are. (NZTA)

But ‘competition’ among local authorities to be the best on safety might not be enough. The stakeholder policy adviser believed local government’s response to annual road safety audits was patchy:

[The auditor] might go back and find one of them [a local authority] has studiously tried to implement everything he's done within the budget and another one might have this much dust on [the] report and it's sitting on some shelf, and they've done nothing. And there's no comeback. (Policy adviser, stakeholder organisation)

Although roading projects are supposed to be evaluated taking account of externalities, local governments had incentives to ignore externalities not funded by their budgets. From a national perspective, there is a four to one cost–benefit ratio from installing frangible (impact-absorbing) power poles on high-volume roads, but an advocate for their installation:

would go to a local authority and say look you've got a power pole that's been crashed into and you've put another pine one back in the same place. And he'll go to the engineer and he'll say well it's \$30 to put this pine pole in and however many it is and I'm sorry but the death doesn't show on my books. (Policy adviser, stakeholder organisation)

One manager believed that devolving responsibility for planning to councils may have produced a more uneven implementation of priorities. Meetings on the road safety action plans:

are ... driven out of the councils ... because we think the local councils are the organisations best placed to bring all the people together about the issues of road safety in their region. It's not working particularly well. In some regions it's very good, some regions not so good – since we devolved it. But when we were driving it, or when Land Transport New Zealand was driving it, it was very consistently done. (NZTA)

External accountability

Well I know our Statement of Intent this time round is a consequence of ROADS [Review of Accountability Documents]. What a waffly piece of crap. You couldn't pin anything on me from this year's statement of intent. (MoT)

Formal accountability in the transport public organisations is defined by their Statements of Intent and annual reports and the performance measures in them. The theory is that these external accountability documents should be closely related to business planning inside the organisation. But internal performance can be loosely coupled to external objectives, both because of the complexity of the outcome–output relationships and competing incentives from inside the organisation.

The ministry senior manager said there should be “some objectives and milestones [in the business plan] both in terms of measurements and timing [that] form the core material that we then write our statement of intent on, and our output report to the minister” (MoT). However, the complexity of relationships could make it difficult to link external objectives to internal performance: managers in the ministry could be held accountable only for the outputs that contributed to those outcomes:

If I’m not doing my job properly, invariably the outcomes will suffer. But my boss can only talk to me about the outputs that I’m producing as they relate to those outcomes. And that’s where the acid bites. (MoT)

According to an NZTA manager, refocusing the agency’s internal performance to fit changes in external objectives was equally difficult in part because of a certain inertia common in large organisations, which makes it “quite hard to have that fleet-footedness, that flexibility to move resources internally to match the needs externally” (NZTA). This manager thought that there might have been too much attention in the former LTSA to developing “strategies around the sector, driven by political imperatives etc” and “less focus on the internal performance in an agency sense”. In future, “there will be more scrutiny ... on what we are internally spending money on and the effectiveness of that spend” (NZTA).

Some interviewees thought that the business of the sector organisations was being driven too much by formal measures of performance in these accountability documents rather than outcomes. In the NZTA:

it strikes me there’s been an over-emphasis on accountability documents. And they end up driving the business of an organisation. And it’s a bit like the tail wagging the dog. (NZTA)

Similarly, a ministry manager thought:

in the past ... we’ve produced our Statement of Intent and our output report and that then starts to drive our business – which has been a bit backwards. (MoT)

Managing for outcomes required a broad strategic view of “where can we reasonably be in 10 years’ time and what are the steps we need to achieve between now and then to do that”. However, there’s no one-to-one relationship between an agency’s output production and outcome delivery, as the responsibility for the achievement of, or progress towards, outcomes is shared between multiple agencies.

At the time of our interviews, the government had just published the successor to RS2010, *Safer Journeys: New Zealand’s road safety strategy 2010–*

2020 (Ministry of Transport, 2010). An objective of the new strategy was to translate the strategic objectives for the sector into specific action plans for each agency that would “say here are the initiatives that you’re going to do” (MoT). Agency action plans would be used as a basis for developing agency statements of intent. Therefore, ministry and other organisations’ management objectives in a business plan would be developed from the longer-term strategy:

So when Police or NZTA are developing their Statement of Intent, they say, well here’s the 2020 Strategy, here’s the Action Plan that says these are the bits that we’re responsible for, we’ll have regard to these two things in our Statement of Intent. (MoT)

Some officials are, however, pessimistic that the objectives of the new strategy can be translated into specific operational accountabilities because the linking step of intervention logic is not in place. The new transport strategy had:

a target of reduced [carbon dioxide] emissions by half by 2040, and a whole bunch of [other] targets. There is no programme of work ... targeted into delivering that outcome ... it seems to be a New Zealand thing [that public agencies] can create targets, but we don’t actually know how we’re going to deliver them. We seem to lack the next step which is political resolve and the plan of action. (NZTA)

Significance and quality of information

Officials tend to see advice on policy options as being based on an analysis of the logical consequences of objectives. In this respect, road transport safety policy benefits from a comparatively data-rich sector. The analysis of policy impacts and the definition of policy targets have been supported by a huge amount of information available on road traffic accidents, which gives confidence in the officials’ technical ability to diagnose the causes of accidents and the right responses to them. Road safety is informed with data from different sources including police accident reports, NZTA data, ACC claims data, and health information on hospitalisations. Crash events can be analysed using two databases: the Crash Analysis System (in which a huge amount of data is collected around many variables relating to specific events) and the Road Assessment and Maintenance Management System (a database of road quality indices measured by a variety of engineering methods). The contribution of road quality to crash risk can be analysed by drawing data from these two databases.

Thus, the analysis of accident risks that informs official policy recommendations is largely underpinned by data collected administratively. For

crash analysis, this begins with police attending accidents and collecting data at the roadside for the Crash Analysis System:

They do it on hard copy. They take a 15-page form out of their glove box, and interview people around the scene. They talk to the driver, if the driver is ok (coherent). And record things like weather conditions, were they drunk, were they tired, state of mind. They draw a diagram of how the accident has happened – all the sort of data that we would need to make a decision. (NZTA)

Road safety experts often contrast the collection of road accident information with the much more intensive investigation of air accidents. Our stakeholder policy adviser noted that, by comparison with the investigation of traffic accidents, “a two-seater Cessna plane crash will get weeks and weeks of investigation”. Police attending a serious crash rarely have the luxury of a leisurely investigation. “Because the police guy on the side of the road has got a mess – he’s got screaming people – he’s got to ... manage everything” (NZTA). Unlike air accident investigators, the officers initially at the scene who have to fill out the forms will not be specialist crash investigators. For these reasons, the crash form “is very simplistic. He has got to have check boxes. And he’s got to have the most common check boxes. He can’t be testing for drugs right there” (NZTA).

Beyond that, data based on administrative intervention can leave out significant factors, because things can be measured only at the point of intervention. Even when there is cause, the police cannot measure everything that may be important. For example, they do not test drivers for the use of substances other than alcohol, so there is no historical record of the link between drug use and bad driving.¹⁹⁴

This approach – for example, the police recording things only when they are attending an accident or stopping a driver – can bias causal modelling against factors that are unidentified at the point of intervention. The crash analysis database does not record some factors (such as driver distraction) that other studies have found to be important. Crash analysis would be greatly improved if such other contributory factors could be estimated.

Unlike aviation safety data, road crash information does not record and analyse near misses. The crash database just records crashes. A potentially richer source of information would be near misses, because there are many more near misses than crashes. The difference between a crash and a near miss may be just

194 In this and other respects (such as use of cellphones and driver age), policy has moved on since our interviews.

luck, so the same sort of information from a near miss would shed light on the causes of crashes and improve prevention responses:

If you did fall off the road into a ditch turning a 360 [degree turn], then it would be nice for us to know that, but you would fall into the ditch and you would push your daughter out and you would be off home and we never know about that. And if I was talking about solely data – that’s the bit that’s missing for us. (NZTA)

Specification of the police contract included setting targets for ‘contacts per day’ by traffic safety patrols. The police target became, in the public mind and in the view of some police districts, a quota for tickets issued:

And so it immediately became not a directive on tickets, but certainly ‘contacts’ was loosely defined as ‘tickets’, and then of course some district commanders then went one step further and said the only way we can measure this is to do it by tickets. (Former Minister of Transport)

Police performance measures based on contacts may not be focused on optimum contributions to outcomes. For example:

Road user charges ... is a distance-based charging regime, mainly for heavier but also light vehicles. The performance measure we have with Police is the number of trucks they stop. Now, they stop [that] number of trucks, but it’s possible that might be only 5 to 10% of the fleet ... not an awful lot [and] is that the right 5 or 10%? It turns out it’s not. (MoT)

Conclusions: Role of performance information in networks

Whichever way you slice the organisational pie in government, some things have to be done by two or more organisations working together. The way governments plan and control activities between organisations has always been by committee. In the modern world of joined-up government and managing for outcomes, networks are much more fashionable than inter-departmental committees. But wherever a government seeks objectives that go beyond organisational boundaries, the need remains for different public organisations to agree on a common objective and then to coordinate their efforts to achieve it.

A network can form voluntarily out of shared interests or be mandated by some higher authority. Regardless of how the network acquires its mandate, there are still conditions for successful joint action. Members of a committee have to agree how to define the problem and then negotiate a pooling of resources to deal with it. There has to be some way to bind the members to do what they have promised: they may renege or be unable to deliver on their promises. Members

need some common understanding of what network performance means, in terms of both the desired outcomes from their joint action and each member's contribution to those outcomes.

The six elements of a successful network are:

- a clear, common goal
- mandate and leadership
- agreement on the actions that will contribute to the goal
- agreement from each actor on what tasks they will perform to contribute to the goal
- each agency managing its performance to achieve the results expected of it under the common plan
- information on which to assess performance.

Performance information played an important supporting role in the effective running of the road safety network. The assessment of performance benefited from the availability of sophisticated long-term data sets on accidents and road conditions and the analytical capability to use this data to assess the potential effectiveness of interventions. The data and analysis enabled better alignment of the interventions in achieving the shared goal of reducing road deaths. By contrast the weak link in assessing cost-effectiveness was the relative paucity of information on the cost of interventions.

For a while, the six elements seemed to come together in RS2010. Most of the participants agreed that the level of cooperation among the core organisations remained high and that a common language of performance was available to assess output and outcomes. But ultimately networks in government are hierarchical, not self-organising. When the sense of shared commitment weakens because of a loss of external political direction and internal bureaucratic leadership, then the ability to cooperate on shared outcomes also ebbs.

Case Study – Justice Sector and Effective Interventions: Use of performance information by a cross-agency network

Derek Gill

Introduction

This case study is based on nine semi-structured interviews with people closely connected with the development of the Effective Interventions programme between 2005 and 2008,¹⁹⁵ together with a review of official documents on the Ministry of Justice website and the external accountability documents of the agencies involved in the programme.¹⁹⁶ This study explores how a cross-agency network used performance information in the attempt to improve the performance of the criminal justice system. The chapter first sets out the origin and structure of the Effective Interventions network, then it sets out the authorising and operating environment, and finally it explores how performance information was used by the cross-agency network.

This case study involves policy development and implementation in the justice sector. In New Zealand, this sector consists of several agencies. The Ministry of Justice usually leads policy development, but, depending on the issue, the policy would also involve other departments (such as the Department of Corrections, the New Zealand Police and the Ministry of Social Development) and arm's length public bodies (such as the Law Commission). Implementation of policy depends on contributions from many different actors. Key decisions about entry into and exit from the criminal justice system are taken by independent decision-makers – police (prosecution), the judiciary (sentencing), and the Parole Board (release from prison). For constitutional reasons, these decision-makers have statutory independence when making their decisions on individual cases or classes of case.

195 The author was an active participant in the first phase of the Effective Interventions programme as the Child, Youth and Family representative on the deputy secretaries' steering group.

196 Two external stakeholders were state servants from outside the core justice sector agencies (identified as 'JUS external'). The seven justice sector interviewees were from national offices with three from the Ministry of Justice ('JUS national') and two from the Department of Corrections ('COR national').

Origin and network structure

The genesis of what came to be called the Effective Interventions programme came out of a taskforce that Cabinet launched in November 2005. Effective Interventions went through three distinct phases.

- Phase 1 was a seven-month policy phase (EI1) undertaken by a dedicated inter-agency taskforce overseen by a deputy secretaries steering group.
- Phase 2 was the implementation and monitoring phase of EI1 over a 19-month period.
- Phase 3 was an eight-month second policy phase (EI2) in response to the continued rise in the prison muster.¹⁹⁷ This phase ended with the 2008 general election.

From the beginning, the programme was driven by a strong top-down political imperative and an implicit target of ‘no new prisons’. One interviewee described this as ‘a prime minister demands you do something moment’ (JUS national) The target of ‘no new prisons’ was clearly understood by all those interviewed but was never explicit. Briefing papers prepared for Cabinet from early 2006 simply stated that the package of initiatives grouped under the rubric of Effective Interventions would enable government to ‘stay tough, and be smarter’ about crime and punishment.

Phase 1: Policy development

EI1 had three principal strands: tilting the balance to reduce crime through targeted earlier interventions; reducing re-offending by increasing prisoners’ employment, rehabilitation and re-integration; and making better use of prison by increasing the use of home detention, community-based sentences, and sentencing and parole policy (Ministry of Justice, 2006).

In a parallel process, the Law Commission was also providing policy advice on the proposed Sentencing Council and its relationship with the judiciary. In effect, therefore, changes to sentencing legislation were outside the scope of Effective Interventions, and independent decision-makers with direct impact on the prison population retained significant discretion. Nonetheless, changes to community sentences, including the use of home detention as a sentence, were included in EI1 and implemented in October 2007.

Initially, Effective Interventions was a policy process overseen by a steering group of deputy secretaries from central agencies and key justice sector agencies. The Ministry of Justice chaired the group, which included the Department of

¹⁹⁷ The prison muster is the number of people in prison at any one time.

Corrections, the New Zealand Police, Child, Youth and Family,¹⁹⁸ the central agencies (the Department of the Prime Minister and Cabinet and Treasury), as well as the Ministry of Social Development. A dedicated co-located taskforce secretariat made up of officials from the Ministry of Justice, the Department of Corrections, the New Zealand Police and Treasury led the policy development.

The Effective Interventions taskforce reported quarterly through the justice sector chief executives and the justice sector ministers to Cabinet. In practice, the key engagement with ministers in this first phase occurred at a meeting with ‘front bench ministers’ before the policy package (see the Annex to this chapter) went to Cabinet in mid 2006. This meeting marked the completion of EI1.

Phase 2: Implementation and monitoring

The focus of the policy phase of EI1 was to respond to the immediate political imperative of responding to the prime minister. The second phase followed Cabinet approval of the policy package and focused on monitoring and implementing the agreed changes.

Three public organisations were to deliver the principal interventions of the Effective Interventions programme.

- The Ministry of Justice was to deliver policy advice, legislation and court services.
- The Department of Corrections was to deliver policy advice and probation and prison services.
- The New Zealand Police was to deliver policy advice and enforcement services.

The challenge of implementing recommendations across a range of agencies to address an issue outside their own priority areas was recognised from the outset. The implementation was overseen by a steering group with slightly different membership from the original deputy secretaries group. The dedicated secretariat was disbanded after a few months, once implementation work was under way. Thereafter, agency staff worked as part of a network from within individual agencies. The network was overseen by an interdepartmental committee chaired by the Ministry of Justice and including the Department of Corrections, the New Zealand Police and the central agencies together with other

198 Child, Youth and Family was a standalone department at the start of the Effective Interventions process with lead operational responsibility for youth justice, but was merged into the Ministry of Social Development in 2006.

agencies such as the Ministry of Social Development (which now included Child, Youth and Family). As the scope of the Effective Interventions programme broadened to include reducing offending, other agencies were added, including the Ministry of Health (in relation to mental health and alcohol and other drug issues), Te Puni Kōkiri (the Ministry of Māori Development; in relation to a programme of action for Māori), and the Ministry of Pacific Island Affairs (in relation to a programme of action for Pacific peoples).

In contrast to the ad hoc governance of the policy phase of EI1, the implementation phase was praised by an interviewee from the Ministry of Justice for its:

good transparent monitoring, combined with very strong sponsorship from ministers and the executive, ... and regular contact below my level as well with people who were working on common areas. (JUS national)

A senior officials group met monthly to monitor the specific actions different agencies were meant to undertake and to provide a quarterly report to ministers. This governance structure was also used during EI2.

Phase 3: Further policy development

The third (and final) phase of the Effective Interventions programme was EI2. This was a separate piece of work that started in February 2008, triggered when it became evident that prison numbers were continuing to rise despite all the efforts of EI1. One senior justice manager described a Cabinet meeting that considered the regular Effective Interventions quarterly report along with weekly information about the growing prison muster from the Department of Corrections, which had also indicated that a new prison would have to be built. The officials came back:

looking quite pale and ashen from having been exposed to the full fury of the prime minister at Cabinet for telling her that [the prison] numbers were continuing to rise ... it led to the cardiac panels being applied to the Effective Interventions framework and the initiation of a Phase 2 ... (JUS national)

The trigger for EI2:

was the regular quarterly report on Effective Interventions Phase 1 and the weekly regular prison muster monitoring information, which showed that the muster was increasing. There may have also been some additional briefings by Corrections on planning for the build [of new prison]. (JUS national)

Officials worked on the policy development in a process that became EI2, culminating in a paper that went to Cabinet in June 2008. The paper proposed

changes to prosecutions, court processes, increased crime prevention measures, increased targeting of sentences, and reduced use of imprisonment.

EI2 took a wider view than EI1, which was described as largely concerned with “dealing with demand in a different way” (JUS external). The implicit target – no new prisons – along with the governance structure remained unchanged from EI1.

The implementation of EI2 ceased with the election of a new government in November 2008.

Operating environment

Political salience

Law and order is a highly politically salient issue. There is no multi-party political consensus in New Zealand about the goals for criminal justice policy. The balance between the (conflicting) goals of safe containment and rehabilitation of offenders shifts within and between administrations, and can change quite rapidly. An interviewee from the Ministry of Justice observed the mixed message sent when:

with the same breath as the government has been overly concerned about the number of people in prison, they have wanted to bring in quite a lot of new harsh penalties [in] quite a range of areas that will inevitably lead to more people in prison. (JUS national)

In addition to the lack of stable political commitment to policy goals, the relationships between outputs and outcomes are loose, complex, contingent and contested. One interviewee suggested the objectives of Effective Interventions could be achieved only if the political salience of crime and imprisonment were reduced. The interviewee cited the examples of Finland and Canada where:

they've put groups with professional expertise in the area in greater control of policy interventions [so] they're out of this kind of political–public interaction. They try to decouple it from that, using processes like multi-party agreements and things like that. And so you take it off the front page and you try and put it in more of a professional management category. Those are the only countries really who have managed to keep their prison rates down in the Western world. (JUS external)

Working together

As with any network, developing and implementing the EI programme called for collaboration among different agencies, and contributions from

many different actors. An interviewee highlighted the difficulties of pulling “a cohesive picture together”:

the world views and the cultural differences and the independence of one chief executive from another and so on, don't really make it very easy ... it's quite an interesting matrix management type problem, where you've got at least three separate ministers – more if you include [Child, Youth and Family]. You've got at least three separate agencies with their own approach and each of those six actors, at the very least (without mentioning Crown entities and [other] things at the moment), are behaving in quite an autonomous management framework. (JUS external)

As noted above, a particular complication for Effective Interventions was that key decisions about entry into and exit from the criminal justice system are taken by independent decision-makers who have statutory independence when making decisions on individual cases or classes of case.

Building shared understandings

The term ‘Effective Interventions’ initially had quite different meanings to different officials, so it took time to develop shared language and understanding and “develop a fairly warm and enduring set of relationships around those issues” (JUS national).

In discussing the interactions both between and within the different agencies involved in Effective Interventions an interviewee from the Ministry of Justice observed:

our job is to connect people and add value through the connections that we make. So my perception would be that there is much division within the departments as there are between departments in many of these respects. (JUS national)

Nonetheless, through the Effective Interventions process, network participants gained:

[a] much more sophisticated understanding of the systems as a whole. And I think the other enduring thing we've got is a really strong consensus among very senior officials that levers like alcohol and drugs are going to be the ones that you need to pull quite hard to influence outcomes in this area. So we've got, I suppose, almost a shared strategic direction from that. (JUS national)

An external stakeholder went further to suggest that Effective Interventions would not be accomplished from the centre by being ‘driven from the policy end’

but rather required a greater recognition of the discretionary decision-making by sector actors:

We have to do it through influencing mechanisms not through technical additions to the interventions spectrum. So in a way you've actually got to take a social approach to this to try and influence the independent decision-makers. (JUS external)

A Ministry of Justice interviewee similarly pointed to the lack of information supplied to independent decision-makers:

What's missing is some kind of real time feedback loop into police commanders, into principal judges in the District Court, into Parole Boards – about how the system's performing and how their bit of the system is contributing to some kind of system-wide performance. (JUS national)

The introduction of the Sentencing Council was to have assisted this by providing more formal guidelines to the judiciary on appropriate levels of sentences, but the council was never established. The new government elected in 2008, which terminated Effective Interventions, said it did not intend to establish the council.

Sustaining commitment

The broad goals for the justice sector are increasing public safety, holding offenders to account, and reducing offending and victimisation. These were often in conflict with the overarching goal of Effective Interventions – to reduce costs and prison numbers. In addition, other agencies with different priorities could not easily see the relevance of Effective Interventions to them. With such pressures, it was difficult to maintain the sustained commitment of all network participants to the end goal.

Although there was a high-level political imperative, Effective Interventions struggled with the lack of goal alignment across agencies. Keeping people out of prison is not a good fit with the primary role of agencies such as the New Zealand Police and the Ministry of Health. It was noted that it was, therefore, necessary to “cajole and support and pressure people to keep on delivering” (JUS national). Commitment to the goal was also harder to sustain as more agencies got involved.

Ultimately, it was suggested “switching off the flow into prisons will require a far greater level of cooperation at way earlier stages of people's development [such as] through early childhood etc” (COR national). And this will occur “only if ... that becomes something which those chief executives and those ministers actually sign up to and believe in and are held accountable to” (JUS national).

An interviewee commented about the loss of leadership among officials and reducing impetus after EII had reported to Cabinet:

It was dispersed to about a thousand different analysts all over the place who were responsible for Cabinet report-backs. And what did we get? Cabinet paper after Cabinet paper about why they haven't reported back and no progress on the initiatives at all. (COR national)

An interviewee from the Ministry of Justice described how the strategies used to manage in the implementation phase to ensure continued commitments of individual agencies included:

public humiliation, in very large steering groups, in respect of who had and who hadn't done what they said they would do or not do. And constant threats, especially for Police, to report to our combined minister. Just the blunt tools, but applied hopefully with a little bit of diplomacy and humour. But nevertheless very real for all that. (JUS national)

Other problems arose from the high turnover of members of the steering group and a lack of understanding of the fundamental fact that no one acts in Justice without it creating an effect everywhere else. This interviewee described the need for common (high-level) information for planning and budgeting purposes across all affected organisations.

An interviewee from the Ministry of Justice was more critical of the level of coordination in the latter stages of Effective Interventions. They said it had been a “constant mission” to encourage officials to think constructively about the effectiveness of sanctions rather than defaulting to the option of prison, but the interest in Effective Interventions diminished across the different agencies:

Health isn't in that game to reduce the number of people going into prison. They really struggle without being anything to do with it. I'm not saying they didn't front up at the table. Education does not at all see that actually ensuring young people get an education so that they can read and write, that learning difficulties, behavioural difficulties that are picked up early on in the piece ... that those are the types of people who end up in our prisons down the track. ... Police have a clear set of outputs and a clear set of outcomes, a clear set of laws to uphold which makes Effective Interventions not an easy fit for them. (JUS national)

Networks in the formal system

Operating in networks offers several advantages to address complex problems. Networks provide all the advantages of smallness and agility while still being able

to access all the advantages of largeness by being nested in larger organisations. However, working as part of a network complicates the translation of higher-level policies into specific actions. This was particularly so in the case of Effective Interventions as it was not possible to attribute costs to specific initiatives or even to track total expenditure on Effective Interventions through the formal accountability documents of the three main participant agencies. These documents described the activities but did not attribute specific costs to them. Instead the network had to rely on formal processes such as progress reports and informal sanctions such as “public humiliation”.

The extent and length of the discussion of Effective Interventions in the formal accountability documents suggests that the largest impact on spending occurred in the Department of Corrections followed by the Ministry of Justice and then the New Zealand Police. There was no explicit mention of Effective Interventions in the formal accountability documents of other organisations that contributed to the programme (eg, the Ministry of Social Development which has responsibility for the youth justice system).

Using performance information to improve system performance

This section explores the changing ways the justice sector network used performance information to improve the performance of the criminal justice system as Effective Interventions went through its three phases.

Before EI1 and EI2, there was no shared understanding of, or information on, the drivers of the prison muster; and the data on the interaction between the components of the criminal justice system was not easily accessible to policy managers, operational managers or independent decision-makers. It was also not possible to model the impact of policy proposals on the prison population as the models in existence did not permit the generation of alternative scenarios.

Effective Interventions was initially developed as a policy project that, as one official put it, had adopted “a short-term focus on a longer-term issue” (JUS external). In the implementation phase of EI1, a more formal monitoring and reporting framework was developed based on the justice sector outcomes hierarchy. An interviewee from the Ministry of Justice described this as:

a full performance framework that just didn't look at the outcomes that were going to be achieved, but at mapping the intervention logic for each of the programmes and looking at the risks and assumptions and identifying key success factors in terms of monitoring. (JUS national)

Another Ministry of Justice interviewee described how the EII steering group used the performance indicators from the performance framework at its monthly meeting to review progress on the initiatives and to report quarterly to the Minister of Justice and Cabinet. However, the interviewee explained that the links between the initiatives and the desired outcomes of Effective Interventions were difficult to establish, so:

my primary use of those [performance indicators] was to check not so much the metrics but whether the actions had been undertaken, whether the agency inputs [ie, outputs or agreed actions] were occurring. (JUS national)

Although both Effective Interventions and the Road Safety to 2010 strategy (discussed in chapters 12–14) have long-term outcomes, road safety has immediate information on crashes. By contrast in criminal justice the linkages are complex and there are significant lags between interventions and behavioural responses. As an interviewee from the Ministry of Justice explained, because the outcomes of many of the Effective Interventions initiatives cannot be determined and measured for several years:

There's a major risk that you do all this stuff, [but] don't have a strong enough sense about why it's going to make a difference and what will be the signs of it making a difference effectively in advance, to tell if it's not working. The prison build has a five- to seven-year time lag in it ... because of [things such as the Resource Management Act 1991]. And if you don't know well in advance if something is not working you could end up in a situation where you're stuck with no beds at the inn and there's nothing you can do about it. (JUS national)

Significance and quality of information

One of the early challenges of the first phase of EII was to build a shared understanding of the drivers of demand facing the justice sector. There was disagreement about the relative roles of explicit changes in legislation on sentencing compared with implicit changes in the practices of independent decision-makers such as the judiciary. However, quantitative work had been done to assess the changes that would occur in the use of home detention and in estimating the scope for reducing the impact on the prison population by using home detention as a sentence. The justice sector outcomes hierarchy provided a performance framework mapping the whole of the intervention logic for each programme.

By the start of EI2, officials had developed a framework for analysing the drivers of the prison population, including broader social factors. They were able to develop a sophisticated quantitative analysis of the impact of each of the drivers, by offence type, on the prison population. It was this work that highlighted the cumulative effect of independent decision-making at various stages in the criminal justice system and permitted a more targeted approach to the development of policy options. As one Ministry of Justice interviewee explained:

the underlying concepts are complex and the different data sets have different units of measurement, so if you looked at the police data and looked at the sentencing data you wouldn't be able to tell the relationship between the two. One is about charging people, the other is about cases. They are two things with different numbers [although] they are different units of the same problem. So what I try to do with some of the other reporting like the outcome reports, is to say these are the different trends – the actual numbers don't really matter – it's what's been happening in the trends that's important. (JUS national)

Another interviewee, reflecting on the state sector as a whole, suggested:

quite often the data is sitting there but it's either disorganised in terms of the database, or it's not organised in terms of the analytical model that's put over it. ... So there are three categories. There's the can't collect, the haven't bothered to collect, and there's collected but never got round to using it. And then there's a fourth category, which is more the kind of gold star one, which is to bring it together and use it pretty well. (JUS external)

The justice sector, it was suggested, was in the third category, “collected and not used”. The interviewee explained how senior officials from the justice sector had been surprised by the information that Treasury had been able to collate and present that they had not been able “to pull together ourselves” and suggested “maybe that was the impediment that was really stopping EI1”.

Conclusions: Getting outcomes from networks

Governments always have to work across organisational boundaries. This reflects the reality of the complexity of government and the need for separation of powers for fundamental constitutional reasons (eg, between the police and the judiciary). In turn, this creates the need for different public organisations to operate as a network and agree on a common objective and to be able to coordinate their

efforts to achieve that objective. Such networks also need effective links with independent decision-makers.

In this case study, several factors were operating to make the network effective, including:

- a clear, shared imperative driven top-down from the prime minister (ie, no new prisons)
- the existence of leadership and coordination mechanisms at a range of levels in the justice sector
- a full performance framework that provided a logical hierarchical cascade from high-level outcomes to outputs and specific performance measures
- agreed implementation responsibilities allocated to members.

However, some factors were missing, for example:

- an explicit public political commitment to the goal of no new prisons
- effective links with independent decision-makers
- integrated information sets to allow analysis of the drivers of the prison muster and trends in sentencing patterns.

A programme with an implicit goal coupled with ‘mixed messages’ on being ‘tough’ or ‘soft’ on crime is unlikely to reshape the external environment or significantly influence independent decision-makers. As one departmental employee observed:

I think the problem with EI1 was that nobody was really prepared to bite the bullet about what do you really do, and who knows how to do it, if you actually want to create a different public environment.
(COR national)

Effective Interventions was a horizontal network that ran across organisations. Such a network does not fit neatly into the formal accountability and reporting systems that are organised vertically around organisations. Nonetheless, performance information and reporting helped to shape the evolution of the work of the network. The network developed performance formal reports that were used to monitor network performance and in regular reporting to Cabinet but also provided informal sanctions through ‘public humiliation’ at the EI committee. The formal cabinet reporting was one of the triggers for the prime minister’s launching of EI2.

Performance information was also very important as a learning device for the network. It enabled the development of shared understandings and a more sophisticated analysis of the drivers of the prison population. This, together with a performance framework that mapped the intervention logic of each programme,

made possible a more targeted approach to the development of policy options to address the drivers of crime.

Postscript

The Effective Interventions network did not prove resilient to a change of administration. With the change of government after the general election in 2008, Effective Interventions ceased to operate as a network. The EI Cabinet papers are no longer on the ministry's website.¹⁹⁹ The new government reversed some changes to sentencing introduced under Effective Interventions, introduced new sentences, decided not to establish the Sentencing Council, and announced a commitment to building a new prison.

The new government priority for the justice sector is to improve public safety by reducing offending and victimisation. To this end, the Minister of Justice is leading an initiative to address the drivers of crime with an overall goal of reducing offending and victimisation by addressing the risk factors early in the life of the person and early in the life of the problem. This initiative builds on the shared learning and information developed through the Effective Interventions process.

Annex: Summary of Effective Interventions

The government announced the initial Effective Interventions package in August 2006. The package contained a series of measures to improve the criminal justice system and make New Zealand a safer and fairer society (Department of Corrections (2007, p 10). The government stated that Effective Interventions was about staying tough but being smarter about crime and imprisonment.

The initial Effective Interventions package included:

- initiatives aimed at reducing youth offending
- amendments to the Bail Act 2000 to promote greater consistency in decision-making
- the expansion of the availability of restorative justice processes
- the introduction of a new tier of community sentences to increase the sentencing options available to judges
- a hierarchy of options to address the requirements of particular offenders

199 Copies of the Cabinet papers can be obtained by emailing reception@justice.govt.nz.

- the introduction of home detention as a sentence in its own right for lower-risk offenders
- the setting up two new alcohol and other drug treatment units and two further general purpose special treatment units to provide intensive rehabilitative programmes in prisons
- the establishment of a Sentencing Council to produce sentencing guidelines
- reforming parole to better align sentences imposed with sentences served.

Legislative changes to implement the Effective Interventions package were passed in July 2007 with most of the changes coming into effect from 1 October 2007.

Further reading

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Information that Managers Use: Results from the Managing for Organisational Performance survey

Derek Gill, Lucas Kengmana and Rob Laking

Introduction

A major aim of the research from which this book has developed was to test the propositions of the formal system by finding out what information managers or analysts relied on for managing performance. In addition to the case studies discussed in chapters 7–14, in late 2008 a structured sample of managers in government departments and crown entities was invited to participate in an online survey – Managing for Organisational Performance.

Survey aim, structure, and method

The aim of the survey was to explain the types and sources of performance management information used by state sector managers. In the broadest terms, we were looking to find out how much the view that individual managers took of performance was shaped by the formal, structured model of performance inherent in the rules, systems and processes of their organisation, and by the requirements imposed on the organisation by its external accountability. To the extent that managers rely on local, unstructured information to manage performance, we can say that their view of performance is *decoupled* from this formal model. We were also looking for the factors that might influence the extent of any decoupling.

In terms of the *types of information*, we wanted to know how much managers rely on unstructured information derived from conversations, reading, or observation compared with information, broadly speaking, able to be structured and stored in a database (and, therefore, has an ‘information model’ imposed on it).

Because of the difficulty in clearly explaining ‘structure’ in the survey questionnaire, we distinguished numerical (structured) information from non-numerical (unstructured) information.

- Numerical or quantitative information counts things and generally comes in tabular reports or queries.
- Non-numerical information is usually got from reading, talking with other people, or personal observation.

In terms of *sources of information*, we wanted to know how much managers use ‘formal’ performance information supplied by their organisation compared with ‘informal’ information that they acquire independently from other sources.

The specific question in the survey that was concerned with identifying sources of information was explained as follows:

This question asks how much you rely for feedback on your work unit’s performance, on information that is compiled and distributed by your organisation as a whole; as opposed to getting information from your other sources, such as when you or others in your work unit talk to people, read documents or even collect your own statistics.

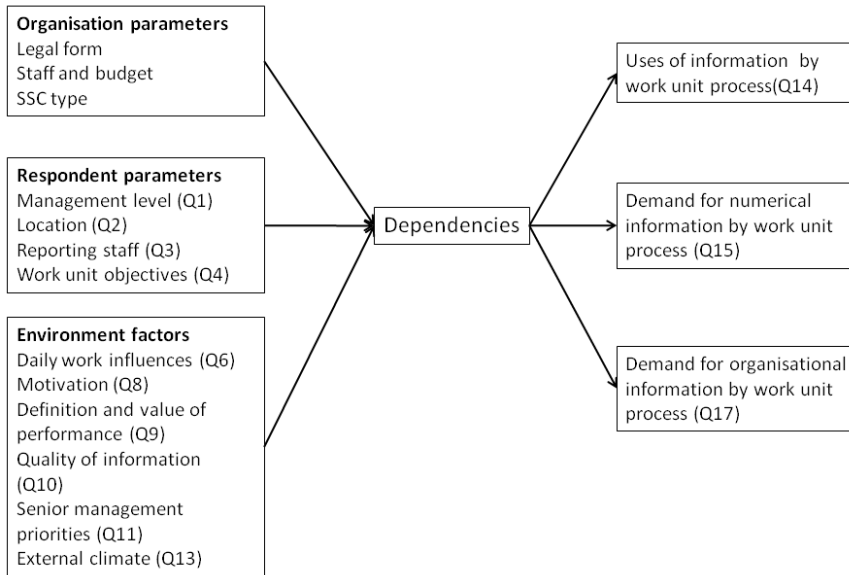
Table 15.1 shows the two dimensions of performance information the survey wanted to identify.

Table 15.1: Sources and types of performance information

Type of information	Source of information	
	Organisational	Non-organisational
Numerical	From databases managed by the organisation: accounting or ‘official’ performance statistics	Information collected and stored in personal or other unofficial databases
Non-numerical	Official circulars, documents, verbal directives	Conversations, text, observation, tacit knowledge.

Figure 15.1 shows the structure of the survey in terms of the variables relating to demand for information as defined above, which the analysis was seeking to explain, and variables that might help explain this demand.

Figure 15.1: Survey structure



Note: Q = question; SSC type = type of organisation as designated by State Services Commission. Questions not shown (5, 7, 12 and 16) sought supplementary textual information.

There were 13 *explanatory* sets of variables (shown in Table 15.2). Information came from outside the survey for the three variables (organisation parameters):

- legal form (public service department or Crown entity)
- size (number of employees in the organisation as at 30 June 2007)
- type of organisation in terms of its main final output (policy, service delivery or a mix of both) as designated by the State Services Commission (SSC type).²⁰⁰

Information about 10 variables (respondent parameters) came from responses to survey questions 1–4, 6, 8–11 and 13. Information about the three dependent variables for the demand for performance information came from respondents’ scores of their use of information for different processes (survey questions 14, 15 and 17).

²⁰⁰ Based on responses to question 4 on work unit tasks, most organisations were ‘mixed’ on the State Services Commission classification, and possibly for this reason the variable ‘SSC type’ proved to have little value as an explanatory variable.

Table 15.2: Survey variables and corresponding tables in text

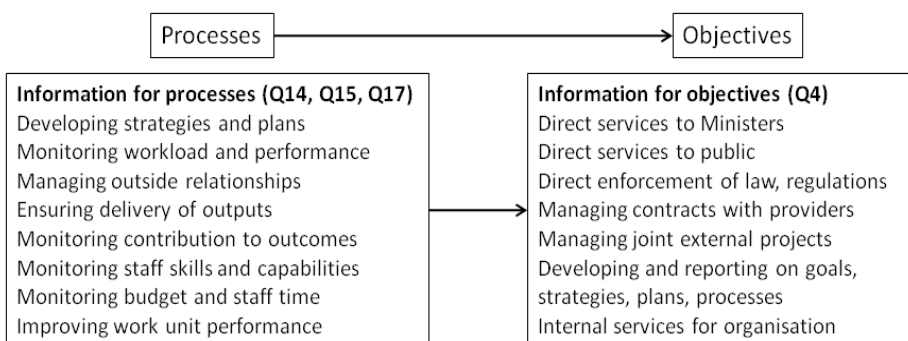
Question (Q)	Table
<i>Organisation parameters:</i> Legal form, number of staff, SSC type	15.3
<i>Respondent parameters</i>	
Management level (Q1)	15.4
Location (Q2)	15.5
Number of reporting staff (Q3)	15.6
Work unit objectives (Q4)	15.7
Daily work influences (Q6)	15.8
Motivation (Q8)	15.9, 15.10
Definition and value of performance (Q9)	15.11, 15.13
Senior management priorities (Q11)	15.12
Quality of information (Q10)	15.14, 15.15
External climate factors (Q13)	15.16
<i>Dependent variables:</i> Demand for performance information by work unit process (Q14, Q15, Q17)	15.17–15.22

Note: SSC type = type of organisation as designated by State Services Commission.

Concept of 'performance' in the survey

The concept of 'performance' is defined in two ways in the survey. Question 4 identifies tasks in terms of the objectives of the work unit and questions 14, 15 and 17 define the processes undertaken by the work unit to achieve these objectives. Figure 15.2 maps this relationship. In both cases, respondents could add their own definitions of objectives or processes but a casual inspection of the responses received here indicated that the categories we provided covered nearly all of the types of objectives and processes.

Figure 15.2: Performance – process and objectives



Question formats

Apart from questions 1–3, which relate to location and staff parameters, most questions in the survey asked respondents to show the strength of their responses using a Likert scale.²⁰¹ For most questions, respondents could answer by choosing “Don’t know or no opinion” but there were few responses in this category. The survey also sought additional written comments on some questions. Some respondents provided comments on some questions but this chapter deals only with the enumerable responses.

Method of analysis

Two techniques were used to analyse the survey data: frequency distributions and regression analysis.

We created tables of frequency distributions of responses. In some cases, Likert scale data was collapsed into binary data (eg, agree + strongly agree = agree; disagree + strongly disagree = disagree) to illustrate relationships with cross-tabulations. Although this transformation resulted in the loss of some information about the distribution of responses, it permitted the cross-tabulations to be shown more simply.

We also used regression analysis to test hypotheses statistically. Performing regression analysis with Likert scale data is challenging because the Likert scale is technically ordinal: it reveals that a respondent who strongly agrees with a proposition agrees with it more than if they just agreed with it but it cannot shed light on how much more they agree. An ordinal regression model was used to deal with this problem.

This chapter mainly relies on tabular presentation of results; but we also refer to some of the regression results. A full explanation of the method of regression analysis and the results obtained is in a companion technical paper.²⁰²

Sample: Organisation and respondent parameters

Response rate

All 19 state sector organisations approached to participate in the survey initially agreed to do so. Subsequently, however, a government department and a Crown entity said they would not take part, leaving 17 organisations represented.

201 Survey questions using the Likert scale ask respondents to show the strength of their response to a question or proposition on a scale with specific points. An example is the five-point scale of strongly disagree, disagree, neutral, agree, strongly agree.

202 Gill et al (forthcoming).

Each participant organisation actively gave support from the highest level for the involvement of their managerial staff in the survey. For instance, each person identified as a potential respondent to the survey received a personal email from their chief executive inviting them to participate. Two later email messages encouraged those who had not completed the survey by the deadline to do so.

About 2,500 people were invited to participate in the survey, about 1,900 (77%) started the survey, and 1,702 (69%) completed it by answering all the coded (non-textual) questions. This response rate is high for a voluntary online survey and probably, at least in part, reflects the support for the survey received from the participant organisations, including their chief executives.²⁰³

Tests comparing the responses of full and partial completers and between early and late completers gave no evidence of non-respondent bias.²⁰⁴

Description of the organisations

The 17 state sector organisations that participated in the survey are shown in Table 15.3. They were 12 public service departments and 5 Crown entities.²⁰⁵

203 For mail- or internet-based surveys of this kind, we believe a 30–40% response rate is typical. The State Services Commission's 2007 Values and Standards survey achieved a response rate of about 60% (Ethics Resource Center, 2007, p 18).

204 There is no compelling way to show that people who did not answer the survey would have responded significantly differently from those who did. However, some comfort can be got by testing for differences in responses from those who partly completed the survey or who completed it towards the end of the survey period, on the assumption that if there is a significant difference, the responses of those who did not respond would have been even more different.

205 It was agreed with each organisation that, except for identifying them as having staff who were invited to participate in the survey, no results from the survey relating to any individual entity would be made publicly available. In addition, while each organisation was provided with the survey results pertaining to it, these results did not include the responses of any individual staff member of the organisation.

Table 15.3: State sector organisations that participated in the survey

Organisation	SSC type	Number of staff employed
Public service departments		
Ministry for the Environment	Policy	284
Land Information New Zealand	Services	515
Ministry of Economic Development	Mixed	731
Statistics New Zealand	Services	787
New Zealand Customs Service	Services	1,182
Ministry of Agriculture and Forestry	Mixed	1,215
Department of Internal Affairs	Mixed	1,299
Ministry of Health	Mixed	1,432
Department of Labour	Mixed	1,808
Ministry of Education	Mixed	2,552
Inland Revenue Department	Services	5,880
Ministry of Social Development	Mixed	9,237
Crown entities		
Energy Efficiency Conservation Authority	Services	103
Career Services	Services	200
New Zealand Trade and Enterprise	Services	650
Housing New Zealand Corporation	Mixed	1,050
Accident Compensation Corporation	Mixed	2,800

Note: SSC type = organisational type as designated by State Services Commission.

The departments are a mixture of policy advice ministries, service delivery entities, and entities that provide a mix of policy advice and service delivery. The departments employ around 65% of all staff employed by government departments. The Crown entities are predominantly involved in service delivery, although two also have significant policy advice capability.

As expected, the larger organisations have more management layers than the smaller organisations, and almost all of them are structured into a head (or corporate) office, regional offices, and local offices. Some of the organisations employ staff based outside New Zealand.

Description of the respondents

The staff were analysed in relation to their staff responsibilities, the number of management tiers in the organisation, the location of staff, and the work of respondents.

Management levels

Some of the participant organisations are reasonably large, as reflected by the number of overall management levels or tiers identified from the survey. Table 15.4 shows that the participant organisations had up to five different management levels.

Table 15.4: Management levels in the organisations that participated in the survey

Level	Respondents	
	Number	Percentage (%)
1	7	0.4
2	83	4.9
3	394	23.2
4	625	36.7
5	592	34.8
Total	1,701	100.0

Note: Level 1 represents the chief executive level, and levels 2–5 represent sequentially lower management tiers.

Location of staff

The structure of most of the 17 participant organisations included a head (or corporate) office, regional offices and local offices. Table 15.5 shows the location of respondents in the sample within this structure in addition to 122 respondents (7%) who identified their location as ‘other’. Of this latter group of respondents, most stated their location as being either outside New Zealand or performing an organisation-wide service function from an office distinct from the corporate office (such as a national data centre).

Table 15.5: Location of staff in the organisations that participated in the survey

Location	Respondents	
	Number	Percentage (%)
Head office	993	58.3
Regional	278	16.3
Local	309	18.2
Other	122	7.2
Total	1,702	100.0

Staff responsibilities

The survey asked respondents how many staff (including themselves, their direct reports and those reporting to their direct reports) they were responsible for. Nearly all respondents were managers with staff responsibilities (Table 15.6).

Table 15.6: Work unit staff in the organisations that participated in the survey

Number of staff for which respondent responsible	Respondents	
	Number	Percentage (%)
1 (self)	43	2.5
2–10	723	42.7
11–50	682	40.2
51–100	127	7.5
More than 100	120	7.1
Total	1,695	100.0

Work of respondents

Work unit objectives were analysed under the three broad categories of:

- final output, divided into three activities:
 - direct services to ministers (policy advice or ministerial support)
 - direct services to the public
 - directly enforcing the law or regulations
- intermediate process, divided into two activities:
 - managing contracts

- managing joint projects
- overhead activities, divided into two activities:
 - planning and controlling
 - internal corporate services.

Table 15.7 shows that respondents were fairly evenly spread over the three main categories of objective.

Table 15.7: Work unit objectives in the organisations that participated in the survey

Spend 'a lot or nearly all' of time on ...	Respondents (N = 1,702)	
	Number	Percentage (%)
Direct services to ministers (policy advice or ministerial support)	278	16.3
Direct services to the public	774	45.5
Directly enforcing the law or regulations	422	24.8
Managing contracts with service providers	267	15.7
Managing joint projects or relationships with other organisations	409	24.0
Developing or reporting on organisational goals, strategies, plans, and processes	466	27.4
Internal services for other parts of my organisation (eg, human resources, finance, information technology)	503	29.6
Other*	556	32.7

Note

- * Some of the one-third of managers who reported that they were engaged a lot on 'other' tasks provided comments on their tasks. Most of the comments could be classified under one or more of the other headings for this question.

Environment factors

Influences on daily work

The survey asked respondents to state the extent to which they agreed or disagreed with various statements about the influences on the daily work of their work units. The results for respondents across all the participant organisations who agree or strongly agree with the various statements are shown in Table 15.8.

Table 15.8: Influences on daily work

Agree or strongly agree that ...	Respondents		
	Corporate (%)	Regional or local (%)	All (%)
My work unit is mostly guided by established rules and procedures	74.1	92.0	80.3
My work unit meets a lot of day-to-day demands from senior management, other agencies, or ministers	40.9	27.4	36.3
In my work unit, we have a work plan and we stick to it	35.2	41.1	37.2
My work unit is mainly responding to the requirements of the members of the public that we deal with	22.2	57.1	34.2
My work unit frequently has to respond to media enquiries or public comment about our operations	19.3	14.7	17.7
My work unit often works with other organisations on common tasks	38.2	38.8	38.4
In my work unit, we rely a lot on applying our professional training or knowledge	79.3	79.9	79.5
In my work unit, we have a lot of discretion on how we organise and prioritise our work	44.0	43.8	43.9
My work unit has a lot of freedom in how we allocate our budget and staff	19.5	13.5	17.4

Note: The survey guidance was, "Below are some statements about things that may influence your daily work. Please indicate to what extent you personally agree or disagree with each statement. As before, 'the public' means anybody who is the target of your work unit's operations. It can include clients, customers, offenders, and so on".

Overall, respondents agreed that the most significant influence on the daily work of their work units was a reliance on applying their professional training or knowledge. Respondents considered that the least influential factor was the freedom of work units to allocate budgets and staff. This is, perhaps, surprising given the reputation of the state sector for giving a high degree of authority to managers over inputs. The vast majority of respondents overall also considered that responding to media enquiries or public comment was not an important influence on the daily work of their work units.

Respondents based in regional or local offices saw the daily work of their work units as being most significantly influenced by established rules and

procedures. Compared with their corporate colleagues, these respondents consider that their work units are mainly responding to the requirements of the public. As might be expected, the results show that work units based in corporate offices are expected to deal much more than work units based in local or regional offices with day-to-day demands from senior management, other government agencies, and ministers.

Motivation

The factors that motivate performance in an organisation may come from several sources, but fall broadly fall into the three categories:

- the formal organisation
- less formal influences, such as work groups in the organisation or clients or customers of the organisation
- ‘intrinsic’ motivators, such as personal satisfaction derived by an employee from their work.

Table 15.9 shows that all these motivators are important, but particularly support of the peer group, acknowledgement from those in authority, and the intrinsic worth of public service work.

Table 15.10 displays motivation factors in relation to the management level of respondents in the organisation as defined earlier. Only two differences stand out: respondents in tiers 4 and 5 – three and four levels below chief executive – were slightly more influenced by the opportunity for increased pay or promotion and the need to comply with the organisation’s requirements, and respondents in tiers 1–3 – chief executive and the two levels below – slightly more by recognition. But overall, on the face of it, there is comfort for those who believe that public servants at all levels should see their work as intrinsically valuable.

Table 15.9: Factors in motivation to do a good job

Agree or strongly agree that ...	Respondents (n = 1,702)	
	Number	Percentage (%)
The opportunity for increased pay or promotion	1,048	61.6
Recognition of my work from senior management or the Minister	1,475	86.7
The feedback and support we give each other	1,594	93.7
Appreciation of my work by the public	971	57.1
Recognition by other organisations of the quality of my work	1,135	66.7

The opportunity to do a job of value for the community	1,444	84.8
The need to comply with the organisation's requirements	1,075	63.2

Table 15.10: Factors in motivation to do a good job (by management tier)

Important or very important:	Management level	
	Tiers 1-3 (n=1,115)	Tiers 4-5 (n=587)
The opportunity for increased pay or promotion	59.7	65.1
Recognition of my work from senior management or the Minister	88.5	83.1
The feedback and support we give each other	92.9	95.1
Appreciation of my work by the public	50.6	69.3
Recognition by other organisations of the quality of my work	67.0	66.1
The opportunity to do a job of value for the community	82.1	90.1
The need to comply with the organisation's requirements	58.0	72.9

Note: Tier 1 represents the chief executive level. Tiers 2–5 represent sequentially lower management levels.

Clarity of performance as a concept

One aim of the survey was to determine whether respondents had a clear idea of how performance is defined and what expectations there are of them in relation to performance. A high proportion of respondents in all five management tiers indicated that their work units were clear about organisational objectives and knew what was expected of them by way of performance (see Table 15.11). Overall 70% of respondents agreed or strongly agreed that their work unit's performance was primarily assessed in terms of specified targets, but this was over 82% in the case of levels 4 and 5. The lower tiers also put in more effort supplying the organisation's information systems requirements, indicating the relatively greater importance of structured data in their work.

Table 15.11: Perceptions of performance as a concept (by management tier)

Agree or strongly agree that ...	Tiers 1-3 (%) (n = 1,115)	Tiers 4-5 (%) (n = 587)	Overall (%) (n = 1,702)
In my work unit, we have a clear idea from senior management about our organisation's objectives	82.2	87.9	84.2
In my work unit, we know what is expected of us	92.8	94.0	93.2
My work unit is mostly judged against specific performance targets	64.3	82.6	70.6
My work unit puts a lot of effort into supplying data for my organisation's information systems	58.1	74.1	63.6

Most respondents also agreed with a variety of statements about what senior management expected from them by way of performance, as shown in Table 15.12. There was very little variation between tiers of management in the responses.

Table 15.12: Senior management expectations of performance

I believe that the senior management want my work unit to ... (agree or strongly agree):	Respondents	
	Number	Percentage (%)
Be careful to buy what we need at the lowest cost	1,322	77.7
Deliver the most we can with the staff and other resources at our disposal	1,666	97.9
Focus clearly on contributing to the outcomes that the government wants from our organisation	1,586	93.2
Deliver our organisation's services fairly or to those most in need	1,396	82.0
Have the staff and other resources to do a good job in the future	1,341	78.8
Maintain and enhance the public's trust in our organisation and its operations	1,633	95.9

Managers with specific performance targets

Table 15.13 shows the numbers of respondents who considered that their work units have performance targets in relation to specified responsibilities. It is clear from the table that a large proportion of work units were judged against responsibilities with specific performance targets.

Table 15.13: Work units judged against specific performance targets

Spend a lot or nearly all of their time on ...	Agree or strongly agree mostly judged against specific targets	
	Number	Percentage (%)
Direct services to ministers (policy advice or ministerial support)	163	58.6
Direct services to the public	641	82.8
Directly enforcing the law or regulations	359	85.1
Managing contracts with service providers	198	74.2
Managing joint projects or relationships with other organisations	280	68.5
Developing or reporting on organisational goals, strategies, plans and processes	333	71.5
Internal services for other parts of my organisation (eg, human resources, finance, information technology)	330	65.6
Other	400	71.9

Quality of performance information

The survey results are indicative of a lot of dissatisfaction among respondents about the quality of information on performance received by their work units. For instance, as shown in Table 15.14, less than two-thirds of the respondents agreed or strongly agreed that their work units were given good information about the quality and timeliness of services provided or about the overall performance of the work units.

Additionally, less than half of the respondents agreed or strongly agreed that their work units got good information about how well they were performing with respect to their expected contribution to their overall organisation’s achievement of government outcomes or on the effects of their work on the public. Just over half of the respondents agreed or strongly agreed that the performance

information their work units received would help them understand how to improve the performance of their work units. However, as shown in Table 15.15, these responses varied substantially among the different participant organisations.

We tentatively conclude that information about performance is best for respondents delivering direct services to the public and poorest for those delivering direct services to ministers.

Table 15.14: Quality of the information that work unit receives

Agree or strongly agree that ...	Respondents (n = 1,702)	
	Number	Percentage (%)
My work unit gets good information about the quality and timeliness of our services	1,060	62.3
My work unit gets good information about the contribution we are making to the outcomes the government wants from our organisation	831	48.8
My work unit gets good information about the effects we are having on the public	760	44.7
Information on the performance of my work unit gives a good picture of how well we are doing	1,075	63.2
The reports my work unit gets help us understand how to improve our performance	901	52.9

Table 15.15: Quality of the information work unit receives (variation by participant organisation)

Agree or strongly agree that ...	Maximum (%)	Minimum (%)	Median (%)
My work unit gets good information about the quality and timeliness of our services	90.0	46.4	65.6
My work unit gets good information about the contribution we are making to the outcomes the government wants from our organisation	90.0	34.8	54.6
My work unit gets good information about the effects we are having on the public	90.0	31.6	47.7
Information on the performance of my work unit gives a good picture of how well we are doing	80.0	47.7	63.6

The reports my work unit gets help us understand how to improve our performance	80.0	39.7	51.3
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External climate for the organisation

Finally, in our questions on possible factors explaining demand for information, we asked respondents to indicate their agreement with three propositions regarding the external climate for the organisation’s work. These results are reported in Table 15.16.

Table 15.16: External climate (variation by participant organisation)

Agree/strongly agree that ...	Maximum (%)	Minimum (%)	Median (%)	Overall (%)
My organisation enjoys a high degree of public confidence in its work	100.0	33.3	87.5	65.7
My organisation frequently has to respond to concerns raised by the public (such as service users)	85.7	0.0	66.7	70.3
My organisation is frequently called upon to justify its actions to ministers or to parliament	76.5	0.0	45.7	54.8

Use of information

The final sections of this chapter turn to the use of information for performance, particularly how much and for what purposes managers rely on the sort of quantitative information that features centrally in the formal system and on the information supplied by the organisation rather than local sources.

What managers use information for

Respondents were asked how much their work units used performance information for different management processes in general and then by type of information: numerical compared with non-numerical and sourced from the organisation rather than other sources.

Respondents were first asked how important performance information of whatever type or source was to them for a range of management processes. Ten main management processes were identified, and respondents were first asked how frequently their work units used performance information for each of these

processes (question 14). The answers to this question were on a three-point scale: rarely, sometimes, and often or always (plus don't know or not applicable). We defined 'frequent users' of information about a management process as those in work units who said they 'often or always' used information about performance for that process) (see Table 15.17).

Table 15.17: Work unit use of information for performance – frequent users

My work unit uses information about performance to ...	Frequent users (n = 1,702)	
	Number	Percentage (%)
Help develop strategies and plans for my organisation	815	47.9
Monitor my work unit's workload and performance in relation to its objectives	997	58.6
Manage relationships with other organisations and providers	693	40.7
Ensure that my work unit is delivering the outputs that the minister requires	1,054	61.9
Monitor my work unit's contribution to the outcomes that the government wants for our organisation	923	54.2
Ensure that my work unit has the staff skills and other capabilities required to meet its objectives	842	49.5
Monitor budget and staff time to meet demands on my work unit	976	57.3
Help decide how to improve my work unit's performance	941	55.3
Publicise my work unit's operations or respond to public enquiries	348	20.4
Report to senior management, government or parliament	781	45.9

Note: Frequent users = those who answered that they 'often or always' use information about performance.

The results shown in Table 15.17 varied widely across the 17 participant organisations. This variability is likely to reflect a variety of factors, including the management level and location of respondents, the particular organisation they work for, and the nature of their work.

The responses to question 14 primarily provided us with a filter for respondents whose work units were frequent users of information for each task. The assumption was that the tasks for which work units frequently used information (of whatever type or source) were likely to be the main tasks of that

work unit, and therefore of most significance for judging the type or source of information used. The analysis below of questions 15 and 17 showing demand for numerical and organisational information for each work unit process mainly focuses on those respondents who were defined as frequent users by their responses to question 14.

Managers who make the most use of numerical and organisational performance information

As discussed, the survey aimed to discover how much state sector managers rely on performance information received or generated locally (ie, through their own work groups or external contacts), including relatively unstructured information obtained from sources such as conversations with others, text, and personal observation. A relatively strong reliance on local, unstructured information may indicate decoupling: a relatively weak link between the ‘official’ view of performance embedded in the organisation’s structured information systems and what local managers believe is important about performance.

Questions 15 and 17 dealt with demand for numerical and organisational information respectively. Respondents were asked to indicate for each of the 10 specified management processes the extent to which they relied on numerical and organisational information rather than non-numerical information and information not provided by their organisation. The questions used a five-point Likert scale, where a score of 1 means ‘almost always’ and a score of 5 means ‘almost never’.²⁰⁶ In the following tables, we have generally defined relative ‘high reliance’ as a score of 1 or 2 on this scale.

Table 15.18 shows the responses from frequent users of information in general who reported that they were relatively high users of numerical or organisational information (ie, they gave a score of 1 or 2 on the Likert scale).

Table 15.18 shows that frequent users of performance information generally rely a lot on non-numerical and non-organisational sources for their information. Nevertheless, for some work objectives as defined in Table 15.4, numerical information and information provided by the organisation are more important than for other objectives.

206 The precise wording of the head question for questions 15 and 17 was, “On a scale of 1 to 5, where 1 means ‘nearly entirely’ and 5 means ‘almost never’, how much do you rely on [numerical or organisational] information relative to other information in each of the following categories?”. This was followed, for each of the 10 management processes, by scales of 1 to 5 plus don’t know / not applicable.

Table 15.18: Use of numerical and organisational information

Frequent users of information in general to ...	N	High reliance* on	
		Numerical information (% N)	Organisational information (% N)
Help develop strategies and plans for my organisation	815	42.8	56.2
Monitor my work unit's workload and performance in relation to its objectives	997	58.7	76.1
Manage relationships with other organisations and providers	693	26.3	33.9
Ensure that my work unit is delivering the outputs that the minister requires	1,054	53.0	67.9
Monitor my work unit's contribution to the outcomes that the government wants for our organisation	923	50.1	68.6
Ensure that my work unit has the staff skills and other capabilities required to meet its objectives	842	40.5	71.4
Monitor budget and staff time to meet demands on my work unit	976	71.0	84.4
Help decide how to improve my work unit's performance	941	44.8	57.7
Publicise my work unit's operations or respond to public enquiries	348	40.9	56.5
Report to senior management, government or parliament	781	48.1	69.0

Notes: 'Frequent users' = 'often or always' use information about performance (question 14). 'High reliance' = question 15 or question 17 = 1 or 2 on a scale from 1 ('almost always') to 5 ('almost never').

Tables 15.19 and 15.20 look at the relationship between the significant objectives of work units and their reliance on numerical and organisational information about outputs ("delivering the outputs the minister requires") and outcomes ("monitoring contribution to the outcomes the government wants"). They show that for those respondents whose work units supply direct services

to the public or directly enforce the law or regulations, numerical and organisational information about outputs and outcomes is relatively important.

Table 15.19: Reliance on numerical information – outputs and outcomes

Spend a lot or nearly all of time on ...	N	High reliance* on numerical information	
		Outputs (% N)	Outcomes (% N)
Direct services to ministers (policy advice or ministerial support)	278	38.8	38.0
Direct services to the public	774	64.8	61.3
Directly enforcing the law or regulations	422	64.1	62.7
Managing contracts with service providers	267	53.0	52.9
Managing joint projects or relationships with other organisations	409	50.6	44.2
Developing or reporting on organisational goals, strategies, plans and processes	466	53.7	50.2
Internal services for other parts of my organisation (eg, human resources, finance, information technology)	503	45.7	42.8
Other	556	53.6	49.2

Note

- * 'High reliance' is defined as *both*, for question 14, answering ('often or always') using information generally on outputs or outcomes *and*, for question 15, scoring 1 or 2 on a scale from 1 ('almost always') to 5 ('almost never') using numerical information on outputs and outcomes.

Table 15.20: Reliance on organisational information – outputs and outcomes

Spend a lot or nearly all of time on ...	N	High reliance* on organisational information	
		Outputs (% N)	Outcomes (% N)
Direct services to ministers (policy advice or ministerial support)	278	49.3	51.4
Direct services to the public	774	73.5	72.6
Directly enforcing the law or regulations	422	74.2	74.9
Managing contracts with service providers	267	66.9	67.3
Managing joint projects or relationships with other organisations	409	61.6	61.3
Developing or reporting on organisational goals, strategies, plans and processes	466	66.1	65.4
Internal services for other parts of my organisation (eg, human resources, finance, information technology)	503	62.8	61.9
Other	556	68.5	66.3

Note

- * 'High reliance' is defined as *both*, for question 14, answering ('often or always') using information generally on outputs or outcomes *and*, for question 17, scoring 1 or 2 on a scale from 1 ('almost always') to 5 ('almost never') using organisational information on outputs and outcomes.

By way of comparison, Tables 15.21 and 15.22 show similar results relating to the type of performance information relied on in relation to process ("monitor my work unit's workload and performance in relation to its objectives") and inputs ("monitor budget and staff time to meet demands on my work unit"). There may be some overlap of concepts; for instance, "workload and performance" could be measured in the same categories as outputs. Similarly, budget information is probably structured within requirements to account for outputs as well as inputs. Nevertheless, when framed as questions about inputs and process, the responses show somewhat higher relative reliance on numerical and organisational information than is the case for output and outcome information.

The regression test results also support the conclusion that state sector managers who spend more time on direct services to the public and on the direct enforcement of law and regulations, rely more on numerical and organisational information; managers who spend more time on direct services to ministers and managing joint projects with other organisations rely more on non-numerical and non-organisational information. The results show no significant relationship between the use of numerical and organisational information and other tasks.²⁰⁷

Table 15.21: Reliance on numerical information – process and inputs

Spend a lot or nearly all of time on ...	N	High reliance* on numerical information	
		Workload & performance (% N)	Budget & staff time (% N)
Direct services to ministers (policy advice or ministerial support)	278	38.0	63.0
Direct services to the public	774	71.1	72.8
Directly enforcing the law or regulations	422	76.8	74.8
Managing contracts with service providers	267	63.6	69.9
Managing joint projects or relationships with other organisations	409	53.6	70.4
Developing or reporting on organisational goals, strategies, plans and processes	466	59.8	68.5
Internal services for other parts of my organisation (eg, human resources, finance, information technology)	503	50.0	65.6
Other	556	62.3	67.7

Note

* High reliance' is defined as *both*, for question 14, answering ('often or always') using information generally on workload or performance, or budget and staff time *and*, for question 15, scoring 1 or 2 on a scale from 1 ('almost always') to 5 ('almost never') using numerical information on either category.

207 Gill et al (forthcoming).

Table 15.22: Reliance on organisational information – process and inputs

Spend a lot or nearly all of time on ...	N	High reliance* on organisational information:	
		Workload & performance (% N)	Budget & staff time (% N)
Direct services to ministers (policy advice or ministerial support)	278	71.5	81.9
Direct services to the public	774	78.0	82.3
Directly enforcing the law or regulations	422	78.2	85.5
Managing contracts with service providers	267	71.5	79.1
Managing joint projects or relationships with other organisations	409	70.2	81.4
Developing or reporting on organisational goals, strategies, plans and processes	466	77.9	83.7
Internal services for other parts of my organisation (eg, human resources, finance, information technology)	503	75.9	78.5
Other	556	75.3	78.3

Note

- * 'High reliance' is defined as *both*, for question 14, answering ('often or always') using information generally on workload or performance, or budget and staff time *and*, for question 15, scoring 1 or 2 on a scale from 1 ('almost always') to 5 ('almost never') using organisational information on either category.

Extent to which state sector managers' information demands are driven by compliance requirements

The levels of numerical and organisational information used in relation to the main categories of outcome, output, process, and input support the view that state sector managers are significantly constrained by the organisation's view of performance, and that this, in turn, is driven by external accountability requirements. The question arises as to whether this is a result of a strong hierarchical idea of compliance in state sector organisations. Responses to the survey question on influences on daily work (reported in Table 15.8) may shed light on this issue.

To some extent, the responses to this question appear paradoxical. On the one hand, managers across all five management tiers consistently reported that they rely a lot on applying professional training or knowledge. On the other hand, a high proportion of managers, particularly those based in regional and local offices, reported that they are “mostly guided by established rules and procedures”;²⁰⁸ less than half said that they have a lot of discretion on how they organise and prioritise their work; and only 17% agreed that they have a lot of freedom in how they allocate their budgets and staff.

The regression test results also indicate that managers dealing with direct services and managers based outside head office tend to rely more on numerical and organisational information than those engaged in policy or based in head office. The regression analyses also show a linear relationship between (organisational) distance from head office and the relative use of numerical and organisational data.²⁰⁹ The results are generally consistent across the participant organisations. For these managers, the organisation defines what performance formally means for them and the evidence from the survey (particularly from the importance of ‘outputs’ to them) is that external accountability measures play a large part in configuring their priority performance targets.

It seems consistent with this picture that a very large proportion of managers are guided by established rules and procedures. Overall, the survey depicts a government of rules and control; managers are not ‘muddling through’ or mainly working in horizontal informal networks but are mainly following the rules and managing activities to plan. The formal system, largely based on a rational control model focused on control and budgeting, seems deeply embedded in most of the participant organisations. This may explain why, particularly for task managers, there is a relatively high reliance on numerical information and on information served by the organisation.

Extent to which external and internal information requirements are tightly coupled

A further objective of the survey was to test directly the proposition that external accountability and internal information requirements were related. This is not the same as saying that external accountability drives internal performance

208 The proportion of managers based at local and regional offices was 92%. Although this large proportion might be because, to some extent, our largest state sector organisations, with extensive distributed office networks, have a strong procedural component in their work, the overall proportions are nonetheless striking.

209 See Gill et al (forthcoming). On the other hand, there is no consistent relationship between the management tier and relative use of numerical or organisational information.

management – for instance, the two factors might both be subject to some other influence or external measures might be based on internal ones – but it is an indication of coupling. The regression analysis constructed two indices from the sub-questions for questions 15 and 17, on the premise that some of these purposes for use of information were primarily internal and others primarily external. For both questions, the ‘external’ index seemed to explain about half the variance in the ‘internal’ index.²¹⁰

In summary, a cautious conclusion from these and other survey results is that the requirements of external accountability do have a significant impact on the demand for information to manage performance, particularly in those work units that have responsibility for direct services to the public or direct enforcement activities. To quite a high degree, these work units are judged mostly against specific performance targets and they are relatively frequent users of information about outputs and, albeit to a lesser extent, outcomes. They rely a lot on numerical sources, and their requirements for information are significantly served from organisational sources.

Major sources of variance in information demands

But the survey results do not demonstrate an unambiguous or universal link between external accountability and internal performance. There is also extensive use of unstructured or local sources of information by managers.²¹¹ Some of this variance can be explained by task differentiation or by management tier or location. More generally, the survey results, combined with our impressions from the case studies, lead us to speculate on how discontinuities in demand for information on performance might arise between different levels or groups in a public organisation.

Senior managers have great power to use rules to simplify decision-making for their staff, but differences in demand for information can still arise because of differences in perceptions and values in an organisation. Senior managers do not have total power to enforce their ‘model’ on subordinates. Although the formal hierarchical control model does seem strong in most of the organisations we studied, the existence of unstructured or local information strongly implies that

210 Gill et al (forthcoming).

211 Local information is not necessarily unstructured. It might well be locally collected, but unofficial, statistics or other structured information. The case studies discussed earlier in this book suggest that it is common for local work units to compile their own statistics about aspects of their operations.

ideas about what is important about performance, and hence what information to collect about it, vary significantly within organisations.

Whether managers think they get good information in general or for specific tasks

One possible source of variation is users' perceptions of the quality of the information they receive. The survey responses enabled us to test how managers rated the information they got on five dimensions, as shown in Table 15.14. The regression analyses suggested that high users of numerical and organisational information tended to be more satisfied with the quality of information they received.²¹² Although care must be taken interpreting this result, since there are a large number of potential explanations for it, it provides some reason to believe that these managers perceive numerical and organisational information to be of higher quality than the non-numerical and non-organisational information.

Conclusion

It can be concluded from the survey that there is a formal model of rationally defined, objective performance measures for external accountability purposes that, to a greater or lesser extent, shapes the performance measurement and management practices in state sector organisations. The evidence for this conclusion is found in the existence of internal targets consistent with external accountabilities, and a high use of formal, structured information in performance management.

Nevertheless, there is significant use of local and informal information, arising from managers' need to supplement from their own sources the information that they get from their organisations. Furthermore, these factors vary substantially across our 17 participant organisations. Accordingly, we also conclude that:

- state sector organisations vary in the degree to which, in measuring and managing performance, they rely on calculation-oriented, numeric information rather than judgement-based anecdote, narrative, and direct observation
- some decoupling occurs both between the frameworks used to manage external accountability and those used to internally manage the organisation's activities, and between those used to manage the organisation's activities at national and local levels.

212 Gill et al (forthcoming).

Part Four

Breaking Open the Iron Cage: Improving performance management of state organisations

Introduction to Part Four

Derek Gill

The title of this book refers to Max Weber's "iron cage" (1953). Weber's view was that the forces of modernity "lie on the shoulders of humanity ... like a light cloak, which can be thrown aside at any moment. But fate decreed that the cloak should become an iron cage" (1953, p 181).

But you do not throw off a cage like you throw off a cloak. The picture that emerged from the research discussed in Part Three was that the active use of performance measures by individual public organisations tends to create an iron cage of control. This is a long way from the "freedom to manage" envisaged by the designers of the formal system discussed in Part Two. We found little evidence that organisations wanted to open the door of the iron cage. Instead in response to the abolition of the wide range of input and other controls with the reforms of the late 1980, organisations have reinvented and developed their own iron cages.

In Part Two we reviewed the original design of the formal state sector system and how that design has evolved. In Part Three we reviewed the use made of performance information in the operations of public organisations within that system. In this concluding part we pull these stands together.

Chapter 16 discusses how, in the light of the research findings in Part Two, public organisations are controlled and governed in New Zealand. Chapter 17 explores the perspective that the strong emphasis on outputs, compliance and control found in the research ‘gets in the road’ of the development approaches based on outcomes and learning.

The Managing for Performance Project on which this book was based was not purely research for research’s sake. The aim of researching how actors use the organisational performance information system was to enable an informed assessment of how to improve the design of the formal system in New Zealand.

There is an increasing imperative for change as governments around the world face a daunting set of challenges. A separate Institute of Policy Studies project, the Future State (Gill et al, 2010), identified critical challenges for public policy development over the coming decades, including affordability, complexity, diversity, and faster and less predictable change. The project concluded that the current New Zealand public management system was designed for stable and predictable conditions and has served the country well over the last 20 years. However, agreement is growing that existing approaches *on their own* will not provide the platform required to address the challenges faced and ways of working demanded in the 21st century.

The last contribution (chapter 18) sketches out alternative ways ahead and the direction for change that could move New Zealand public management towards its original ideal of the creation of public value and free it from the iron cage of bureaucratic control.

Conclusions: How public organisations are controlled and governed

Rob Laking

Introduction

Once upon a time, New Zealand had a world-wide reputation for having developed a single, rigorous system of accountability for results extending from ministers through senior managers to task workers on the front line of public organisations. This project, however, began with the apparent disconnect between the formal system of performance management in the New Zealand public service as defined in Statements of Intent and Annual Reports, and the system actually in use.

The reasons for the disconnect seemed clear. There is certainly an intense, if fitful, interest in New Zealand in the performance of public organisations but it often has little to do with official outputs and outcomes. Accordingly, because of the low political relevance of these measures, ministers and parliamentarians pay little attention to them and, not surprisingly, public servants come to regard their upkeep as a compliance task and spend less effort keeping them reliable and relevant – thereby further reducing their usefulness.

Having said that, our research findings by and large confirm that the formal rules for external accountability have a significant effect on the internal management of public organisations. But this formal system is mitigated by other influences: there is variation between organisations in how the formal rules are enacted. How can this heterodoxy come about in a jurisdiction that was once known for the clarity of its concepts and the universality and rigour of their application? This chapter revisits our findings in the light of some more general ideas about how the management of public organisations is related to their governance.

Basis for control

From a senior manager's perspective, performance management is the task of aligning the work and results of an organisation with its objectives. Performance management is about control: the means of directing or guiding the actions of

people in their work with the aim of achieving specified objectives. We tend to think of 'control' as the close supervision or direction of the work of others. In management writing, however, the word 'controls' has a much more general meaning: controls are the means of maintaining the formal and informal social institutions – 'rules of the game' – that guide us in dealing with others both in the organisation and externally. Controls are influences on both how we judge the significance of things and what we do about them.

In the workplace, the source of the controls that influence us is not solely the formal authority of the organisation – controls may also emanate from what we perceive to be the unwritten norms of behaviour in the workplace, or the understandings we share with others about what is valuable or important about our work.

Three 'pillars' or types of control

In chapter 6, Rodney Dormer quotes W Richard Scott (2001) on three 'pillars' or types of control: regulative, normative, and cultural–cognitive.

Regulative (formal) controls in public organisations are backed by the authority of laws and regulations that give departments and agencies their duties and powers. They include the internal (usually written) procedures (eg, manuals) and routines (such as the regular reporting of results) of the organisation.

Regulative controls may focus on results (outputs or outcomes), limits (budgets or staff numbers) or actions (steps to take in response to defined events).

Beyond regulative controls, people in work will be influenced by normative controls: what they believe to be the norms of behaviour towards their colleagues and other stakeholders, and roles and social positions.

Scott suggests that we apply specific values and norms to specific social functions or roles and thereby put pressure on those occupying those roles to conform to expectations (Scott, WR, 2001). Public servants, for example, are expected to act in an unbiased manner, provide free and frank advice to elected politicians, and provide services equitably to the public.

Finally, cultural–cognitive controls capture the idea that the controls we believe are internalised to us – our 'self-control' – are in fact derived from the understandings we share with others (not just of the workplace but our family and friends as well) about values and appropriate actions in different situations. Powell and DiMaggio (1991) note the importance of formal education processes, the role of professional networks that span organisational boundaries, and the

‘filtering’ of personnel that occurs through employment processes among the influences that shape these values.

In the research findings (chapter 15) we give examples of the influence that professional cultures – such as scientists in the Department of Conservation, policy advisers in the Ministry of Women’s Affairs, or social workers in Child, Youth and Family – can have on the values and behaviour of staff.

Weick (1995) suggests that such shared conceptions are often based on shared experience and learning, which then becomes a language or code for sense-making: how we interpret events, or how others interpret them for us, to give these events significance and help us understand how we should respond to them based on experience and learning from similar events. In this way, according to Dormer, cultural and cognitively based institutions are less a reflection of ‘what we do around here’ and more of ‘what we have done around here’.

In addition to influencing what we do, controls thus provide representations of events for us that influence how we perceive the world. The formal performance reports of an organisation define events that should be significant to us, such as work targets, and therefore what we need to respond to with action. But what we regard as significant will not only depend on what the organisation says is significant, but also on what we really think is important to our managers, our work colleagues and external stakeholders.

Theories of control

In an organisation, control is closely connected to power, or the sources of influence that others have on us and the resources that are available to us. Senior managers derive power from their legal authority to direct, to decide on roles and duties, and from their control of resources and ability to reward or sanction. They also derive power from something less tangible that we call ‘leadership’: their ability to ‘make sense’ for other staff of events and what the organisation does, or to lead by exhortation and example. But others inside and outside the organisation also have, if not the legal authority, the power of influence over others.

Thus, there is a broad dividing line between the regulative or formal controls of the organisation and those controls that are social or cultural in origin. The dividing line is represented by where our perceptions, values and behaviour are influenced more by informal social groupings than by the formal external authority of the organisation. These competing perspectives are portrayed in Figure 16.1 and Table 16.1.

Figure 16.1: Influences on management action

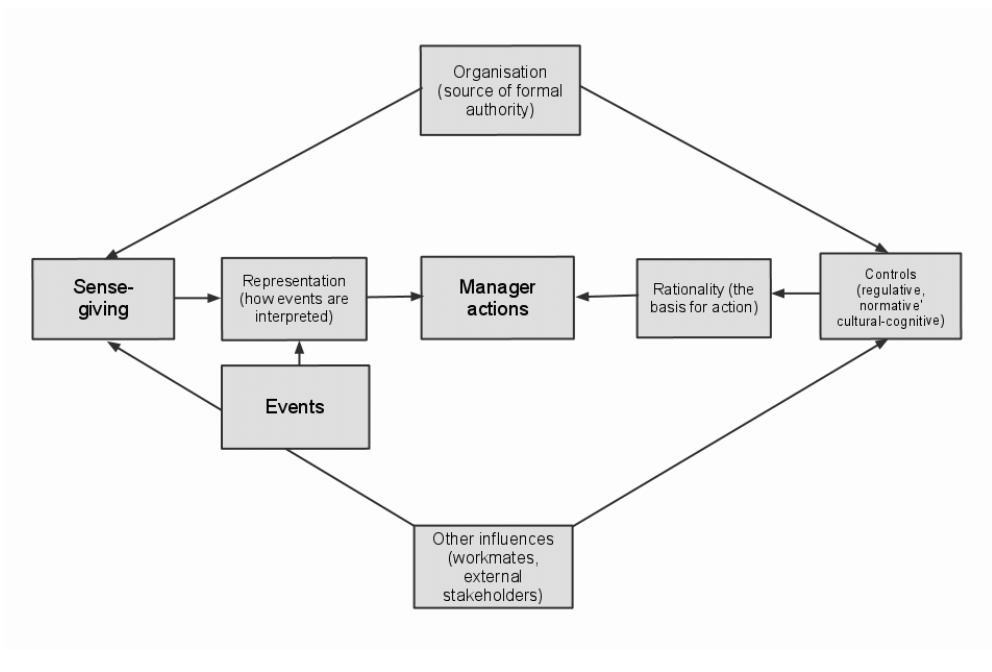


Table 16.1: Two theories of control

	Formal, hierarchical	Informal, social
Representation: how reality is described	Objectively: "technical, or algorithmic, resulting from the application of formal logic and scientific calculus" and "expected to contain concrete, quantitatively measurable elements"	Subjectively: "socially constructed" from interactions "among individuals and collectives" and "would not be expected to contain concrete, quantitatively measurable elements or outcomes"
Rationality: what explains or justifies action	Formal: "value neutral, empirically based knowledge calculation with universal application"	Substantive: "the substance of the values, ends, needs of social groups and the institutions that promote them"
Power: where influence is derived	Formal organisational authority and control of resources, "leadership" skills	Personal characteristics, expertise, control of local information, representation of "cultural values and expectations"

Note: Quotations in the table are from Dillard et al (2004).

This view of performance management has implications for the analysis. In particular, there is potential for ‘de-coupling’: a separation between the formal controls of the organisation and the actual ‘controls in use’ by managers in different parts of the organisation. In other words, actual organisational behaviour departs from what is written into the formal model of performance management. Decoupling can arise for a variety of reasons in the way senior managers use their formal authority: formal objectives are ambiguous or conflicting or senior managers’ actual behaviour suggests that other unstated objectives are more important. However, it can also arise because of the tensions between the messages being carried by the formal regulative controls and the values and perceptions of other workers and external stakeholders in the organisation.

Control and organisation: strategies in use

Organisation (a set of rules for combining people and resources in a common purpose) is closely connected to control (how to direct organisations to this purpose). Control by results, in the sense of the formal system, is only one of the many basic strategies of control in organisations.²¹³ In our research, we encountered a wide variety of strategies for control in use in government departments.

Furthermore, there is evidence that public managers have a variety of resources at their disposal to secure the performance they require from their staff: the power of control over resources, to set formal rules for the conduct of employees, and to lead by example and inspiration and (by no means least) the ability to manage outside of the department (upwards and sideways) – particularly its ‘authorising’ environment²¹⁴ – to create space in which the organisation can function. Astute public managers use all these instruments, emphasising achieving formal targets and sticking to the rules but also making space for innovation and learning.

213 There is a large academic literature on control in organisations. This brief analysis of strategies of control draws mainly on the writing of Henry Mintzberg (1980, 1996a, 1996b), but other writers worth consulting are Berry et al (1995), Perrow (1967), Etzioni (1961), Dalton and Lawrence (1971), Galbraith (1977), Ouchi (1977, 1980), Hood (1995a), Hofstede (1981) and Burns and Stalker (1961).

214 From Moore (1995): the three-legged test of “substantively valuable”, “legitimate and politically sustainable”, and “operationally and administratively feasible”. The second test is that “the enterprise must be able to continually attract both authority and money from the political authorising environment to which it is ultimately accountable” (p 71). In a political world, the public manager must also be aware of and form relationships with the stakeholders who the political executive regards as important.

As indicated above, management control can range along a continuum from direct (and visible) personal supervision through setting targets and rules to indirect (and sometimes invisible) means of influencing the values and perceptions of individual workers either directly or through their work groups.

Direct control strategies

The most direct form of control is personal supervision: a builder will give tasks to each labourer on the site and keep an eye on what they are doing, or the head of a ministerial unit will assign drafting to members of the team and personally check their drafts.

Beyond direct personal supervision, managers can still check on their staff's performance from time to time but in between checking they have to be able to trust their staff to work on their assigned tasks unsupervised.

Less direct control strategies

Less direct control strategies include establishing targets, rules for action, and boundary rules.

The formal system relies a lot on control by setting targets. Managers specify (and quantify) objectives for their staff, monitor their performance through regular reporting, and take corrective action when performance does not meet the standard.

Rules for action can be in the form of what action to take in specific circumstances: how an ambulance driver should respond to a suspected concussion; or when a Work and Income staff member should register an applicant for an unemployment benefit. Rules for action of this sort rely on the ability of the 'agent' (the person accountable for taking the action) to detect the event – the ambulance driver to recognise a likely concussion or the Work and Income staff member to assess a claimant's circumstances – as well as apply the appropriate response.

When control is decentralised, managers have to rely to some extent on setting boundary rules: limits on their employees' freedom of action. Most obviously these are limits on their budget authority or on committing their department to a contract. But there may also be 'bright line' rules about accepting gifts, for example, or dealing with cases involving a friend or relative. Managers may monitor compliance with boundary rules by informal checking or internal control and audit, but such rules are generally effective only if most employees comply with them unbidden by authority, that is, if the values that the rules embody are 'internalised'.

Controls that set a work environment to shape behaviour

Beyond the control strategies discussed above, are strategies that rely explicitly on setting a work environment that will shape the behaviour of individual employees, mostly through other groups or their own values. Such strategies include peer group control, stakeholder voice and control, user choice of service, and employee self-control. Again, we encountered evidence of these in our research.

Peer group control can include ‘professional’ control by peers – such as clinicians, teachers, or fellow social workers – which may indeed be formalised by granting status to professional groups inside the organisation (such as through the chief social worker in Child, Youth and Family). It can also include ‘team building’ by managers to build a sense of common purpose among staff and to bring informal group sanctions to bear on staff members to conform to the values of the team.

Managers can poll stakeholders on performance and consult them on organisational policy, and so demonstrate to staff the importance of stakeholder opinion. Or ministers and departmental chief executives might cede some of their power of direction to local communities or user groups, so that managers and staff have to work with these stakeholders in deciding priorities and standards of service. In New Zealand, for example, schools and hospitals are governed by boards that are partly or wholly elected from local communities.

Competitive resource allocation methods can act as external drivers on organisations. User choice can involve vouchers, the choice of service provider, or quasi-markets where fund holders invite competing bids such as for the allocation of research grants.

Finally, senior managers may seek to directly influence employees by, as Simons (1995, pp 82–83) puts it, articulating “the values and direction that senior managers want their employees to embrace”. This strategy of influence in turn, assumes that “Individuals want to understand the organization’s purpose and how they can contribute”.

As well as leadership and inspirational example, managers also have more earthly powers to back their influence, including the power to reward, discipline, and dismiss. Incentives, therefore, can be provided not only by exhortation or example but by competition for reward, such as in the form of rules for promotion or by coercion (assigning blame or issuing threats and thereby engendering fear of consequences).

Formal controls: The power of rational thinking

The formal system of performance management discussed in chapter 3 is based on a few key constitutional assumptions about authority and accountability for public expenditure. First, all public expenditure must be authorised by an Act of parliament, mainly the Public Finance Act 1989 and the annual Appropriation Acts and their associated Estimates of Expenditure. Second, only ministers of the Crown may propose money Bills to parliament, and they must report back to parliament on the expenditure that parliament approves. Third, parliament appropriates expenditure for specific purposes and beyond certain restrictive limits only parliament can approve a reallocation of this authority between these appropriations.

Thus, the way that expenditure is classified in the Estimates and the conditions attached to each specific appropriation are the framework within which ministers approve budgets for departments and agencies and by which these organisations report their use of their budgets. The system of parliamentary appropriation and ministerial accountability is at the apex of the hierarchy of New Zealand government organisation. Any delegation of expenditure authority in a department or an agency must be consistent with the legal categories and purposes of public spending.

The new features of the New Zealand formal system introduced by the Public Finance Act 1989 did not change these constitutional principles. Ministers remained accountable to parliament for public expenditure by appropriation to specific purposes, and departments and agencies continued to frame their budgets and report their expenses within these legal requirements. What changed was the way expenditure was appropriated and how its purposes were specified. The biggest changes were to redefine the basic appropriation category for departmental operating expenses as the ‘output’, a related group of services produced by the department;²¹⁵ to specify more precisely with associated performance measures what services would be covered; and to introduce the concept that outputs served a desired ‘outcome’, or value, for the New Zealand public. At the same time, legal and administrative restrictions on how managers

215 Expenditure classified by outputs is less than half of total appropriated expenditure. There are nine main types of appropriation. In the year to 30 June 2010, the biggest type was “benefits and other unrequited expenses” (28% of total estimated actual expenses, mostly the universal superannuation benefit paid from age 65 and other categories of income support), followed by “output expenses – non-departmental” (26%), “other expenses – non-departmental” (18%), and “output expenses – departmental” (16%).

in agencies could allocate input expenses within these output-based categories were significantly eased.

Outcomes have a varying but mostly insubstantial effect on either the formal or real accountability of public organisations. The new category of output, on the other hand, has had a strong influence on the form of external accountability documents; and all government departments and most public organisations have to be able to plan and report both expenditure and performance in terms of outputs.

To echo the discussion of the formal system in chapter 3, the architects of the formal system assumed that the way departmental managers defined performance would be strongly driven by the requirements of external accountability. Their budgets and performance targets internally would be a consistent disaggregation of the categories set for them by their appropriations. It was assumed that the definition of output as a service supplied by a public organisation would be sufficiently flexible to form the basis for budgeting and control of operations over the whole range of public organisations.

In designing the formal system, a corollary of these premises was an expectation that public sector managers would rely mainly, if not entirely, on formal, structured information produced by the formal system to manage and control the performance of their work units. In other words, each public organisation would specify its goals (in terms of outputs and processes), and the primary function of managers then would be to work towards achieving these measured goals.

On the face of the evidence from our research, this chain of authority, from the basic principles of the Public Finance Act to the categories of accountability for public spending to the specific requirements for documenting this accountability, seems to be important, and probably dominant, in the design of formal control of performance within public organisations. From our survey analysis we concluded that the concentrations in use of numerical and organisational information by the main categories of outcome, output, process and input, support the view that managers are significantly constrained by the organisation's view of performance and that this in turn is driven by external accountability requirements. Targets and measures are important for most departmental managers, particularly those on the front line. Over 80% of respondents directly supervising service delivery or regulatory functions agreed that they were mostly judged against specific performance targets. Managers relied a lot on numerical information, particularly for managing budget and workloads and for judging results in terms of outputs and outcomes.

New Zealand central agencies have generally strongly reinforced the concept of a rational mapping of external accountability onto agency systems. Treasury's guidance and instructions to government departments on preparing their Statements of Intent generally follows the conventional logic of a strategic plan. A Statement of Intent should "outline a department's expected contribution to the government's priorities over the medium term (3–5 years)" and "provide logical and plausible linkages between outputs and the outcomes to which the department is contributing, accompanied by outcomes and impact measures to help demonstrate impact" (Treasury, 2010, p 4). Divisional operational plans and local work plans should also be consistent with higher-level organisational goals and measures.

The picture, particularly from the larger organisations in our case studies and survey, was one of a constant effort by senior management to impose its view of reality on the organisation, reflecting both its own values and the priorities of Cabinet and ministers. On the whole, senior management appears to have been successful in imposing a uniform model on their organisations. Particularly in the larger organisations, but consistently across all of them, the survey results indicate that operational managers and those outside head office rely relatively more on structured information sourced from the organisation. Generally, the further you are from head office, the more this is the case.²¹⁶

The power of a rational–analytic model in shaping ideas of performance management is not just because that is the way people in central agencies think. It seems to derive from four perceived inherent characteristics:

- its apparent universality and consistency
- the possibility of control based on clearly specified objectives
- a clear vertical stratification of responsibilities in the organisation for setting internal goals, allocating tasks, and carrying them out
- a way of linking individual task objectives to incentives for performance.

Universality and consistency

A rational planning model seeks to impose consistency on goals and actions by bringing them together in a single process model of best practice for getting results. An organisation's operations are planned by an analytic process in which agency processes are disaggregated to sub-processes each of which can be separately controlled. Senior management seeks to create a synthetic model of organisational performance and its environment and map existing data sources

216 Not all of the case study findings support this survey result.

onto that model. The model of how organisations work can be embedded in information systems that can play a large part in structuring management and task worker models of ‘views of the organisation’. An example is the Department of Conservation’s National Heritage Management System, “designed to create a nationally consistent, scientifically sound system of natural heritage management, which enables prioritisation and planning, and enables achievement to be monitored” (DoC, 2009a, p 23).

Controllability

If tasks and results can be specified, they can be actualised in information systems in a way that imposes an orderly process on task execution. A manager from Work and Income said:

[The two main organisational information technology systems are] the spine or life blood of how our case managers work out there in the front line. They enter data into [the systems] and that not only advises them how they should proceed next in terms of what their interview should be, but it provides them with how much benefit this person should get or what opportunities there are for employment in certain areas.

Stratification

Linked to the analytic approach to organisational planning and control is a common stratification of role. Managers frequently see organisations as divided for control purposes into senior management, who set goals and allocate resources; middle management, who translate goals and budgets into specific work tasks; and supervisors and front-line staff, who execute tasks. Use of formal quantitative measures tends to be greater at the level of task workers and those responsible for allocating and controlling their work.

Our analysis of the survey found that managers directly responsible for service delivery or regulation relied relatively highly on formal structured information from departmental business systems and that this information was structured around outputs and process. In Work and Income, front-line operators and managers reported greater use of output and process information. On the other hand, at regional and national offices, greater emphasis was placed on social development functions and information on cross-agency working.

Link to individual performance

Finally, the rational–analytic model provides a coherent basis for analysing organisational objectives into tasks for individual workers and a defensible basis for evaluating their performance. A Public Prisons Service national manager said:

The theory is that we have the kind of accountability framework which gives us a broad set of volumes and a broad set of initiatives flowing out of the [Statement of Intent], into the [general manager's] performance agreement, into my performance agreement or the regional managers', and cascaded down.

In Child, Youth and Family, one national manager made an explicit link between plan objectives and performance appraisal:

we build a model of excellence from our own current performing managers. And then we go back and say to our other managers, this is actually the standard and you need to come up to this or in actual fact we need to think further about your role in the organisation. So it makes it a lot easier to manage them out, based on again what is the norm, what 80% of the people are doing. ... Poor-performing sites ... usually go hand in glove with challenged managers.

Limits of formal control

At the core of the formal system are three key assumptions about feedback or cybernetic control: that the 'controllers' (ministers or senior managers) can set targets for their staff; that they can get reports and other information that enable them to detect deviations from plan; and that they can correct these deviations by taking further action. But organisations are human systems, rather than biological or mechanical processes; they can behave in complex and unpredictable ways that cannot be deduced from rational principles of control. So there are limits to application of the feedback model of control to organisations. Some of these limits are particularly common in government; some are relevant to all organisational systems.

Organisations' activities are complex, so control is indirect

The first limit to formal control is that the activities of organisations are too complex to control directly, so control is indirect, through agents. In government, the locus of control (the level at which control is exercised) for ministers and their public servants is various and can change, according to the circumstances. Sometimes it is government as a whole (as in setting budget limits or promulgating new legislation relating to the state sector); sometimes it will be an

individual organisation (as in deciding on Statements of Intent or issuing an instruction to a chief executive); and sometimes it may be an individual unit or even a person inside an organisation.

In each case, the controller treats a system or subsystem (government, an organisation, an individual work unit) as a whole, rather than seeking to direct the elements inside the system.²¹⁷ What happens between the input (instruction) and output (result) is a 'black box' to the controller. But indirect control of complex objects introduces new possibilities of error: simplifying our mental models of how organisations work can result in *oversimplifying*, and relying on agents can lead to those agents substituting their own goals for the ones assigned to them.

Governments may have multiple or conflicting goals

The second limit to formal control is that governments may have multiple or conflicting goals. The Cabinet is formally in charge of our system of executive government as a whole, but individual ministers may direct their departments. Because of the doctrine of collective responsibility for government decisions, Cabinets, to varying degrees, seek to impose consistency on their decisions. But inevitably, simply because Cabinet itself is a group of people with the normal human characteristics of disagreement, imprecision, inattention, or forgetfulness, Cabinet members can send inconsistent or ambiguous signals to public organisations about what they expect.

Other influences on the behaviour of the system

The third limit to formal control is that there may be other influences on the behaviour of the system besides commands from above. In organisations, these influences are many. Individuals may have goals but they are affected by the values, perceptions, and actions of others, both inside and outside the organisation.

Outside the organisation, workers have to deal with the world as they find it: Department of Corrections prison officers may reach a form of *détente* with prisoners; Department of Conservation rangers have to get on with neighbouring farmers. In large parts of the world, obligations to family and clan are much stronger influences on work behaviour than the *rules of the office*.

217 This reflects Ashby's (1956) law of requisite variety. Paraphrased by Espejo (1997), the law states that "to control a situation, that is, to perform up to requirements, the variety of response actions must at least match the variety of disturbances taking the situation out of control". To deal with this variety, managers 'attenuate' (build simplified models of the systems they seek to control) and 'amplify' (give authority to subordinates to operate within the rules of these simplified models).

Inside the organisation, people have to get along with their workmates: social relations in the immediate workgroup may be much more important than the distant strictures of senior management.²¹⁸ This world of many values and interests might better be described as a ‘sticky web’ of multiple influences on managers and staff. Dunsire (1991)) refers to “polylemmas” (as opposed to dilemmas) where workers are tugged this way and that by different and shifting influences on their behaviour.

Evidence from the survey

What we found from the survey was evidence both of a planned world in which managers and workers say they (mostly or quite often) know what is expected of them and specific targets play a large role and of a world in which there are multiple goals or values that are relevant in deciding on action. Over 90% of the respondents agreed that “in my work unit we know what is expected of us”, and about 70% agreed that “my work unit is mostly judged against specific performance targets”.

Respondents also said that they were responsive to multiple influences. Their most important motivator was recognition from senior management or ministers, but only by a short head from “the feedback and support we give each other” and “the opportunity to do a job of value for the community”.

What goals? The focus of control

At various places in the evidence from this research there were different candidates for the focus of control. There is no doubt that the espoused objects of the formal system – inputs, outputs, and outcomes – bulk large in the management objectives of departments, but other values are important as well, particularly due process, fairness, and legitimacy of action.

Role of formal accountability

Formal governmental accountability documents such as the Statement of Intent and Annual Report get a varying reception as drivers of goals for agency

218 The 2007 Survey of State Services Integrity and Conduct found that New Zealand state servants generally found their immediate managers more credible than senior or middle management. For example, “State servants see immediate managers and colleagues as setting a better example than middle or senior management”. Culture seemed to be strongest amongst those who spent the most time together, which is not necessarily positive since “State servants indicated that most pressure to commit misconduct comes from immediate managers and colleagues” (Ethics Resource Center, 2007).

performance management. The Work and Income service managers interviewed seemed clear that organisational demands for information derived from political demands (external accountability), “We are measured in respect of what the government of the day basically is asking around the Statement of Intent”. A Department of Corrections regional manager also said that the department “set targets and we have those targets which are aligned with, that drop out of, our Statement of Intent and strategic business plans and such like”. On the other hand, a Ministry of Women’s Affairs manager said that the Annual Report was important for “showing that the ministry had completed its work programme as described in its Statement of Intent ... [but] ... there are few, if any, other uses for it from either an internal or external stakeholder perspective”. A transport sector manager went further, “You couldn’t pin anything on me from this year’s Statement of Intent”.

Despite these varying opinions of the value of the formal accountability documents, our survey results confirmed the importance of the formal categories for external reporting of outcomes and outputs (Table 16.2). But what was even more important was information on inputs and process: monitoring budget, staff time and workload.

Table 16.2: Uses of organisational information

High users of organisational information who agree or strongly agree that they use information to:	Percentage (%)
Monitor budget and staff time to meet demands on work unit	84
Monitor work unit’s workload and performance in relation to its objectives	76
Ensure that work unit has the staff skills and other capabilities required to meet its objectives	71
Report to senior management, government or parliament	69
Monitor work unit’s contribution to the outcomes that the government wants for our organisation	69
Ensure that work unit is delivering the outputs that the minister requires	68
Help decide how to improve work unit’s performance	58
Publicise work unit’s operations or respond to public enquiries	57
Help develop strategies and plans for organisation	56
Manage relationships with other organisations and providers	34

Source: Managing for Performance Survey.

Budget limits: the (largely) tacit constraint

It may be because of the way we framed our questions, but there are relatively few references to budget control in the case studies. Perhaps this is because most managers simply accept that is the necessity of staying within budget: the comments we did record support that view. Table 16.2 throws this into relief: high users of organisational information have a high need for reports on budget and staff time, workload, and performance.

When departmental budgets are exceeded or in times of expenditure cutbacks, managing within limits becomes even more important. In Child, Youth and Family, a major driver at the time of our interviews was “to roll back a tendency for their managers to overspend their allocated budgets”. Middle management often appeared “entirely focused on getting the operation under control”. Pressures on operational budgets are likely to have intensified since our interviews.

In circumstances where budget limits dominate, balancing the books can become more important than effectiveness or service levels. The operational reality was perhaps best expressed by a Department of Corrections manager:

it’s a constant tension in this work you are balancing volume against quality all the time. ... When you have to respond to the court what happens if your resource doesn’t shift? When your volume increases your quality does drop; and that is what happens.

In the Department of Conservation, although output expenses grew at over 6% per year for the three years to 2008/09, managers similarly complained that budget constraints limited them to getting the basic work done.²¹⁹

Outputs: More than a budget category?

Formally, departments get budgets to produce outputs, but are outputs anything more than the organising principle for departmental expenses? Despite the view in our discussion of the formal system that outputs have fallen into disuse, the survey results indicate that they are still an important way of thinking about performance for many managers.

In the Ministry of Social Development, there is “definitely pressure when you under-perform on the output plan measures – not on activity drivers or whatever but on those” (Child, Youth and Family manager) and “At the regional level, measuring and managing performance was described in terms of quantified

219 This was the situation at the time of our interviewing, but the annual increase has virtually stopped since then.

targets that ‘come back to the [minister’s] Purchase Agreement, ultimately’. For a Ministry of Social Development senior manager, the department had to demonstrate basic competence by meeting formal targets, “You cannot do this outcome stuff unless you are in control of your core business”.

The problem of outcomes

Many managers, when asked, would say that output measures say little about the value of their work. Outputs are “not wrong, but they’re not transformative for the people that we serve” (Child, Youth and Family manager). In the Department of Conservation, “I suppose it’s fair to say that we’ve always been uncomfortable with just reporting on our outputs” (Department of Conservation manager). In the Department of Corrections, “We’ve got measures around the numbers of people we’re doing stuff with but we don’t have measures of the effect” (Public Prisons Service manager). There is a widespread acceptance, to quote a Child, Youth and Family manager, that “measuring ourselves against the ultimate outcome ... is the only way we’ll change processes in the organisation long term”. The Department of Conservation’s Statement of Intent 2008–2011 says that its “strategic direction focuses on increasing the value that New Zealanders attribute to conservation” (DoC, 2008b, p 13).

The problem has always been not with the concept that public managers should aim at increasing public value in the form of outcomes, but with what role the assessment of progress towards outcomes would play in the management of performance. Outcomes may emerge only over a long period, and they always have multiple causes. Because of these problems of attribution, outcomes cannot easily be a basis for formal accountability. Therefore, is their role purely aspirational? Does setting outcome objectives and evaluating progress help, as the Child, Youth and Family manager suggests, with decisions on how to refocus organisations? In short, how can outcomes be made more operationally useful? Some of the answers have to do with addressing the general problem of setting formal goals.

Why formal goals have varying influence

The case studies suggested three reasons why formal goals might have varying influences: policy objectives can conflict with each other and outcomes can conflict with other values of public policy; goals can be ambiguous or vague; and politicians can be at risk from agency operations.

First, government policy objectives are rarely simple and one-dimensional, so can conflict with each other. Sometimes conflicts are evident in the formal goal statements. For example, reintegrating prisoners into society but keeping them

securely confined (Department of Corrections), helping benefit applicants but controlling benefit payments (Work and Income), reducing harm to children but keeping them in their families (Child, Youth and Family), and protecting ecologies but promoting social use of the environment (Department of Conservation).

Sometimes goals that are formally espoused (in manifestos, Cabinet decisions, mission statements, Statements of Intent and so on) conceal other, potentially conflicting, 'goals in use'. An example from the transport sector case study is the implicit injunction, 'lower the road toll but don't upset motorists'. The formal or espoused goal may be *ironic*, in the sense that it is in tension with the unstated goal in use.

Outcomes may also conflict with other values of public policy. The concept of outcomes in New Zealand parlance has to do with the net value to society of government action. Other values are also important: due process (meeting the legal requirements for application of public power, for example, in regulation); fairness – a broader standard than just 'the letter of the law' (helping a benefit applicant, for example, might mean stretching a current policy to cover the specific case); and legitimacy, demonstrated by such things as ethical behaviour by ministers and officials but more broadly judged by what the public in general and voters in particular regard as appropriate.

The case of Work and Income New Zealand (WINZ) underscores how these values can trump formal performance targets. WINZ was a separate government department from 1997 until 2001 when, following public criticism of its operations, it was merged with the Ministry of Social Policy to form the Ministry of Social Development. In 2000, the new Labour-led government initiated an investigation into WINZ. Don Hunn, a retired State Services Commissioner, led this investigation, which resulted in the Hunn (2000) report. The investigation found that WINZ had met all or most of its formal targets and that reasons for criticising its performance had to be found elsewhere. Two cases of British agency chief executives who met all their formal performance objectives but nevertheless got the sack, reported by Polidano (1999), have features similar to those of the WINZ case.

Second, goals may be ambiguous or vague. Ambiguity may arise because of multiple objectives or because of the reluctance of politicians to enter into binding commitments when non-achievement is a risk. Specific public commitments to outcomes are comparatively rare. The Clark government's road safety strategy, Road Safety to 2010 (LTSA, 2003), is such an exception and illustrates the political risk of nailing your colours to the mast with a specific target. The road safety strategy aimed to reduce the road toll to 400 deaths a year and laid out a

programme for implementing the strategy. At the time, road deaths were falling, and it seemed that the target reduction would be easily achieved. After launching the strategy, the government discovered that the accident rate seemed to be starting to rise again and that the further policies its advisers were recommending (such as raising the driving age and banning the use of handheld mobile phones in cars) conflicted with a tacit objective of not further alienating voter support.²²⁰

One common tactic to signify intention without committing specific action is to announce a high-level goal that may have the aspirational value of a slogan but very little operational content. For example, the Shipley administration had an ‘overarching goal’ of Safety and Security that sought “to continue to ensure for all New Zealanders a strong foundation of safety and security from threats of harm” (Ministry of Justice, 2000). Similarly, the successor Clark administration had a ‘high-level outcome’ that, among other things, sought “to make New Zealand a place in which all New Zealanders ... have access to a safe and secure environment in which they are accorded respect and dignity throughout their lives” (Ministry of Justice, 2007).

A third common reason for goal conflict (and hence ambiguity) is the risk to politicians from agency operations, which may increase if the pursuit of the espoused goal does not properly take account of the *real* or *constraining* goal. We found in our case studies that perceived risk is a significant contributor in some agencies to the substitution (in agency plans) of achievable goals for espoused or ultimate goals.

Our agencies varied a lot in the risk their operations created for politicians. Some, such as the Department of Corrections or Child, Youth and Family, present quite high risks; others, such as the Ministry of Women’s Affairs or the Ministry of Justice, rarely attract public attention or criticism. As a general rule, the higher the risk an agency presents for politicians, the more likely it is that managers and staff will ensure they manage this risk by implementing quite specific rules about what they can or cannot do.

Goal substitution

Outcomes were an important objective for the respondents to our survey, and many of the managers we interviewed also talked about setting goals in terms of outcomes. But many public agencies are set ultimate outcomes on which their operations have limited impact. As discussed, agency outcome objectives frequently conflict and outcomes from agency action are difficult to measure and occur over a long time. Many other factors besides government action may also

²²⁰ For a further discussion of the road safety strategy, see chapter 13.

affect the difference between observed and desired states of, for instance, lawful behaviour, child well-being, natural ecologies, road safety and gender status. A Work and Income manager asserted that, although “efforts are being made to articulate the relationship between [the Ministry of Social Development’s] outputs and outcomes ... no one can be held accountable for an outcome, as so many factors affect outcomes”.

When there is no obvious way to reach a desired end state or even, in some cases, to get closer to it, some other goal has to be substituted. In these cases the public value outcome may be redefined as an *aspiration* or *direction* and ministers and managers substitute goals that they believe agencies can achieve for those that fully represent the desired outcome. This might involve coming back one step in the intervention logic. An intervention logic defines intermediate steps between agency processes and desired outcomes. A typical sequence is from organisational process to final outputs to their *impacts*²²¹ or to *intermediate outcomes*: indicators of effects on the ultimate outcome that are demonstrably and at least partly responsive to agency action.

In some cases public organisations can define *impact measures* that arguably they can demonstrably influence and that are links in the chain to ultimate public value. For Child, Youth and Family, it is getting a child into a ‘permanent’ placement where “you’re not necessarily saying you can record you’ve increased their well-being in life [but] you’ve got them to a point where they should be better off” (Child, Youth and Family manager). For the Department of Conservation, the ultimate measure is the quality of the New Zealand environment now and in the future, but “what we’re trying to do is sift out the bit where the department has an impact on that. So we’ve got ‘Ecological integrity of managed sites is maintained or restored’” (Department of Conservation manager). The Department of Corrections is attempting in its recent Statements of Intent to support the description of each of its outcomes with a section on the department’s planned ‘impact’. For the Ministry of Women’s Affairs, a good policy adviser is simply one who is trusted and respected by ministers and other stakeholders, “I think the most important thing for a population-based ministry is that they have the respect of other agencies” (Ministry of Women’s Affairs manager).

221 The Public Finance Act 1989 has contained a definition of ‘outcome’ since the Act’s inception. In an effort to cement in a closer connection between outputs and outcomes, the Public Finance Act definitions were amended in 2005 to include ‘impact’ – “the contribution made to an outcome by a specified set of outputs, or actions, or both”.

Focus on process

In today's public service, managers frequently speak derisively of performance measurement as 'counting widgets'. Nevertheless, despite the discomfort of managers with a heavy reliance on measured process goals and the lip service paid to the importance of achieving valuable outcomes, output and process are still the main language of both external accountability and internal performance management. In the Department of Corrections, for example, because of the difficulty of measuring outcomes such as a reduction of reoffending, "there has been a move back from outputs and outcomes to an almost pure focus on outputs" (Department of Corrections case study).

The case studies show continued attention by some agencies to the potential for setting goals in outcome terms. Nevertheless, most agencies probably still seek to define goals in terms of controllable processes. Indeed, an 'output' for many agencies means the end-point of a sequence of procedural actions, such as the steps leading to the issue of a benefit or tax assessment. Many of our case study interviewees, particularly those in supervisory roles, told us of the importance of conforming to procedural operating rules and performance standards.

There is, however, a clue also in the survey results that this is not the only source of control. On the one hand, not only did most agree on the importance of 'rules and procedures', but less than 50% said that they had much discretion on how to organise and prioritise their work, and only 17% said that they had a lot of freedom to allocate budget and staff. On the other hand, our respondents also mostly agreed that they relied a lot on 'applying professional training or knowledge', implying that they were trusted to exercise professional judgement in operational decisions. It is hard to know how to reconcile these results completely with the commitment to professionalism. Perhaps in some cases when managers said they were being 'professional' they may have meant it in the sense of applying expert knowledge of rules to specific cases rather than that of operating with the professional autonomy of a lawyer or doctor. But on the face of it, there is a significant contradiction here.

Rules and risk

A further major driver for a reversion to process as the basis for performance goals is the political risk of agency operations. The Department of Corrections case study shows well how managers and staff increase emphasis on controllable rule-driven processes as a defensive measure. Public concern about crime turns the spotlight on the agencies that are supposed to be protecting the public from

criminals and seeing that they are punished for their offences. Thus, every major incident of a violent offence committed by someone who is already at some point in the custodial pipeline is an occasion for criticism of the competence of Department of Corrections – certainly, that is the way Department of Corrections management and staff see it. Questions are asked in the House of Representatives, ministers seek explanations and sometimes there are formal investigations. Inevitably, managers get powerful signals about what ministers think is important about their performance. This acts as a strong push on the Department of Corrections towards minimising risk in its operations and defensive practice in defining and defending its accountability for offender management.

Accountability for following the rules can also be seen as a shield for management and staff, protecting them from consequences of failure by precisely describing processes that should be followed and then focusing heavily on compliance with these processes.

The Department of Corrections case study indeed describes a ‘retreat into rules’ in offender management. Public disapproval “has pushed each service towards defensive practices such as focusing on process rather than results” and, at the local level, “one of your protections is, ‘we’ve followed the process properly’” (Department of Corrections manager). The case study describes the central importance of manuals and procedures in the Public Prisons Service, and their growing importance in the Community Probation and Psychological Services. Management in both Prisons and Community Probation puts a great deal of weight on following standard procedures – the case study records that interviewees discussed “how to discipline staff for not following procedures, or other forms of non-performance that could in extreme cases result in officers being fired”.

Cognitive divide

They are thinking way up at that strategic level ... and I’m sitting there thinking ... that’s not going to work at a site. (Work and Income local manager)

It also seemed, particularly in the larger organisations we visited, that there was an internal *cognitive divide* between the way front-line managers think about performance and the official organisational view represented by senior management. The official view of what was important was reflected in plans, performance targets and mandated processes. But the further you were from head office, the more likely it was that your values and perceptions related to performance would depart from the *official* view. Front-line workers have to deal

with the local situation as they find it. Perceptions of what is important vary from locality to locality and task to task. Value attributed to different pieces of information will similarly vary, so different people will collect and store different information. Local managers will be influenced about what to do by their understanding of the local situation shared with colleagues, clients and other stakeholders.

Particularly in the large, geographically distributed agencies our case study respondents reported their sense of distance from the senior hierarchy. The divide was particularly evident in our case study human services organisations. Social workers and probation workers tend to be more client and community focused and often motivated by advocacy for their clients and local communities. In both the Public Prisons Service and the Ministry of Social Development, case study respondents said that head office policy-makers and strategists did not fully understand the realities of the work on the ground. Conversely, on the other side of the cognitive divide, some more senior managers argued that front-line workers would focus on tasks and had little interest in the wider goals of the organisation. A Child, Youth and Family manager believed that social workers were absolutely focused on keeping their caseloads under control and “generally not that interested in how the rest of the organisation is running and tracking”. A Department of Conservation manager said that local Department of Conservation workers were intent on killing possums and cutting tracks and “don’t want to know all about outputs and inputs and reporting and stuff”.

It is not surprising, therefore, given these differences in perspective, that reliance on formal structured information is relatively high at the front line (because of the need to comply with task requirements), but it is not total. When task workers do not think that formal structured information adequately describes the local situation as they find it, they develop and rely on their own sources. Local information sources also reduce delay in accessing valuable information.

We asked respondents in our survey to rate the information their work units got in various categories. The results varied a great deal across the organisations surveyed and according to the respondents’ main areas of work (policy advice, service delivery, internal services and so forth). Overall, 60% agreed that they got good information about “quality and timeliness of our services” and “how well we are doing”. But on the other hand, a bare majority agreed that they got information “that helps us understand how to improve our performance”. Furthermore, a majority of respondents *disagreed* that they got good information about “the contribution we are making to ... outcomes” and “the effects we are having on the public”.

The case studies present a similar picture. When managers monitor performance, the structured, quantitative information available from the organisation is important, but not dominant. Our interviewees in the case studies in fact used less formal and structured sources of information a lot to get a view about performance. The following sections discuss some strategies that managers use to collect performance information.

Collecting statistics

Many managers compile their own performance information by analysing operational data from the workplace; central information technology and information specialists frequently commented on the widespread existence of unofficial statistics held in local databases or spreadsheets. A Child, Youth and Family manager agreed that these data sets were “a direct indication of what we’re doing is not hitting the mark” (Child, Youth and Family case study).

Stakeholder feedback

In all the case study organisations, managers received and relied on information from client and stakeholder polls or made use of advisory committees or, more simply, direct contact with service users or feedback from other organisations in their day-to-day work.

Trusted advisers or agents

Managers rely a lot on what their staff can tell them about performance; managers hold regular meetings with their staff to amplify performance reports with discussion of issues; senior managers in particular often check out a report of a performance issue by discussing it directly with staff closer to the worksite.

Management by walking around

Managers form impressions of workplace performance by direct observation of how staff are interacting with the public or informal chats with front-line staff on workplace issues; managers drill down into detailed performance information – sometimes to the level of individual cases – to test issues revealed by performance reports.

Stories

Reports of significant events or anecdotes have a role to play in most organisations – managers may see them as signals that some underlying performance problems need to be investigated; or managers may use stories as

exemplars – to make a point about good or bad performance as a way of focusing efforts in the future.

So far, so obvious. Of course we would expect that managers do not rely entirely on formal, structured information to assess performance. It does not, however, follow that the use as well of *informal* and *unstructured* information means that performance management as it is practised is at odds with the requirements of formal accountability. The interesting question is really whether it is a *decoupling* from the formal system that is driving managers to seek other sources of performance information, so that the information they rely on expresses values that differ significantly from the formal accountability requirements of the organisation. Are managers in this sense technically out of control?

Although formal rules and targets are widely used to define and control staff actions, staff may frequently see them as compliance requirements rather than essentials of performance. Attitudes vary to regular in-period reporting from seeing it as a useful means of assurance and issues identification to box-ticking compliance that diverts staff away from more important tasks. A further consequence of the gap in ideas of performance is that managers and workers can also respond in perverse ways to the official requirements to report performance and game the information they are required to provide about their performance. When performance is measured, effort may go to satisfying the measure sometimes at the expense of the broader objectives of the task. A Child, Youth and Family manager said, “People will be creative – they’ll find ways through [which] to satisfy management’s requirement to achieve performance targets”.

But no public organisation relies exclusively on regulative controls as a basis for performance management. Senior managers look also to creating a social environment for work and a shared understanding of its purpose as a means of aligning staff motivation with the organisation’s objectives.

Working on workplace culture

In deciding upon the person to be appointed as chief executive of a Department, the [State Services] Commissioner or the Governor-General in Council, as the case may be, shall have regard to the need to appoint a person who ...

- (b) Will imbue the employees of the Department with a spirit of service to the community. (Section 35(12) of the State Sector Act 1988)

If I wasn't helping anybody and all I was here for was just to dish out money, I wouldn't be here to be quite honest. (Work and Income local manager)

Culture is briefly 'the way we do things around here' or more long-windedly the beliefs or understandings that govern people's relationships with each other. Many of the findings of our survey and case studies touch on the influence of workplace culture on performance. As the quote above from the State Sector Act indicates, culture is something it is assumed that senior management can influence to help align individual values and behaviour with those of the organisation. Values that are 'internalised' – which individuals spontaneously express in their work – are assumed to be better than those behaviours that senior managers enforce or reward.

Workers in government organisations get their values and perceptions about work from several different sources. The survey results indicate that both extrinsic rewards – those derived from material or social recognition by others – and intrinsic rewards – those emanating from personal satisfaction with achievement²²² – are important to managers.

Alignment with organisational goals begins and ends with individual behaviours and motivations. We were generally surveying and interviewing managers: staff who had had some formal status recognition from the organisation and were in a position of authority where they may have been expected to represent organisational values. Workers without such responsibilities may have responded differently. Subject to this caveat, several observations come out of the research. First, when people are asked to talk about why they do the job, many of them naturally put it in the terms of the quotes above: to help people or to serve a wider purpose of value. Second, most managers seem to *want* to have an organisational 'mission' with which they can align themselves. Third, most managers like to think of themselves as 'professional' – at the least in the common meaning the word calls up ideas of applying expert knowledge, but additionally of a separate calling or profession with its own code of behaviour and standards of entry.

222 The terminology derives from Galbraith (1977), who looks at how the source of rewards that workers derive from the workplace can influence their behaviour. Galbraith discusses how selection, training and reward each influence the mode of social control. Reward systems are grouped into three categories: extrinsic material (rule compliance, system rewards, group wage rewards, individual economic rewards); intrinsic rewards (task involvement, goal identification); and extrinsic social rewards (leadership, group acceptance).

What can senior managers do to reinforce these values, all of which, it seems, could assist alignment with the mission of the organisation? There are at least five possible strategies.

Select for commitment to the values of the organisation

For one Work and Income manager, the first question for recruitment is whether “we are attractive to the kind of people who we would like to do the work that we have to do”. For another, the basic objective is to select staff who can develop good client relationships.

Recruit informal group controls to the service of organisational goals

On ‘self-control’, the organisation’s governors may rely on (and reinforce) the strong acculturating forces on workforce members where they are seen to benefit alignment with the organisation’s goals. Consider Surfdale – the famous post-budget party in Treasury – as an example.²²³ There will be many others, more or less contrived or endorsed by the management in the interests of *esprit de corps*.

Build on the traditional idea of ‘professional career’

A career structure begins by selecting for the interests, skills and values that have the best fit with the organisation’s mission and continues by actively promoting the idea of service in a profession. Professionalism and values held in common with colleagues from the same professional background has a strong influence on workplace culture in many organisations. The paradox highlighted earlier of ‘professionals’ reporting that they were strongly driven by rules might have the following explanation. The assertion of professionalism is in fact a basis for resisting the standard prescriptions and rules from the managers in head office, in favour of the values and routines of the profession.

Specific professional cultures – such as scientists in the Department of Conservation or psychologists in Community Probation and Psychological Services – can also have a large influence on ways of framing performance in some organisations. Strengthening professionalism offers an opportunity for greater self-management by the professional group in both setting and evaluating

223 Richard Shallcrass, a former Treasury employee, recounts “Each year, after months of debilitating stress marking preparation of the Budget, staff at Treasury, in the form of an entity known as the Surfdale Progressive Association, celebrated at a luncheon held at one of the capital’s three-star hotels. Before uniting in song – Guide Me, O Thou Great Jehovah was a long-standing favourite – awards were presented to those who’d distinguished themselves, and Treasury, in the course of the year” (Shallcrass, 2006, p 107).

standards of performance; and a counter-weight to the box-ticking culture described earlier. The efforts by Child, Youth and Family to strengthen the professionalism of social workers – through the appointment of a Chief Social Worker and a concerted effort to increase the qualifications of the department’s social work staff – is a case in point. The Department of Corrections case study similarly reports that “More recently management initiatives have commenced to move away from a rule-based approach to the introduction of professional judgment within guidelines for Probation Officers”. Ministry of Women’s Affairs staff appear to see themselves as part of a larger group of policy professionals aiming to meet the standards and win the respect of the policy community.

Relying on professionalism, though, assumes that the values of the profession are aligned with the values of the organisation. In the Community Probation Service, officers have traditionally come from a social work background and see themselves primarily as advocates for their ‘clients’. The Department of Corrections is now seeking to change the focus of many staff who believe they are there to advocate for offenders. In the Department of Conservation, the issue is the domination by the values and norms of science in “every day work and performance management, even of those workers outside that group” (Department of Conservation case study). In the same way, hospitals in New Zealand are frequently sites of conflict between, on the one hand, professional managers charged with economising on use of resources and, on the other, doctors and nurses, motivated to seek the best available treatment for their patients.

Build a common understanding of ‘performance’

As indicated above, on one hand, some managers explicitly argued that task workers, focused on achieving the standards and throughput required of them, may have little incentive to try to relate what they were assigned to do to the higher-level goals of the organisation. On the other hand, a Department of Conservation manager expressing this view conceded that task workers’ “eyes do prick up when they go, ‘Oh! Hang on a minute, this forest is a lot better as a result of me doing this job’”.

The core of the idea of a shared understanding of performance is that control is an ongoing and interactive process. Simons (1995), for example, argues that control information can be used as the basis of a dialogue across management levels that draws managers into a shared understanding of the meaning of performance. At the same time, loyalty to the ‘house view’ of performance is reinforced. Performance information is regarded as a diagnostic rather than a target or a benchmark. Some examples from the case studies are as follows:

Both formal and informal information, such as observations made by managers on staff–client interactions or contributions to a work team, is used to contribute to a culture of continual improvement. (Work and Income)

[Qualitative information about performance comes via] feedback (from clients, external organisations, and other elements of Work and Income), stories and direct observation of work practices. (Work and Income)

We look at that result and then we have a meeting together with our service managers and senior probation officers who are like our clinical leaders, if you like, to discuss ... why have we got this result? What's happening? And we'll talk about ... the things that we've noticed. (Department of Corrections)

Give voice to 'service recipients'

The inelegant term 'service recipients' indicates how difficult it is to give a general name to a relationship with a public organisation that can cover everything from booking a hut in a national park to serving a prison sentence, and all the flavours of 'voice' and 'exit' in between; and includes other contested terms such as 'customer' and 'client'. But the outcomes of a public organisation will include respecting the rights of and meeting commitments to citizens. Public managers can seek to align staff values to these outcomes by setting Citizens Charter–type service standards, polling service users on their experiences, employing complaints and suggestions processes, or setting up user advisory committees.

Managing the authorising environment

You're exposed every day to public scrutiny about every choice you make ... So your options ... become more limited. (Child, Youth and Family manager)

It is a commonplace of New Zealand's public sector chief executives that the inner workings of their agencies are exposed to the public gaze in a way that no private sector chief executive would tolerate. Not only public managers can find themselves in the goldfish bowl: public exposure can be a risk for bankers and oil company executives as well. Nevertheless, public managers clearly do live in a public world, where they are likely to wake up to find some aspect of their operations reported in detail in the morning paper or being defended by their minister on Radio New Zealand's *Morning Report* programme.

Several of our case study organisations provided examples of where publicly perceived failures had a deep impact on operational practices. In the Department of Conservation, the tragedy of Cave Creek²²⁴ resulted in a major recentralisation of authority. Similarly, Child, Youth and Family has been subjected to repeated changes in management in the wake of high profile child homicides. And as discussed earlier, the experience of WINZ when it was a separate department, casts a long shadow: there the chief executive lost her job at least partly because of public criticism of her manner and style of doing business. The Department of Corrections similarly has been in the blowtorch of public scrutiny for offences committed by offenders in the corrections pipeline. In some of these cases, measurable shortfalls in performance as formally defined may have been a factor. But in all of them, the main motivation for the consequent organisational shake ups seems to have been not mainly on account of a failure of effectiveness or efficiency, but a response to a perceived loss of legitimacy – a loss, albeit temporary, of public trust and support. There is a close relationship between public perceptions of a public organisation’s performance and how much of a problem it presents to its political masters. A public failure can rapidly increase the political salience of operations and therefore significantly affect the authorising environment for those operations.

That public organisations are under constant public scrutiny gives a very broad meaning to ‘authorising environment’. Narrowly defined, the formal institutions of Cabinet and parliament endow government departments and agencies with all the funding, legal authority and political direction they need to do their work. But because politicians govern with public consent and are responsive to public opinion, the authorising environment includes all the other stakeholders – service users or clients, business and charitable organisations, interest groups, news media and indeed anybody with an opinion on the performance of a government department – whose views are a barometer of public support.

A natural response from senior management to a crisis of public confidence is to circle the wagons: tighten up on procedures (the retreat into rules) and try to control media access to the department. However, these understandable but essentially defensive responses will reduce the effectiveness of the organisation by discouraging experimentation and risk-taking and blunting its ability to understand and respond to its stakeholders. Research on the characteristics of the

224 In 1995, 14 people lost their lives in the collapse of a public viewing platform above a chasm in a national park administered by the Department of Conservation. The platform had been largely constructed by local Department of Conservation staff, and the subsequent enquiry found significant shortcomings in the work, which directly led to the platform’s collapse.

effective public organisation underlines the importance of the quality of its external relations with its oversight authorities but also its other stakeholders.²²⁵

In our case studies, the experiences of Child, Youth and Family and Work and Income under the umbrella of the Ministry of Social Development are that a deliberate strategy to improve public and political perceptions of their operations can create more room to manoeuvre and experiment. In Work and Income, managers saw a direct connection between “success in managing the external authorising environment” and “the level of local autonomy that managers are entrusted with”. A Child, Youth and Family manager commented that the Ministry of Social Development is “definitely better at sheltering Child, Youth and Family from the media. There’s no question that [the ministry] act[s] as an umbrella so people aren’t constantly pushed from pillar to post by the media exposure”.

Part of the success of this strategy is clearly due to a sophisticated public relations operation, controlled directly from the chief executive’s floor of the Ministry of Social Development’s head office. This strategy includes reacting quickly and effectively to respond to operational incidents that might jeopardise this public image; to ‘stop things going pear-shaped’ and to keep the ministry off the front page of the *New Zealand Herald*; and to ensure a supply of good news stories for Cabinet and the media. In the days before the Review of Accountability Documents,²²⁶ no other organisation surpassed the ministry in the use of the Statement of Intent and Annual Report to portray a department on top of its job and generating lots of good outcomes, with glossy pictures and heart-warming stories. But media management was only part of the ministry’s strategy to improve its relationship with its environment. Other elements were better client relations, a proactive stance with co-producers and doing the basics well.

First, Work and Income management have sought to change how staff work with service users. Case managers are encouraged to see themselves as “a broker, more of somebody who’s interested in what’s going to happen to this client after they leave us”. They should be “out talking to employers about opportunities for the unemployed”. “Client surveys used to ask, ‘Did the person introduce themselves?’ and ‘Were they wearing their name badge?’. They are now more

225 Rainey and Steinbauer (1999) in the United States summarised the literature on effectiveness as including the quality of external relations, ‘appropriate’ autonomy in pursuit of the mission, mission ‘valence’ (the value, clarity and relevance of the mission as perceived by both staff and stakeholders) and a strong organisation culture linked to the mission.

226 The Review of Accountability Documents commissioned in 2007 by the then Minister of Finance, Dr Cullen, led to some simplification of the suite of documents and a downplaying of their public relations element.

likely to ask, ‘Did you feel your case manager was respectful?’ or ‘Did you feel that they care about you?’.”

Second, the Ministry of Social Development has worked to build its reputation as a ‘can do’ organisation, a natural leader in social policy initiatives. Accordingly, our case study observes that “interviewees from Work and Income placed less emphasis on managing external accountabilities but more on managing relationships with other government agencies and community groups”. According to a Work and Income manager:

what happens now is people come to us to say I want you to have a look at this, we want you to be involved in this. Because of that ‘can do’ attitude, you know. It doesn’t really matter whether you’ve got a formal mandate. It’s just how you work with others to support them.

Third, the Child, Youth and Family and Work and Income case studies both show that Ministry of Social Development senior management has put a continuing emphasis on getting the basics right: meeting the performance standards to which it is committed in its external accountability documents. It was clear to a manager in Work and Income that measures such as timeliness and accuracy are there so that “the government and the taxpayer have a level of confidence in the integrity of the system and how we are maintaining it”. Similarly, Child, Youth and Family managers are well aware of the importance of meeting the response time standards in their Statement of Intent.

The case studies show that the authorising environment can be a powerful influence on staff attitudes and performance. An organisation where staff feel beleaguered by public criticism and misunderstood in their role is likely to be one that practises defensively within the rules. On the other hand, there seems to be hope: if as a departmental chief executive you can show that you can do the basics well and are responsive to the needs of your stakeholders, you can increase the trust in your operations needed to create space for your staff to learn and innovate.

Governance and control: beyond hierarchy

The current and future debate over the future of public management [in the United States] will be between two basic value structures. The first is the traditional public law approach that favours political accountability as the highest value in a democratic system. The second, the entrepreneurial management approach, sees accountability being redefined more in economic and performance criteria than legal concepts. In the final analysis, because organisation and management in the governmental sector are essentially legal issues, the

constitutionalists are likely to prevail. But the cost may be high in terms of system legitimacy and in the number of exceptions and compromises necessary to maintain basic principles of democratic governance. (Moe, 2002)

The basic question of this research is how the senior managers of public organisations seek to align the performance of their organisations with their goals. As a research team, we have by and large addressed this question as a technical problem floating free from political ideology or disciplinary mindset.²²⁷ Some of the basic issues of control seem indeed to be describable at least from a platform of common assumptions, particularly about the nature of organisations and the sources of power. In the final analysis, though, questions of control cannot be separated from more basic questions of political ideology, philosophies of public governance and management doctrine. Drawing on other writers²²⁸ and our research findings and debates as a research group, we have identified three broad models of governance and public management – hierarchy, mutuality and competition – and link them to preferred modes of control. Like all such models, they are archetypes: most political systems combine aspects of all three, but they serve to draw out underlying assumptions about modes of control in government.

Philosophies of public governance

The three models of public governance (hierarchy, mutuality and competition) are summarised here. Their important political dimensions are compared in Table 16.3.

227 In the case of the writers of this book, in alphabetical order: accountancy, economics, management, politics and sociology.

228 Including Hood (1995a), Pollitt and Bouckaert (2000) and Peters and Savoie (1996).

Table 16.3: Three models of public governance

Aspect	Model of public governance		
	Hierarchy	Mutuality	Competition
Basic political ideology	Democratic or autocratic	Communitarian or syndicalist	Minimalist government
Type of democracy	Representative: unitary, majoritarian	Participative, decentralised	Representative but limits on powers; direct democracy
Electoral mandate	Strong	Weak	Weak
Executive authority	Most powers vested in strong central executive	Limited by need to negotiate with representative groups	Limited by separation of powers, referenda, scope of functions

Hierarchy

In a hierarchical model of governance, executive authority is assumed to be strong. The basic decision principle is duty to the law and to the central authority of the state. Authority may be delegated but under clear rules of accountability and reporting back. A hierarchical state does not have to be democratic: strong centralised governance can be a feature of both representative democracy and autocratic, single-party systems. The differences lie in the different incentives on the government in each system. In a representative democracy, there are controls on the exercise of government power through the legislature, judiciary and other oversight bodies of the state; but the government’s authority is also periodically contestable through elections. Therefore, the ultimate test of any policy action will be how it will affect the government’s electoral fortunes. In an autocratic system, on the other hand, how state power is exercised will be determined by negotiations amongst the elite groups holding power.

Mutuality

This model is based on ‘mutuality’ in the sense of a communitarian (social and collective) principle of public decision-making as opposed to a hierarchical or representative principle. A model based on mutuality starts with the premise that representative democracy gives no strong mandate for strong executive government and that good governance requires continuing participation by citizens in decision-making. Collective action should therefore emerge from an ongoing public discourse on values and means involving all citizens. Nevertheless, democracy may still be indirect if many citizens abstain from direct

public participation. Then this type of democracy is likely to default to a form of decision-making through contestation between representative interest groups.

Competition

The basic assumption of a competitive model is that there is a problem of public choice in a representative electoral process: elections produce governments that are an 'average' of voters' interests but represent no single voter's interests exactly. Therefore, the electoral mandate for any particular policy action is unclear, and there is room for politicians to substitute their own preferences for those of the voters and to bargain amongst themselves. Their capacity to exceed their mandate can be limited by constitutional means such as separated powers or federalism, but also by prescriptions for minimalist government and by substituting market mechanisms wherever possible for hierarchical decision-making.

Doctrines of management control

Each of the three models of public governance is associated with a doctrine of public management and is summarised here. Key features are compared in Table 16.4.

Hierarchy

In a hierarchical model, executive government is divided into ministries and their departments each with defined legal responsibilities and a clear chain of command from the political executive to the front-line task worker, all within a framework of mandatory rules and processes, defined in official documents. The focus of control is on compliance with these rules. The relationship between public officials and citizens is one in which officials enforce legal compliance or grant specific privileges according to the circumstances and entitlements of an individual applicant. The formal channels for user feedback are representations to a member of parliament or minister, decision appeal systems attached to legislation (eg, social security benefits) or an official with the power to hear complaints about administration, such as an ombudsman.

Table 16.4: Doctrines of public management

Aspect	Model of public governance		
	Hierarchy	Mutuality	Competition
Preferred mode of organisation	Classical bureaucracy	Stakeholder control, network management	Business units, contracts, contestable provision
Controls on management	Rules, duty	Stakeholder preferences, shared understandings	Competition, survival
Preferred focus	Procedures	Values	Results
Control signals	Directly via plans, budgets, manuals	Indirectly via selection, leadership, exemplars, stories, interactive controls	Choices of services made by purchasers
How value is ascribed	Plan achievement against standard	Consensus of stakeholders	Specification and pricing of services
Relationships with service users	Categorical: legal entitlements or requirements	Formative: agreements on co-produced services	Transactional: 'sale' of services to choice-making consumers
Service user influence	'Voice' (appeal to political level or oversight bodies)	'Voice' (consultation, stakeholder-worker committees)	'Exit' (options to select other competing services)
Management-staff relationships	Authoritarian or rule-based; within protected career structure	Professional autonomy, collaborative decision-making, peer surveillance	Benchmarking, reward based on performance, open competition for staff positions

Mutuality

Mutuality as a principle of public management finds its most radical expression in the New Public Service. The New Public Service manifesto overturns the idea that civil servants are primarily accountable to elected representatives. Its underlying philosophy is that so-called 'representative democracy' is in fact anti-democratic and true democracy comes about from personal participation.²²⁹ It is based, among other things, on the principles that civil servants are participants,

²²⁹ See Gruening (2001) and Denhardt and Denhardt (2000). Gruening's history of public management philosophies also records an antecedent New Public Administration, dating to the 1970s, also based in the United States, and founded on similar principles.

not instruments – they must be ‘facilitators for participative action’; and public management should be based on ‘letting the citizens in’: it supports active involvement of and with communities. In their relationship with executive government, civil servants should see themselves as advocates on behalf of these communities.

Variants are to be found in the doctrine of network governance, popularised in the United Kingdom during the Blair administration and taken up to some extent in New Zealand during the Clark government.²³⁰ Network governance is based on the principles that most important public services are ‘co-produced’ by cooperation between public officials and other stakeholders such as civil society organisations or individual citizens, so that network modes of organisation are more important than command and control. In a pure network, mutual understandings and consensus are the basic means of decision and evaluation.

Competition

In a competitive doctrine, the problem of public choice in representative government is inherent in hierarchical bureaucracy as well. As indicated, the first level of response is to minimise the role of government and to prefer markets or civil society wherever possible. But for those activities left to government, politicians will have imperfect control of officials, so that these officials can consult their own preferences in deciding what to do. Some public choice theorists assume that these goals may include security, the quiet life, personal power and influence, or their own interpretation of the public interest. The problem of public management then is seen in part as an agency problem: how to construct incentives that will align the actions of public officials (agents) with the priorities of executive government (principals).

In the model for public services originally proposed in 1987 by Treasury, part of the answer to this problem was to strengthen the basis for control by better specifying required results and basing rewards for public officials on the achievement of performance goals. Thus, managers of public organisations could use incentive-based control strategies such as benchmarking different units against each other, basing pay and promotion on measured performance, and permitting open competition for staff positions.

The interests of the Treasury economists were in the agency problem and in conditions for contract entry and exit: how to create *contestable* contracts. One strategy is contestable supply. One variant of this strategy is competition *for* supply. If the government had the option of ending a contract with a provider,

230 Discussed, for example, in Bovaird and Löffler (2003).

including one of its own government departments, it would strengthen the incentives for the provider to deliver to contract specification and put the government less at risk to failures of organisational capacity. The other was competition *in supply*: allow providers of public services to compete for the business of consumers of those services, either by selling the services or by funding each provider on the basis of the volume of services it provided.

Public governance and management in New Zealand

Representative democracy, hierarchies and effective delegation

In the contest, such as it is, among these three models, the hierarchical model is clearly the base case, and the mutuality and competition models are offered as contestants. There are indeed strong constitutional reasons why a hierarchical mode of governance and doctrine of public management remains dominant in New Zealand. The foundation of public accountability is our parliament and electoral system. In a Westminster system, all authority flows from parliament. It is constitutionally possible for parliament to devolve specific public power onto other authorities and to specify that those authorities are legally accountable in some other ways than back to parliament. But any devolution of power beyond the direct control of ministers accountable to parliament requires a legal basis. Furthermore, it is never entrenched – it is always ultimately revocable by Parliament.

Within that general principle it is possible for parliament to legislate for a devolution of its authority and for the executive to delegate its powers under statute. There are many such examples. Many Crown agencies (such as the Commerce Commission or Accident Compensation Corporation) and individual state servants (police, social workers, health inspectors) carry powers of decision in their own right independent of ministers. A law can also be written to require, or a minister can direct, that state servants should be accountable to a third party (eg, a principal to a school board).

The practical effect on ministerial responsibility for official actions is tested ultimately by what citizens expect when things go wrong. For example, locally elected hospital boards (in various guises) have been legally responsible for delivery of secondary and tertiary health services but have been largely (at least in modern times) funded out of general government revenues. When queues for beds lengthen or surgery fails, the initial resource that communities have is to the board and management of the hospital; but it has also been usual for citizens to expect ministers to come up with the funding or fix the problems. In these and

other circumstances ministers will be tempted to retain control at the level of detail required to manage their perceived political risk.²³¹

A UK study of citizen expectations of accountability in a Westminster system similar to our own generally reinforces this conclusion.²³² UK citizens seem to expect ministers to remain primarily accountable for the delivery of most public services, but not all. For example, if there are problems with public passenger transport services, users are likely to blame the management of the private companies who operate the services, not the government that subsidises them. But where ministers retain the ultimate power of funding or specification of services, UK citizens generally expect that ultimately ministers will remain accountable for these services. Therefore, citizens mostly expect ministers to answer for failures in ‘performance’ except in a few cases where devolved authority and accountability is specified clearly enough for citizens to hold others responsible.

Mutuality: stakeholder participation and networks

Formal examples of participatory governance as a principle of public management are few in New Zealand. An early but short-lived example of intended stakeholder governance were the district executive committees established in the Department of Social Welfare in the 1980s. These committees were originally intended to have the authority to decide on and fund social services in each social welfare district.²³³ School boards of trustees responsible for organisation and staffing include elected representatives of parents and staff. Participative democracy was installed as a principle in the Local Government Act 2004 in the requirements for consultation on long-term council community plans, but continues to be in tension with the other political incentives on councillors, who have to face an electorate every three years.

231 A former New Zealand prime minister said, considering the political risk posed by operational decisions, “It’s a problem if it comes back to bite you”. There are plenty of examples of this maxim in New Zealand politics: New Zealand ministers’ attempts to distance themselves from operational decisions by departmental officials are rarely successful if the public thinks they should be accountable.

232 PricewaterhouseCoopers (2009).

233 District executive committees were a recommendation from *Puao-te-ata-tu*, a report on a Māori perspective in the Department of Social Welfare (Māori Perspective Advisory Committee, 1988).

Nevertheless, public organisations in New Zealand frequently contract or work in partnership with private or voluntary organisations. It may be a shortcoming of this research that we have little to say on the important aspect of performance management represented by the contracts and agreements between the public sector and other organisations.

Competition: contestable funding and contracts

Contract contestability was ineffective for most core government services not only because of an ideological predisposition against it for much of the last decade but because of the problem of ownership. If the government were to terminate a contract with one of its own departments, it would be left with the problem of what to do with the department. Competition as a basic principle of governance survives perhaps in competitive tendering for supply of services to government departments, contracting by social services organisations to government departments and health boards, contestable funding for science and the arts, and to some extent, increasingly restricted, in tertiary education where public funding follows student choice.

Hybrid and contingent approaches in management

In all of our survey and case study organisations, managers gave a strong weight to the requirements of ministers and senior managers and to the importance of rules and mandated procedures. But the research also showed that, plausibly, there is room for other doctrines of control.

For example, in the Ministry of Social Development it is arguable that all three basic governance and control strategies have their place. The hierarchy sets rules for resource limits, benefit approval and child protection (including both mandatory processes and ‘professional standards’ for social workers). There are mutual support and mentoring relationships for social workers and other office staff, reflecting the importance in New Zealand offices of peer esteem and support; and ‘partnership’ models with the community in the provision of social services. And there is also competition between parallel units against benchmarked standards, funder–provider competition for social service grants, and individual competition for promotion. In the ministry, the three strategies can interact with each other; but both competition between branches and professional autonomy for social workers are sanctioned and limited by the ministry’s hierarchy and remain essentially bureaucratic in nature.²³⁴

234 This experience in the Ministry of Social Development and other organisations is consistent with the premise that how public organisations are controlled depends on environment, goals and production processes. Several writers have analysed optimal control strategy on this contingent

Final thoughts: A place for variety?

We're at national priority-setting, but within that you can still do some local arrangements. (Department of Conservation manager)

It is a management commonplace that people learn more from failure than success. In the public sector, however, widely publicised failures carry much greater penalties than successes bring rewards. For agencies doing politically risky things, the strong incentive to follow the rules reinforces the unwillingness to experiment. A basic dilemma for New Zealand public managers and workers is to balance demonstrating compliance with seeking out new and better ways of serving the public. The privileging of one model of process and result both limits the opportunity to experiment and devalues other information that may be important for understanding the drivers of performance in the organisation. Arguably, in the interests of better performance, we, the New Zealand public, need to trust our public servants more and accept failure as the price of success. Part of this strategy of greater experimentation and learning means relaxing the obsession at all levels of our government with rules and 'one best way'.

Heterogeneity can work in two ways. One is to blunt and warp the 'command' nature of the system. A public choice theory of democracy argues that bureaucrats, unless controlled, will pursue their own objectives at the expense of those who have a popular mandate to govern them. Some systems (eg, the United States) make this a guiding principle to the extent that all actions by bureaucrats have to be testable against laws on the statute books and derived rules. If there is less than perfect control in this system, there is scope for non-elected bureaucrats to substitute their own preferences for those of the legislators.

The other way variety can work is to make the distributed system of command and task execution more resilient in the face of a changing external world where local information, local learning and local knowledge will provide more efficient and adaptive responses. In the language of complexity: the world is a complex place and systems dealing with it need 'requisite variety' in their strategies of response – it is a situation where a lot of different people in different places think and react to the world as they find it.

basis. Those who want to read further can go to Wilson (1989), whose matrix based on observability of outputs and outcomes is still a popular reference amongst New Zealand academics engaged in their ongoing struggle against the ideas of the 1980s; Hood (1995a), who set his analysis in the context of Mary Douglas's cultural theory of "grid" and "group"; Hofstede (1981), for an earlier analytical deconstruction of the "feedback" or cybernetic model of control; and more recently Cunningham and Harris (2001), who, despite their anodyne title, provide a good summary and synthesis of contingent models of control.

The emphasis placed on objectives or types of control may also change over time as circumstances change. A major reputational scandal in a department may lead to a stronger emphasis on procedural rules by sticking to the manual. Ministers may encourage or seek to enforce cooperation among organisations in a network to solve a problem of action. An expenditure blow-out may lead to tougher rules on types of expenditure or just on budget limits, forcing managers to focus more on economy than on service goals. A perceived 'client revolt' may focus attention on improving consultation with service users. But nearly a quarter of a century after New Zealand's public management 'revolution' began, one cannot fail to be impressed by how little, in fact, has changed. Elected politicians are still in command of appointed bureaucrats and publicly answerable for their operations and use of public resources. The formal focus of control may have changed somewhat, but what is salient for 'the centre', therefore, continues to be budgets, process and legitimacy, and values high in popular esteem such as fairness, competence, prudence and frugality.

The New Zealand system of public management, in short, is still dominated by the principles of representative democracy. Future reformers would do well to bear this in mind and ensure that their proposals for reform are founded on these enduring principles.

Getting in the Road: Why outcome-oriented performance monitoring is underdeveloped in New Zealand

Bill Ryan

[W]hile the current public management system may not inhibit outcome evaluation, it is not overly conducive to it either. (SSC, 1999, p 17)

The designers of the original system back in 1987 must be very pleased. They wanted a control system. They've got a control system. (Senior manager, line agency, in conversation)

Introduction

This project has been driven by a set of realisations emerging over time and crystallised by the Auditor-General²³⁵ that financial performance information and reporting in New Zealand is reasonable and, by and large, meets the standards required at the level of appropriations under the Public Finance Act 1989 but that performance information in relation to outputs and outcomes is much less satisfactory (OAG, 2008a). Some agencies are said to have made progress but most have not, even though it is some years since the emphasis on outcomes in addition to outputs was introduced. As the Auditor-General has observed, the distribution and quality is patchy.

It is not only a matter of time elapsed. The shortfall is puzzling also because the volume of English-language literature on monitoring and evaluation (to say nothing of the volume of work on strategic management) is extensive and dates back to the 1970s – some even before that. Moreover, a small amount of guidance material was produced in New Zealand as part of the Managing for Outcomes initiative in 2001 and reflected some of the accepted thinking at the time. Yet not much of this material is apparent now in New Zealand government departments; again, the word ‘patchy’ comes to mind.

235 The more familiar title of ‘Auditor-General’ rather than the formal ‘Controller and Auditor-General’ is used in this chapter.

Therefore, the underdevelopment is not due simply to a lack of published resources or the capacity of agencies to comprehend it. There must be other reasons, and these are the focus of this chapter, particularly in relation to monitoring outcomes. After briefly exploring this literature, the chapter argues that those seeking a shift towards outcome-oriented public management in New Zealand and, within that, monitoring and evaluation of performance in relation to achieving the policy goals and objectives of the government of the day, have not fully grasped that the outputs/control, compliance and accountability foundations of public management in this country get in the road of the development of a complementary approach based on outcomes/learning, enablement and responsibility. This is partly because of conflicting assumptions each approach carries about minister–official relationships, public servants, the focus and purpose of their work, and the necessary balance of trust and control required to enable that work to be done well. It is also because insufficient acknowledgement has been and is given to the power of the institutionalised approach to public management in shaping the taken-for-granted everyday world of the public manager. Political drivers are also lacking, an effect of embedded practice within the executive and parliament in Westminster-derived polities. Both are major issues that need to be addressed if performance monitoring in relation to outcomes is to develop to an adequate degree across the public service and among officials, ministers and the legislature.

Interpreting the findings

We were interested to explore the state of affairs identified by the Auditor-General (OAG, 2008a) and others and to seek explanations for the problem – if we agreed that there was one. Accordingly, we developed a set of research questions to help us identify the form and content of performance information created and used in New Zealand government departments, those who use it and for what purposes. As described earlier in this volume, to answer these questions we examined published agency documents, undertook detailed case studies by talking with managers and staff in selected departments, and undertook a sector-wide survey.

Our findings throughout this book cover a wide range of low-level operational and high-level strategic and political matters. Looking at them all from an institutional perspective (and ignoring some of the micro-level findings), it seems possible to draw out key points and express them in eight statements.

- Parliament does not seem to want or use performance information. Ministers and parliamentarians make relatively little use of the performance

information presented to them either in the House of Representatives or select committees. Little of the information seems to be regarded as useful. If the information is used, it is because some of it suggests failure whereupon it is used to attack the government.

- Ministers' use of performance information varies according to portfolio and personality. Some, ministers seem to be active users; others are passive – unless the information suggests failure, in which case they may act. In general, ministers do not seem to have learned to or want to use outcome-oriented performance information, much less precise information, in the policy process. Ambiguity and vagueness seem to be preferred.
- Central agencies seem to use performance information from departments mainly to check compliance and conformance. Information signalling a problem is noticed more than any other type; otherwise, performance information is sought mainly as a justification for future expenditure.
- The formal system of performance management expressed in legislation and guidance is most clear, explicit and developed around financial and output information and reporting but much less so in relation to outcomes. The system stresses accountability as the primary purpose of performance monitoring. Some guidance says that information reported for accountability should be the same information collected for management control.
- Performance information and management guidance are not linked, as in conventional management thinking, to the review (monitoring and evaluation) phase of the management cycle. The only place where this link is made is in a small number of documents produced in 2002 and 2003 surrounding the Cabinet sign-off of 'evaluative activity'.
- Departmental use of performance information varies according to factors such as function, level and purpose. Most run a performance information and reporting system for internal control rather than management or policy learning and improvement. These information systems are largely focused on processes, activities and outputs although there are some attempts at including outcomes.
- Accountability, from an agency perspective, is mainly about avoiding error and risk and meeting the performance expectations for chief executives and their organisations. In situations of risk there is a strong tendency to 'revert to the rules', to rely on adherence to process, to 'standard operating procedures', such that conformance equals accountability.

- Based on responses in a survey of managers, most departments exhibit high levels of compliance and conformance in their performance management systems and practices with agency understandings of the formal system.

These findings point to the fact that, across the public service as a whole and within several departments, of the total quantum of time, effort and resources given to monitoring, a very large proportion of it is given to process monitoring and the outputs produced – mainly for reporting and accountability – rather than monitoring of outcomes. The perception is also strong that ‘the system’ requires this; that it is mandatory. There is, however, some degree of variation in the balance of output/outcome monitoring. Some departments are as described above; others put more effort into outcome monitoring. When this is so, more often than not, the outcome focus emerges from the middle of the organisation.

In these cases, it seems that outcome monitoring is driven from implementation and delivery. It appears to flow upwards from the practice of employees most involved with the substance of policy – which is not to point to front-line staff only. Just as much of the drive comes from mid- or high-level managers who act and talk in policy-oriented ways, where their monitoring is focused frequently on immediate and intermediate policy outcomes rather than organisational results (outputs and processes). As a result, their practice seems to maintain a reasonable balance of monitoring for both policy and organisational purposes. These efforts are evident in their agency’s planning and reporting documentation. Moreover, in these organisations, monitoring is discussed in relation to its role in helping improve effectiveness of work and in deciding the distribution and priority of their efforts. However, overall, the number of departments in which this occurs systematically and comprehensively is not large.

It is also worth noting that complaints and concerns about the effort given to and the significance accorded to ‘monitoring widgets’ – organisational capability, processes and outputs – rather than outcomes monitoring, come mostly from those who are closest to and most concerned with the implementation and delivery of policy. Again, this is not only front-line staff but also managers and staff further up the organisation who have a policy orientation.

It is also noteworthy that many interview subjects seemed discouraged by the difficulty of monitoring (and evaluating) outcomes. When questioned, some seemed to believe that qualitative dimensions simply cannot be monitored and were unaware of ways, developed over many years by evaluators and strategic managers elsewhere, of learning how to do so.

What is the significance of these observations? What do they point to?

From a perspective based on conventional (strategic) public management thinking (eg, Bryson, 1988b; Collier et al, 2001; Gallop, 2007; Hughes, 2003; Johnson and Scholes, 2001; Nutt and Backoff, 1987), it seems as if most New Zealand government departments do not understand the role and character of monitoring and evaluation (the two activities should be regarded as interdependent) – or, if it comes to that, strategic management in the public sector – and that practice is skewed away from what is usually understood as their primary purpose. As discussed shortly, the conventional approach is quite clear as to the purpose of monitoring in the management cycle, what should be monitored, why it should be monitored and what should be done with the information and knowledge thus acquired. Some departments are acting along these lines, to some degree at least: they are doing what any contemporary public organisation should be doing if it claims to be ‘performance monitoring’ as part of ‘(strategic) public management’. Many, however, are not.

Is this shortfall a matter of ignorance, a lack of initiative, or something else? Some managers and staff are aware of the purpose and logic of monitoring and evaluating outcomes as a necessary part of strategic public sector management but feel held back or constrained in what they can do. They point to the heavy emphasis on outputs and process, control and accountability (‘reporting requirements’) as the focus of monitoring throughout the public sector as a whole.²³⁶ Monitoring appears to them as a social fact that shapes their everyday practice and is embedded in the structures, practices and cultures of the public sector and the organisations in which they work, in the rules and routines of central agencies and in accepted practices across the sector as a whole. Political drivers that might force or encourage departmental managers to develop monitoring in outcome-focused directions are also lacking. This chapter elaborates these points.

Purpose and character of monitoring and evaluation as part of strategic public management

A survey of contemporary thinking in the international literature about monitoring and evaluation reveals little disagreement about their meaning, purpose and character. These are given by the role these activities play in the management cycle. In other words, the meaning, purpose and character of

236 Whether this force is a product of central agency prescription, the relevant legislation or departmental interpretations of the formal system seems relatively immaterial. Few managers differentiated between these possible sources but many had a strong and powerful sense of ‘the system’.

monitoring and evaluation are given by their role in the wider field of practice known as ‘strategic management’ (eg, GAO, 1998; Hogwood and Gunn, 1984; McKay, 2007; UNDP, 2001; World Bank, 2004; Wholey, 1983; see also Lunt et al, 2003; O’Faircheallaigh and Ryan, 1992).

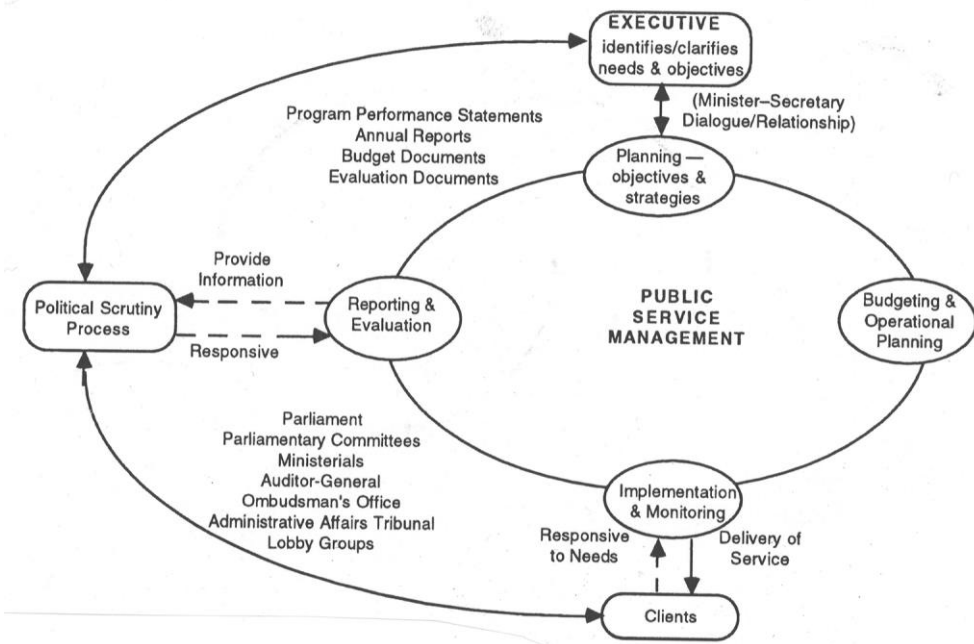
The focus of strategic management in the public sector is to achieve the policy²³⁷ goals and objectives sought by the government of the day, the short-, medium- and long-term states of affairs that the government has decided it wants to see emerge in society. Particular attention, therefore, is paid to strategies; the specified actions believed likely, in some way, to generate the realisation of those desired end-states. In that respect, unrelentingly, it is about ‘outcomes’ – actually achieving specified goals and objectives.

Strategic management is conceptualised as a ‘cycle’ (Joyce, 1999; Nutt and Backoff, 1987), a constant iterative figure that flows from planning, through budgeting, implementation, review and back again to (re)planning²³⁸ (Figure 17.1 is an example of the various types of schematics produced to represent this idea, in this case adding detail regarding monitoring and evaluation). In the review phase, public managers monitor and evaluate progress; whether present strategies are achieving the goals and objectives specified in the planning phase and generated in implementation using outcome indicators derived from the strategies. Their focus at this point in the cycle is learning. The learning may relate to causal processes whereby the objective is reached or the efficacy of the particular strategies being employed (based on the best knowledge available) or the mix and allocation of resources brought to bear – or any of many things. The knowledge thus acquired allows the managers and staff to change or modify the present strategies to improve their effectiveness of their efforts or, if they are already being successful, to continue with the same.

237 For the argument that policy and the policy process are necessarily the subject of public management and that the management of organisations and processes are only means to that end, see Ryan (2003a, 2004). The counterargument is the mantra that policy is the preserve of ministers and management that of officials. This approach attempts to maintain the discredited belief that technical management decisions are value-neutral and do not have policy effects that officials need to manage and be held accountable. Alex Matheson made a similar point in 1994 when he described the New Zealand approach as “curious”. The UK Cabinet Office strategy survival guide (Prime Minister’s Strategy Unit, 2004) is much more realistic in this respect – refreshingly so since it comes from the Westminster polity.

238 Criticisms can be made of the apparently stepwise character of this conception (eg, Joyce, 1999) However, if treated as a heuristic each can be regarded as distinct phases that overlap and feed back into each other. As such it remains a useful representation although an analytical one and not empirical.

Figure 17.1: Monitoring and evaluation as part of public sector management



Source: Barrett (1992).

As noted, the review phase comprises two kinds of activities: monitoring and evaluation. Although separable, they are also interdependent and overlap. Monitoring is a daily activity to be carried out by managers and staff and involves the collection and analysis of specified types of descriptive evidence (‘indicators’) designed to signal the current state of affairs and, hence, whether the actual outcomes are the same as those that were planned. Indicators should represent or refer to the critical points of causality in the theoretical framework (the ‘logic model’, ‘programme logic’ or, in New Zealand, ‘intervention logic’) underpinning the strategies.²³⁹ This data is classified and analysed to provide information that, when interpreted, gives managers a level of knowledge about the degree of progress achieved so far.

While monitoring enables description of the emerging state of affairs, it cannot by itself explain the actual outcomes or any gap between those planned and those emerging, or underpin a judgement about the effectiveness and appropriateness of the current strategies. Evaluation fulfils this role. This is a more periodic activity, the timing, form and content of which depend on whether

239 For a detailed account, see Ryan (2004).

the evaluation is *ex ante*, process or impact/outcome focused, and is often, although not necessarily, conducted by an independent evaluator external to the organisation. If useful monitoring information is created about the emergent and actual outcomes and created from baseline through to implementation then it literally makes the subsequent evaluation possible (evaluations that are forced to work on remedial or recovered information are usually the weaker for it).

In short, the review phase of the management cycle plays a critical role in strategic public management. By weighing up and explaining progress to date in achieving goals and objectives, explaining differences and providing recommendations for improvement, it enables ‘continuous improvement’ or, better, ‘learning’. It also enables appropriate resource (re)allocation and (re)prioritisation to improve efficacy depending on the conclusions. It also enables departments to report to ministers and parliament about what they have managed to achieve or not achieve, as the case may be.

Conventional thinking within strategic management and evaluation assumes that ministers and parliamentarians are also interested in performance information not just for accountability (including their own). They might want to learn whether the goals and objectives they seek are being realised and, if not, whether the problems lie in design or implementation and if anything else or different needs to be done – including whether to rebudget and reprioritise or to even close a programme if acceptable outcomes have been achieved. There is no assumption that technical knowledge should trump values and political ideologies but that evidence definitely has a role to play in the mix when it comes to decision-making, discussions between ministers and officials and in debates between ministers and parliamentarians inside and outside the legislature. Note too the assumption that ministers would necessarily regard officials as expert partners in need identification, policy and strategy development, implementation and evaluation rather than as mere functionaries and subordinates.

Some particular points about monitoring and evaluation as usually conceived are worth mentioning particularly when compared with the circumstances applying in New Zealand, as revealed in our research.

The first and most obvious is that monitoring and evaluation in outcome-oriented management should be entirely focused on the achievement of policy goals and objectives set by the government. The monitoring of outputs and processes is not a substitute – monitoring of these will also be conducted for *organisational* management purposes but not for *policy* management purposes. They are different albeit complementary activities. The fact that New Zealand departments do much production monitoring but that policy monitoring is patchy

shows the extent to which practice is underdeveloped and the production model of organisation dominates in this country.

A related point, equally apparent, is little evidence of the necessary connection of monitoring and evaluation. Since evaluation is barely present other than in a small number of agencies this is not surprising.

The second point to emphasise is the relationship of the indicators to the causal model (or intervention logic). Indicators should refer to the critical effects predicted by the various points of the model (eg, the preconditions believed to generate the desired outcome that themselves can be treated as immediate and/or intermediate outcomes). Usually, each policy needs its own specific set, a mix of indicators that are peculiar to the policy and the strategies developed to achieve them. Few New Zealand agencies seem to recognise this point. On the subject of immediate (or service-level) outcome indicators, agencies are still preoccupied with ultimate and intermediate outcome indicators and have not grasped the value of immediate-level outcomes as the most amenable to competent and purposive strategic management (Mayne, 2007, 2008; see also Ryan, 1992, 2002).

Another important assumption, as already noted, is the role of review in the management cycle in learning how best to achieve the goals and objectives and which strategies are most effective and appropriate (Senge, 2006; see also Reeve and Peerbhoy, 2007; Torres and Preskill, 2001) – a problematic issue, given circumstances of increasing complexity and uncertainty wherein officials do their work. It is hard to overestimate the significance of these ideas for public management in the 21st century. Organisations that learn and adapt are superseding production organisations whose performance is defined in terms of output, with structures, practices and cultures that motivate managers and staff to be outcome oriented and to continuously improve their performance as a matter of professionalism, commitment and values. Once again it becomes apparent that, based on their practice as described in this study, New Zealand's public service organisations more often than not reflect the production model.

The lack of use of performance information by ministers and parliamentarians is another point that demonstrates how far New Zealand practice is from the norm. It may be that agencies are not providing the kinds of performance information preferred by their political masters, which would explain the shortfall but, equally, there are few indications that if good and useful outcome-oriented performance information were provided, it would actually be used – even for accountability, much less policy learning. If this is the case, the reform focus needs to shift to ministerial and parliamentary practice with the expectation that ministers and others start acting in accordance with the ways they expect others to behave. More is said about this below.

One last point is worth making, but one drawn from evaluator experience rather than the internal logic of monitoring and evaluation within a strategic framework. The relative lack of evaluation in New Zealand may be part of the reason why monitoring and strategic management generally are at such a low level of development. Evaluators are familiar with a particular path of organisational learning. Weaknesses in monitoring and other parts of the strategic framework often become apparent when an agency starts evaluating outcomes. The logic model is often insufficiently elaborated as are the objectives (often vague or activities masquerading as objectives), the strategies (disconnected, lacking the causal element), the indicators (little related to the outcomes and strategies) and monitoring (organisational management information, not immediate and intermediate outcomes). The early stages of the evaluation involve the agency retrospectively improving these elements, a process that involves considerable organisational learning – hence the oft-heard remark that ‘the process was one of the best aspects of undertaking the evaluation’. Evaluation is a powerful ‘backwards’ driver of a strategic framework (Elmore, 1979–1980) and, within that, performance monitoring – which suggests that the lack of a strong evaluation culture in the New Zealand public sector may explain some of the shortfall in performance monitoring. Conversely, the small number of departments that do regularly evaluate (eg, in education, justice, health and social policy), tend to be more adept at monitoring outcomes than those that do not.

What is apparent from this discussion is that the monitoring and management practices revealed in our research are far from those regarded as conventional and appropriate in the international literature. We will return to the implications of this later; for the moment, it is worth asking whether the problems could be an effect of poor guidance from central agencies. Has this advice been so poor that it offered public service departments no opportunity for development? Or has it been more or less consistent with international conventions?

New Zealand guidance

Some of the documents examined below date from the time of Pathfinder (see below); others flowed from the Review of the Centre (Ministerial Advisory Group, 2001) and the introduction of Managing for Outcomes (DPMC et al, 2003b). However, the expectation that departments would be developing outcome-oriented monitoring and evaluation had been articulated earlier and it is important to remember that, with the devolution of responsibility in New Zealand (as elsewhere), departments were expected to take the initiative in developing their practice.

An early expression of this expectation came from Alan Schick, who, in his 1996 report *The Spirit of Reform*, was clearly expecting that the public sector as a whole would be focusing much more than it was on outcomes and that departments would be doing evaluation.

In 1999, the State Services Commission published *Looping the Loop: Evaluating outcomes and other risky feats* (SSC, 1999). This paper repeats the standard assumptions that monitoring and evaluation are inherently connected and that both are essential to public management and, indeed, most if not all of the conventional approaches described earlier. Notably, this paper explicitly raises a question we will return to later, namely, whether the existing public management system in New Zealand is “inherently hostile to outcome evaluation”, concluding that it does not but that it “is not overly conducive” (SSC, 1999, p 5). The paper also suggests that current budget arrangements and short-termism may be more influential in reducing the motivation.

The Auditor-General weighed into the issue in 2000. His first report for that year dealt with the extent to which agencies were using impact evaluation and the quality of the work being done (OAG, 2000). This document was not a ‘how to’ manual but an assessment of the extent to which agencies were using impact evaluation – which the Auditor-General described as “patchy”. The clear expectation was that departments would be doing so, even if the requirement was framed largely in the context of the executive’s accountability to parliament.

Some years after the Schick (1996) report, the New Zealand public service started to move on outcomes. Policy work and pilots developed in the State Services Commission evolved into the multi-agency Pathfinder project from 2000. The terms of reference for Pathfinder said (2003d, p 1):

1. Commentators on New Zealand’s public management system identify a need to shift the focus of management towards the achievement of results, as well as delivery of outputs. While the Public Finance Act requires the Estimates to link outputs to desired outcomes, few agencies take an evidential approach linking the interventions chosen, to outcomes (results) achieved. Substantial scope exists to ‘lift the game’.
2. The Pathfinder Project ... is a vehicle for collaborating agencies to:
 - develop outcome measures, and management tools and frameworks; and
 - demonstrate operationally viable ways of improving state sector outcomes.

Pathfinder eventually folded into Managing for Outcomes, which Cabinet signed off in December 2001, around the same time that the Ministerial Advisory Group (2001) was preparing its Review of the Centre.

The Pathfinder (2003a) documentation attempted to incorporate material from a wider managerial agenda than had previously been addressed in New Zealand (within guidance material anyway).²⁴⁰ Some of the documents reflected ideas already summarised above. For example, the idea that public management practice is best regarded as a cycle is made explicitly in a strategic planning paper (Pathfinder, 2003b) – although the reference is to the ‘planning’ cycle rather than the ‘management’ cycle. This heavy focus on planning (and reporting) and little on the other phases of the management cycle is also reflected in the later Managing for Outcomes guidance, a skew that may be part of an explanation for lack of development.

Strategy Evaluation. Specification in the strategic plan of how the agency will test whether the plan and major interventions are working, and translating this into actions and budgets. Working around the strategic planning cycle to test and revise the agency’s direction. (Pathfinder, 2003b, p 1)

One of the early Building Blocks explicitly dealt with “outcome indicators” in terms at least somewhat similar to those used here (Pathfinder, 2003a).

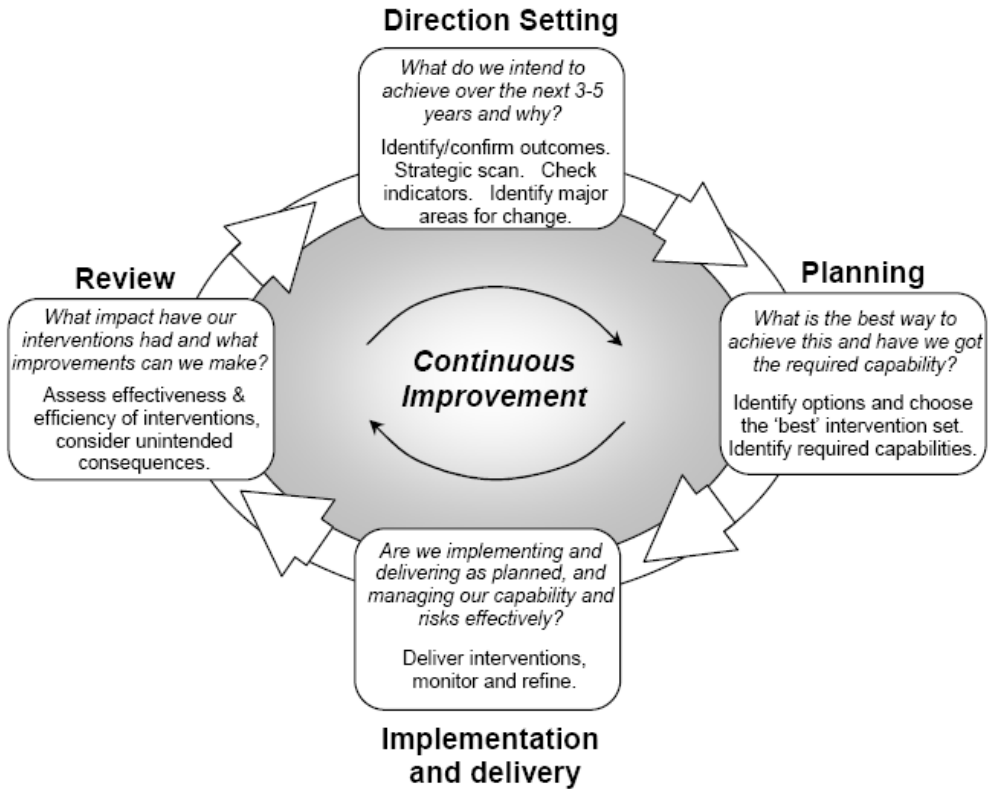
The initial guidance information for Managing for Outcomes started with the simple observation:

13 Managing for outcomes is a cycle of outcome-focused planning, implementing those plans, evaluating the results and feeding those results into future planning. (DPMC et al, 2002, p 8)

Figure 17.2 is obviously just another version of the strategic management cycle. However, throughout the guidance material as a whole, once stated, this principle was not made the centrepiece of its contents.

240 See also the Pathfinder website <http://io.ssc.govt.nz/pathfinder>.

Figure 17.2: The management cycle and the role of review



Source: DPMC et al (2003b, p 2).

In 2002–2003, the central agencies, led by the State Services Commission, led a project designed to systematically tackle the lack of evaluation (Gleisner et al, 2003). The resulting report and guidance (SSC and Treasury, 2003; DPMC et al, 2003a) almost entirely reflected the points summarised above regarding the strategic framework, the management cycle, the significance of the review phase and the role of performance information within it. Moreover, these documents were exemplary in terms of locating evaluative activity in a learning framework, stressing that monitoring and evaluation cannot generate strategic benefits unless agencies adopt a culture of inquiry across the state sector as a whole and are determined to learn from performance monitoring and evaluation. One of the greatest strengths of this work was that it wanted to ‘move beyond evaluation to evaluative thinking’. It recognised the aridity of thinking only in terms of formal evaluation (a weakness of some early Pathfinder guidance) and promoted the idea of public managers using many and all means, formal and informal, qualitative and quantitative, to constantly question and challenge themselves regarding

progress towards their goals and objectives. While noting that change could be expected only over time and had to be driven by a different culture than that which existed, the documents indicated that a series of initiatives would follow, led by central agencies, to encourage and support departments in their endeavours.

Such was the quality of this work that I amongst others (Ryan, 2003b; Fraser, 2004) applauded it and expressed optimism that New Zealand would finally be catching up in relation to evaluation, at eliminating the shortfall identified almost a decade earlier by Schick (1996).

Unfortunately, few of the future initiatives spelled out were or have been implemented. Had they been, the present set of circumstances may be different. For the reasons listed earlier, because of the developmental pathway that flows 'backwards' from an evaluative culture to the redevelopment and improvement of outcome-oriented performance monitoring, implementation then might have led to better performance now. This suggests that a return to the points made in those documents and the initiatives proposed in them might be one way forward.

However, both the State Services Commission 1999 paper and the 2002–2003 'evaluative activity' documents warned that various factors in play in public management in New Zealand (eg, a lack of understanding, encouragement or resources for learning and evaluation) were constraining the development of evaluative activity. The research conducted as part of this project suggests that this caution should have been taken more seriously than it evidently was. These matters are discussed in the following section.

Before moving on, however, some recent documents and developments should be noted. Not long after the Auditor-General released his 2008 observations on the quality of performance reporting (OAG, 2008), the State Services Commission and Treasury released *Performance Measurement: Advice and examples on how to develop effective frameworks* (SSC and Treasury, 2008). Looked at from the perspective adopted in this chapter, this how-to document is a systematic compendium of well-known (and often sensible) operational hints, complete with illustrations. There is an attempt in module 1 to discuss performance monitoring in terms that are something like strategic management, including emphasising the centrality of outcomes (SSC and Treasury, 2008, pp 12–13) and the purpose of performance measurement is defined three ways; namely, "Informing strategy and policy development", "Informing capability and service development" and "Reporting achievements" (p 12). Paradoxically, the introduction provides a rationale for performance monitoring based mainly on compliance with the reporting requirements of the Public Finance Act 1989 and State Sector Act 1988 (p 8) and suggests that "the most intensive demand for performance information should come from ministers or managers responsible

for a vote or sector” (p 9). It thereby undercuts any contribution the document might make to building an image of an externally oriented, outcome-centred public manager focused on a strategic policy and management framework. It also reinforces the mindset that ‘performance monitoring’ is something done by an authority to others to ensure they are doing as previously agreed; that is, the preoccupation with control and accountability that underpins several obstacles to developing public management in New Zealand at the moment (discussed in detail later).

In 2009, the Minister for State Services obtained Cabinet approval for the Performance Improvement Framework (with the unfortunate acronym PIF). Several documents have since been produced by the Department of the Prime Minister and Cabinet, State Services Commission and Treasury (eg, DPMC et al, 2009a, 2009b). Considered from an outcome-focused strategic management or evaluation perspective, it is unclear whether to welcome this initiative or not. Given that signoff came through the Cabinet Expenditure Control Committee, the goal of this initiative is probably tied to the government’s desire to rein in public service expenditure and to pursue the elusive notion of value for money.

The extensive and dazzling array of performance categories and indicators laid out in the framework is largely about the internal functioning of each organisation; that is, financial and resource management; people development; relationships and governance; leadership, direction and delivery; delivery of core business; and delivery of government priorities (eg, DPMC et al, 2009b). It is certainly true that capability is critical when it comes to developing effective public management (as I have argued for some years; for example, Ryan, 1992) but the focus of this framework is not on policy goals and objectives as discussed in this chapter. It may simply be the case that the government wants fiscal constraint more than anything else so the central agencies have to comply, and there may be valid reasons for pursuing this goal given the economic recession. But if the heavy volume of work it seems to demand distracts attention from the ongoing development of outcome monitoring inside departments, then some of its medium-term effects may not be positive in relation to outcomes management. Worse, it may reinforce the sense throughout the state sector that ‘performance’ is defined primarily in terms of outputs and processes, and, as we will see shortly, there is enough of a problem in that respect already.

If the earlier guidance material was at least adequate and in some cases good – such that departments could and should have used it to develop their practice to at least an adequate level – are things getting in the road? The final section of this chapter discusses two major blockages: political and managerial.

Political blocks

As noted earlier, one of our findings is that ministers and parliamentarians make relatively little use of the performance information presented to them – at least, when compared with the optimistic assumptions made in strategic management theory. The reality, however, is that current political and parliamentary practice is a barrier to development – it may have its own logic but it interferes with long-running public sector reforms that successive governments have wanted.

In fact, if the performance information provided is used, it is mostly used by ministers to extract compliance from their officials or, if it suggests policy failure, then opposition members use it to attack the government. It is rarely used to propose or carefully debate policy or management improvement – which is not to ignore the small number of occasions when this does occur (usually because particular ministers or parliamentarians are thoughtful types attuned to such approaches) but to emphasise the fact that it usually does not.

This finding – unfortunately – is entirely explicable within the dynamics of contemporary Westminster-derived parliaments. The constitutional role of the legislature under Westminster conventions is to hold the executive accountable. But the advent of adversarial party politics combined with the constant struggle for electoral supremacy means that opposition parties constantly seek out and highlight anything that will diminish the stocks of the government of the day. Performance information suggesting that particular policies or agencies are not being successful in achieving executive policy goals and objectives will be leapt upon and used to attack the government in settings such as Question Time and select committee hearings (including Estimates). Substantive, policy-focused rationality is not the stuff of modern Westminster-derived politics – although there is no theoretical reason why it could not be since the Westminster form of government created a deliberate and delicate balance between the values-based rationality of elected ministers and the technical rationality of officials. Historically, both have been deemed as valid, important and legitimate inputs in decision-making.

But the point raises another issue, not often addressed in public management theory or practice: if governments past and present have signed off reforms intended to make and enable officials to behave in these ways, then they themselves have an obligation to act in concert – to change their own practice in line with the overall goals and objectives of the new types of governing systems they were seeking. The goals of reforming Westminster-derived governments in the 1970s and 1980s included re-establishing ministerial control of officials, fiscal discipline and modernising the machinery of government, but governments since

then have also signed off on management improvement initiatives such as (in New Zealand) outcome-oriented public management and evaluative activity – ‘management improvement’, yes, but also designed to improve the overall quality of governing. Unless these have been specifically repealed (which they have not), then no corresponding change in ministerial and parliamentary practice becomes a blockage to achieving their potential. This means that, in effect, the political arm of the executive has not met the expectations embedded in its own reforms and, in so doing, has not created the kinds of drivers that might have forced and motivated officials in the administrative arm to improve the substantive content of performance monitoring and reporting.

Another point not usually made in mainstream public management relates to the societal drivers of the increasing focus on outcomes in countries such as New Zealand, Australia and Canada. Reformers are tacitly responding to increasing public demands for more openness and participation in governing, for greater focus on effectiveness, not just on efficiency (OECD, 2001, 2009): in short, to use Moore’s (1995) increasingly accepted formulation, to maximise the public value including legitimacy created through the efforts of government (see also Kelly et al, 2002; Horner et al, 2006; for a similar argument, see Denhardt and Denhardt, 2000, 2007).

The researchers and practitioners who observed the passage of the New Zealand reforms in the 1990s and the then-new Labour ministers who drove the Review of the Centre were aware (to a greater or lesser extent) of this emerging demand (eg, Mallard, 2003; see also Boston and Eichbaum, 2005). Their problem was how to make it happen. Officials and others devised a set of principles, processes and tools – technical means – they believed would work. In New Zealand, it was called ‘managing for outcomes’, embedded in the 2004 amendments to the Public Finance Act 1989. The driver that should be sustaining the ‘spirit of (ongoing) reform’, the realisation of outcome-oriented public management and, within that, performance monitoring, is the public obligation that ministers and officials share. The challenge confronting any government that wants to ask evaluative and performance questions (as it should) is that it will need to accept concomitant changes in the rules of ministerial and parliamentary behaviour. The critical question, of course, is whether it wants to.

The point is significant when contemplating the present and future of public management in New Zealand. It means that there is only limited top-down push and very little political leadership for the public service to improve its effectiveness, its policy and organisational management to better achieve the policy goals and objectives of the elected government. It also means, of course, that ministerial and parliamentary behaviour is part of the problem and the

difficulties of getting ministers and parliamentarians to recognise that and act on it are legion.

Managerial blocks

The authors of both *Looping the Loop* (SSC, 1999) and *Doing the Right Things and Doing Them Right* (SSC and Treasury, 2003) turned their attention to issues of whether the form and content of public management practices that had emerged in New Zealand mitigated against the development of an outcomes orientation and, with it, the development of outcome-oriented monitoring and evaluation. To be more accurate, the latter hints at them but the former addresses them explicitly.

It seems that, by 1994, at least some in the central agencies were realising: outcome evaluation was necessary, not simply for strategic purposes, but also to check upon the effectiveness of purchased activities [and that] outcome specification and measurement is an important requirement for improved State sector management at all levels from government's strategic objectives through to programme evaluation. (SSC, 1999, p 12)

Then:

In 1995 a group of senior officials from Treasury and the State Services Commission convened meetings to examine the outcome dilemma. They conceptualised the problem as:

The focus on outputs while improving the accountability and transparency of government/departmental processes has not assisted the decision-making of policy-makers, policy advisors and the public.

The group produced a draft paper, highlighting the lack of information about and focus on outcomes. Advice was never presented to Ministers and the group was disbanded in early 1996. The reticence about suggesting a greater focus on outcomes reflected a fear that such a focus would divert attention from outputs and could potentially undermine the foundations of the performance-accountability system. (SSC, 1999, p 12)

What is hinted at here is the institutional conditions required to engender a focus on outcomes and learning and the extent to which an embedded approach focused on outputs and control may conflict with, prevent or at least not enable the desired shift. In hindsight, it is unfortunate that this concern was never brought to the surface; subsequent history may have been different. As the summary of

findings listed at the start of this chapter shows, our research on this project confirms, from a line agency manager's perspective, that the heavy emphasis on outputs and control dominates practice, a decade after those concerns were first expressed.

On occasions such as these it is worth remembering how institutions function. What are taken to be normal practices and discourses dominate behaviour in the present and make it difficult to achieve change. It is not sufficient simply to say that something new or different should be done. The new has to compete with the influence of the old. And the old may be institutionalised. Over time, certain roles and rules, conventions, and ways of acting and thinking become established, embedded and regarded as normal. If expected and reinforced by those in authority they are experienced as mandatory. When internalised within roles, norms and cultures, they become 'reality', imbued with an obvious correctness. If a different set of roles, rules, and ways of acting and thinking is introduced, at first they seem unnatural and in conflict with normality. To become accepted as legitimate, a considerable amount of intellectual, discursive and practical work needs to be done and repeated – the past has to be unlearned as much as the new has to be learned (eg, Tsang and Zahra, 2008). To achieve this, the legitimacy and authority of the old has to be undercut and diminished – entirely if the goal is substitution and partially if some of the old is to co-exist with the new.

Instead, in New Zealand, an outcome orientation was simply added over the top of an output-based approach without making clear that the old had to share its authority with the new. The Review of the Centre said reassuringly that:

the public management system as it stands today provides a reasonable platform to work from but some significant shifts in emphasis are needed to better respond to the needs of the future. (Ministerial Advisory Group, 2001, p 4)

In hindsight, this was nowhere near strong enough. Central agencies subsequently tried to tell a story of 'as well as, not instead of' but failed to emphasise the equal authority of outputs and outcomes, the validity and significance of both, and that each pertains to a different aspect of managing in the public sphere, one relating to organisational management and the other to policy management.²⁴¹

As our research has confirmed – and as the senior manager quoted at the start of this chapter captured so succinctly – when looked at from the perspective of

241 For the argument that managing in the public sphere is a duality of organisational and policy management, see Ryan (2003a, 2004).

public managers in New Zealand, their everyday practice seems to be dominated still by outputs, process, control and accountability. The emphasis on these as the basis of public management weighs heavily on everyday practice – not the totality but certainly the default. Whether this flows out of the terms of the ‘formal system’ as discussed in an earlier chapter of this book, excessively literal interpretations of it by departments or the ongoing behaviour of central agencies is beside the point: the important thing is to understand the facts of everyday experience, and from that perspective they seem as one. The job of the official is defined therein as producing the goods and services that the minister has already decided they want, being accountable through the chief executive for whether that is produced and whether it is done to the required standards of cost, quantity, quality, location and timeliness. Reality is internally focused, on what applies inside the political executive, the public service and the organisation. Work is defined as a production process. Monitoring is done only to convince the minister and parliament that the terms of the agreement have been met and are within budget, having nothing to do with the outcomes that might have emerged, since that is the responsibility of the minister. Outputs must be linked to government priorities but their obligation is barely in relation to their efficacy or appropriateness, and not at all to actual achievement of the policy goals and objectives – ex post, as a result of action – only to manage for those outcomes (whatever that means).

This understanding is at the core of how public management appears in New Zealand at the level of everyday, lived experience. It has come to comprise a core reality of everyday life as an official. It has become deeply embedded in the language, structures, practices and cultures within the state sector and within most of its organisations as the key point of reference. It has been successful – partly because it provides an excellent framework for organisational rather than policy management. But its very success – the extent of its embeddedness, its ‘normalcy’ – makes it difficult to achieve change, especially if that change seems to overturn key principles.

As is clear from this discussion, from the perspective of contemporary management and evaluation theory, outcome-oriented public management and, within that, definitions of performance and its monitoring, is founded on quite different assumptions. It relies on a different workplace reality, both institutionalised and experiential. The focus is external, on the conditions and effects of strategic action – expressed in terms of the government’s policy goals and objectives, not the functioning of the organisation. It takes for granted that governing is uncertain, complex and emergent, that policy goals, objectives and strategies cannot be known in advance, that getting there will mean as many

failures as successes with learning, adaptation and innovation along the way (eg, Ranson and Stewart, 1994). That is precisely the point of monitoring and evaluation. They are tools for public managers to help them do the policy management side of their job better when working in complex environments and then to report at a later time, what, how and why they did what they did in achieving (or not) the goals and objectives of the government. This is not something that can be made to work from within an output/control framework. It demands administrative loosening up and challenges what has been taken for granted for some years.

Expressed in these terms, it is clear that the senior officials group in 1996 that was concerned that an outcomes focus would divert attention from outputs and could “potentially undermine the foundations of the performance-accountability system” were right. It would and it should. Introducing an outcome orientation with outcome monitoring and evaluation inevitably introduces “backwards” (Elmore, 1979–1980) modifications to the established framework. It demands a lessening of the influence of outputs and control and a sharing of authority and legitimacy with outcomes. The shame is that the group defined that as a problem when, in fact, it was an opportunity, a chance to let public management in New Zealand develop to the next level, in the directions that public management theory and practice elsewhere were heading. A little later, Schick (1996) reopened that possibility, as did the Auditor-General. At the turn of the millennium, Pathfinder, the Review of the Centre and Managing for Outcomes did the same. Subsequent work by the central agencies on ‘evaluative activity’ seemed to recognise that the shift was significant and that it would take considerable work, resources and time (to say nothing of courage, imagination and commitment) to embed these new ways of working – not to supplant the old but to work alongside them, one approach for organisational management and the other for management of the policy process. It is clear that implementation failed. Few of the initiatives proposed in those documents were ever realised, but by then, central agencies were no longer pushing Managing for Outcomes. Line agencies were expected to do it themselves, to introduce these new enabling approaches, while operating still in a sector in which outputs, top-down control and accountability were still regarded as core.

And so, performance monitoring in New Zealand is as it is.

Conclusion

So what is getting in the road of what? The key argument presented in this chapter is that the development of outcome-focused performance monitoring in

New Zealand is dependent upon acceptance of the assumptions and practices of conventional, contemporary strategic management – more or less reflected in a managing for outcomes framework – based on principles such as (policy) outcomes/enablement, trust, learning and responsibility. The existing New Zealand framework – rather, the New Zealand system of public management as experienced everyday by public managers, probably the formal system refracted through the particular interpretations of their agencies – is based on quite different assumptions and practices, in particular, (organisational) outputs/control, and accountability through compliance and reporting. The differences of worldview are enough to create issues in synthesising them, but the real issues arise in New Zealand because the existing model has been deeply institutionalised such that it is experienced as the normal and proper way of doing things – at both sectoral and organisational levels. That embeddedness weighs heavily on everyday practice and shapes what managers do and are able to do. And it gets in the road of new forms of practice based on different assumptions such as an outcomes orientation.

This is not just an issue within the public service. A similar line of argument can be invoked regarding the relationships between ministers and officials and between ministers and parliamentarians. The attitude towards performance information exhibited by ministers and parliamentarians is related to the habit of treating parliament as a site of political contest rather than careful debate that combines technical knowledge with values and ideology. Contemporary societal developments such as demands for more substantive commitment to public value and participation in governing by citizens reinforce the necessity for transparent, strategic, outcome-oriented public management but the simple fact remains that existing parliamentary and political practice stands in the way of such adaptations. The lack of political drivers towards outcomes and public value checks the growth of meaning and motivation.

What conclusions can be drawn from this analysis? Notwithstanding the relative lack of positive political drivers, much could and should be done within the New Zealand state sector. The critical issue discussed in this chapter was apparently recognised in the middle of the last decade, although from a risk, rather than opportunity, angle. More recent guidance has not been oblivious to the problem, although it has not dealt with it explicitly. And much of what was said in those documents still applies. Their contents are as valid today as they were then and the extensive proposals for implementation they contained would have gone some way at least towards institutionalising outcome-oriented evaluative activities in the New Zealand state sector.

Perhaps an appropriate way forward would be to return to 2003 and pick up from where things were left but, this time, recognising that the dominance of the curious approach to public management famously adopted in this country is half the problem. Half the problem in that it has been, so to speak, too successful and come to stand for the totality of public management. The degree to which it dominates thinking and acting, the extent to which it is privileged in everyday practice and narrows the range of possibilities, is getting in the road of adaptation, of a necessary shift towards equalising the balance in public management between organisational management and management of the policy process. This would require no small effort and, for some, difficult admissions.

To finish with a blunt question and answer: Does central government in New Zealand want to improve performance monitoring in relation to outcomes in line with conventional thinking about strategic management, monitoring and evaluation? If the answer is affirmative, this discussion suggests there is little point fiddling about with aspects of current practice. Intended or not, the performance management system as a whole, as experienced by practitioners, has developed in a manner that recognises how core elements of the existing system are systematically getting in the road of developments. These obstacles need to be cleared before major change can be achieved.

Why outcome-oriented performance monitoring is underdeveloped

Achieving a Step Change

Derek Gill and Susan Hitchiner

Introduction

In 2010, public sector management was at a crossroads without a clear way ahead. Politicians in New Zealand and comparable jurisdictions – such as Australia (Advisory Group on the Review of Australian Government Administration, 2010) – are searching for new thinking on how to improve public sector performance. In response, some practitioners have responded by seeking to repackage long-standing ideas in an effort to extract improved performance from existing systems. Other – perhaps more reflective practitioners – are searching for a new ‘synthesis’ (Bourgon, 2008). Regardless, it is not yet clear what needs to be synthesised or what the direction for any change should be. Meanwhile, academics pronounce the ‘death’ of New Public Management (Dunleavy et al, 2006) and foresee the emergence of ‘new public governance’ (Osborne, 2006), though without a consensus as to what new public governance actually means.

As a consequence of this situation, it is an exciting, if uncertain, time to write this concluding chapter on achieving a step change in New Zealand’s public sector management environment. Our focus is on the central component of the public management system that relates to organisational performance management and the role of performance information. As discussed earlier, organisational performance management covers four elements of organisational management – objective setting; the development and implementation of performance information systems to measure achievement against those objectives; the monitoring of performance and performance reporting; and the assignment of decision rights to enable planning, resource allocation and delivery. The perspective taken in this chapter is organisational performance management of public service organisations at the level of the system as a whole.

Within the organisational performance management system, we are interested in the contribution that can be made by improving the nature and quality of formal performance information. The linkages between improving formal performance information and overall system performance are indirect and contributory, rather than direct and deterministic – just as the links between

outputs and societal outcomes are indirect, partial and separated in time and space.

We have identified three broad strategies for achieving a step change. These strategies differ in how objectives and the context for organisational performance are set, where the emphasis for performance information lies, how performance is monitored and reported, and where decision rights are assigned. Thus, the primary areas of difference between the strategies are in the source of leadership on outcomes (in particular) – from chief executives and senior leaders within departments, from ministers, or from independent goal-setters – and the relative emphasis placed on outputs compared to outcomes. The strategies also differ according to whether the dominant purpose is external accountability or something else, the locus is individual departments or public sector wide, and the scope of performance information should be common to all organisations or modified to reflect context. Further, although the strategies are presented as standing alone, they are not mutually exclusive; the first and third strategies, in particular, could be implemented in concert. There are also areas for change and improvement that can, indeed should, apply whichever strategy is considered. We have presented these common strands as additional sets of changes that support each of the three broad strategies.

The three strategies are constructed around the dimensions reflected in four questions that we consider need to be addressed about the role of performance information in any public sector performance management system.

- What is the dominant purpose of performance information – for whom and for what: parliament, ministers, central agencies and so on; external accountability, decision-making (at government or organisation level), organisational learning or something else?
- Where is the locus of control (attention) for performance management purposes – within organisational business units, individual organisations as a whole, groups of organisations or system wide?
- What is the predominant focus of control over expected performance – inputs, processes, outputs, outcomes or some combination?
- What is the general scope of performance information – common to all organisations (comprehensive, standard presentation, standard frequency and reporting method) or modified to reflect context (selective, varying presentation, tailored frequency and reporting method)?

This chapter begins by briefly discussing the context for change by recapping the research findings on the use of formal performance information by different users and reviewing the imperatives for a step change. The chapter then turns to the

options for change and considers each of the possible broad strategies and the differences between them in terms of their purpose, locus, focus and scope. In the next section, we present a small number of common strands that are more specific changes that would support all of the strategies and variants. The chapter concludes with a brief discussion of the strategies and critical implementation issues and challenges that would need to be addressed.

Context for achieving a step change

The discussion of the formal system in Part Two brought out how the system design was based on several premises including:

- the role of parliament in using departmental performance information to scrutinise the performance of the executive
- ministers having clearly defined roles that are distinct from those of chief executives, which provide a strong platform for distinguishing ‘politics’ and ‘administration’
- the role of ministers in determining desired outcomes and selecting outputs and other interventions
- the role that performance information would play in helping ministers scrutinise organisational performance
- the role that performance information would play in assisting the State Services Commissioner to review the performance of chief executives.

These premises were in turn predicated on two views about the nature of formal performance information that:

- the activities of government organisations are sufficiently similar from a control perspective that they can be meaningfully expressed as outputs, which provide the basis for budgeting, controlling operations and accountability for performance
- within a hierarchy, performance information is objective and consistent such that information for internal organisational performance management purposes may be aggregated as higher-level information for external accountability purposes.

The discussion at the end of Part Two then explored how, in practice, these premises were often not realised, with some appearing to be closer to folklore than enduring principles that could be relied on, particularly those relating to parliament and ministers.

One of the most notable evolutions in the twentieth century ... has been the ever increasing integration of measurement in the core of the public

sector. ... But while the production of performance information has received considerable attention ... actual use of this information has not been very high on the ... agenda. (Van Dooren and Van de Walle, 2008, pp 2 and 23)

Van Dooren and Van de Walle (2008, p 2) also describe ‘the cynical presumption that Politicians don’t use performance information; citizens don’t understand it and don’t bother with it; and ... public managers don’t trust it or don’t take it seriously’. Thus, there is an element of a ‘field of dreams’ about the move to increased use of performance information by the legislature and executive in New Zealand, as in other jurisdictions. In the 1989 movie *Field of Dreams*, the protagonist built a baseball stadium in the middle of a cornfield in the middle of the Great Plains state of Iowa on the basis of a dream, ‘if you build it they will come’.²⁴²

Based on the themes identified in the literature review and our own research, we have summarised the following stylised facts on the use of formal organisational performance management information by different New Zealand public sector actors.

- Legislatures either do not want or do not directly or systematically use performance information.
- The use of performance information by ministers is variable and limited.
- Central agencies use performance information akin to a fire alarm; it is ignored until it goes off!
- Use of performance information by managers within departments varies according to their function, level and role.
- Departments use performance information more for internal ‘control’ purposes and less for external legitimation and organisational learning.

These findings are in marked contrast to what was expected at the time of the public sector changes: namely, that central agencies would use performance information to hold chief executives accountable for organisational performance and parliament would use it to scrutinise the executive with a view to improving the performance of the executive. These gaps between the underpinning premises and practices highlight some of the difficulties in public management change, including in successfully gaining traction, without addressing some of the ‘conditioning’ characteristics of the authorising environment. The previous chapters identified Ladley’s “iron rule of political contest” – together with the continually short-term focus and currency of the hourly news cycle – which

242 See the Field of Dreams Movie Site, www.fieldofdreamsmoviesite.com (accessed 28 October).

causes key institutional actors to revert to a reliance on rules and a focus on inputs and processes, rather than on the nature of outputs and desired outcomes.

This notion of a gap between the formal performance management system and practice is hardly new – it is endemic in both public and private sector organisations. The issue is in recognising that there will always be some differences between a system as formally designed and as implemented, and understanding the nature and cause of the gap, and whether the gap is sustainable. An initial (and the most straightforward) response to the current incongruence might simply be to ignore it. A more considered response is to seek to understand the imperatives for change.

Imperatives for change

We have identified five major arguments that create a persuasive case for change, without pre-judging whether the most appropriate change is fundamental reform or modification at the margin or whether that change is in the design of the formal system or in practices or a combination. The arguments for change relate to affordability, framing, value for money, legitimacy and future proofing.

Affordability

In respect of the first argument, affordability, although the New Zealand government has a strong balance sheet and the structural fiscal deficit is modest by international standards, Treasury's (2009b) medium-term fiscal outlook projects a severe fiscal squeeze over the next 40 years. There are both supply-side and demand-side pressures on fiscal affordability. The pressures on the cost of supply arise because government services are generally more labour intensive than are services provided by the rest of the economy and are also higher users of skilled labour, in particular. These factors combine to increase the relative price of government services over time. On the demand side, the demographic changes due to the ageing population, superannuation and healthcare costs are projected to increase significantly. There will also be increased pressure for publicly funded services due to the increased complexity of that demand. These changes in demand will result in continued pressures to do more with less, in comparable jurisdictions as well as in New Zealand. Done effectively, organisational performance management offers a powerful set of levers that enables a focus on effectiveness in achieving the outcomes desired by New Zealanders, as well as on efficiency and economy.

Framing

The second argument for change relates to the framing of reality and emerges directly from the research covered in this book. Chapter 2 identified possible purposes for the use of performance information and how in other jurisdictions performance information was largely used for compliance and public relations purposes. A key finding from the New Zealand research is that performance information is actively used in departments for control purposes. The importance of information in framing perceptions is a powerful finding about the role and focus of performance information in New Zealand because ‘what gets measured gets managed’. Put differently, the selection of outputs and outcomes and the associated performance measures for each, how actual performance (delivery of outputs and achievement of outcomes) is measured, analysed (or not) and reported, and how the performance information is used provide a fundamental means of shaping the performance of public organisations, both negatively and positively.

On one hand, poorly designed and implemented performance measures introduce noise and conflicting signals to an environment already characterised by ambiguity and multiple and inconsistent objectives. On the other hand, well-designed and implemented performance management systems can help organisations and their employees to make sense of the world they face, clarify conflicting objectives and provide a basis for organisational learning. In a devolved public management system that exhibits a relatively weak centre (see chapter 4), an organisation’s performance management system provides a powerful opportunity to help it shape its performance.

Value for money

The third argument relates to value for money. Especially under increasing fiscal constraint due to affordability problems, discussed above, the performance management system should be required to meet the same value-for-money test as other policy interventions. In the discussion on framing, above, we noted the active use of performance information within departments while external users, such as parliament and the central agencies, have been relatively light, direct or systematic users of performance information. This situation begs the question: can the cost of performance information intended for external users be reduced or the reporting done away with altogether? A lack of effective demand on the part of non-departmental users for better information (discussed under legitimacy, below), heightens and reinforces the lack of any sustained progress to improve the value of performance information is. In the absence of regular feedback from users, the quality of information supplied is likely to deteriorate.

To address this problem, in the discussion on strategies for change (below), we consider options for transitioning from the current one-size-fits-all approach to performance information to an approach that recognises variable reporting requirements based on organisational characteristics such as function, customer and materiality. In a more tailored reporting environment, while similar services may receive similar reporting treatment regardless of whether they are undertaken in a small or large department, services provided to the public and services provided to other agencies or to ministers, and distinct types of services may receive different reporting. Any differences in reporting treatment would be supported by greater use of the flexibility already available in the formal system (discussed below) and not currently used to great effect.

Legitimacy

Legitimacy refers to a general argument about policy credibility and the need to continually strengthen the veracity of publicly provided organisational and fiscal information. Since the start of the public sector reforms in New Zealand in the late 1980s, public entities have had more than 20 years to improve the quality of their financial and service performance reporting, including output cost information. Reports from the previous Auditor-General have, however, been highly critical of the quality of non-financial reporting. Further, the poor technical quality and therefore the effectiveness of appropriations as limits on expenditure (discussed in chapter 4), brings this fundamental aspect of the system – appropriations as an effective source expenditure control – into disrepute. It, therefore, seems obvious that to continue with the status quo risks ‘death by a thousand cuts’ since the credibility of all governmental reporting will become undermined, albeit gradually.²⁴³ The loss in leadership from the central agencies in this area needs to be reversed, with a focus on developing, monitoring and reporting performance information that is relevant and inspires use.

In terms of departmental financial and non-financial performance information, New Zealand has experienced a vicious cycle of low demand, limited use and poor quality of supply, which, in turn, has reinforced limited demand. That said, it is also important to recognise that not using information systematically does not eliminate its innate value in a democratic system. Thus, there is a “deadweight cost of democracy” whereby “the regular production of these various reports is more important than their regular consumption by end users (Pollitt, 2006a, p 47). There is a certain level of comfort (eg, for the

243 New Zealand has built a reputation for the quality and integrity of its fiscal reporting, and reputations are hard to gain and easy to lose, as Greece will no doubt discover.

legislature) from knowing that performance information is systematically prepared across the system and assuming that the information is meaningful and reliable.

Future proofing

Finally, we turn to the fifth argument, namely, the future proofing of the performance management system. A key finding of studies on public management systems in New Zealand and comparable jurisdictions is that they are based on the assumption of there being relatively stable and predictable relationships among inputs, outputs and outcomes. Indeed, the survey results discussed in chapter 15 generally support the view that staff work in a highly task-focused environment. Notwithstanding this assumption, New Zealand's public management system is the product of a simpler era, with a somewhat mechanistic and thermostat-like system for specifying and monitoring outputs and outcomes. This approach may have been appropriate for its time (the 1990s), being best suited to "stable contexts, predictable tasks and a government-centric approach" (Bourgon, 2009, p 11). Governments no longer however, work with predominantly simple issues in a relatively stable context. Rather, governments globally face a growing incidence of complex, even so-called "wicked" policy issues in a highly unstable context (Bourgon, 2009).

This observation is reinforced by a recent review of future public policy issues facing the New Zealand public sector (Gill et al, 2010). The review found (p 36) that:

New Zealand faces:

- an increasingly complicated and unstable geopolitical environment regionally and internationally;
- policy-making becoming internationalised with domestic policy settings increasingly shaped by international agreements;
- technological developments that will rapidly transform what is possible;
- a population that is older and more diverse than it is today;
- a population concentrated in the north with half of all New Zealanders living in the Auckland–Hamilton–Tauranga triangle;
- increased expectations of transparency; and
- a need to respond to faster and less-predictable changes.

Improving individual organisational performance will not be enough, because the challenges cannot be met without the decisions and actions of many players.

Case for change: Threats and opportunities

In summary, the case for change is on the grounds of threats and opportunities. The threat is to the credibility of publicly reported information unless we break the vicious cycle of low demand, limited use and poor quality of supply for non-financial performance information. The opportunity is to use the available resources to provide performance information that is actually used to inform better decisions. Performance information provides a powerful opportunity to shape performance at the level of the system as a whole as well as within organisations. In a world of faster and less predictable change, performance information should play an increasingly important role.

In our view, systematically improving the quality and use of individual organisational and public sector wide performance information will not occur in the absence of significant changes in the design of the organisational performance management system and implementation practices of public sector leaders who oversee it. We discuss possible strategies for achieving a step change in the next section.

Strategies for change

The management of an organisation's performance covers four elements: objective setting; developing and implementing performance information systems to measure achievement against those objectives; monitoring performance and performance reporting; and assigning decision rights to enable planning, resource allocation and delivery. We present here three broad-based strategies for strengthening the operation of each of these functions at an organisational and whole-of-system level, and within one strategy, three possible variants.

In the conclusion to Part Two on the formal system (chapter 5), we drew the distinction between limitations and constraints. Limitations specific to the New Zealand public management model, which by their nature can be considered for change, include characteristics that:

- are inherent in the design of the formal system
- reflect incompleteness in the design of the formal system

- reflect poor implementation (inconsistent with the design and not design flaws).

For instance, the case studies presented in Part Three showed how the role of performance management is contingent on the functions of the organisation, with the nature of the functions affecting the task environment and work group culture. The case studies also revealed the relevance of political salience and political capital in enabling public agencies to influence their approach to working within their authorising environment.

These limitations need to be distinguished from the constraints faced by any conceivable public management system inherent in:

- politics, specifically in Westminster democracies
- people – their limits and bounded rationality
- public services, with several services provided by governments having limited comparability with services provided in the private sector (and so limited competition for supply) and limited (or difficult) measurability (or contractibility).

For example, in undertaking its constitutional role, parliament conforms to Ladley's "iron rule of political contest" (discussed in Part Two) and uses performance information "not to improve the functioning of the Executive but in order to attack the Executive" (Prebble, 2010, p 3). An authorising environment dominated by the iron rule, and hindered by problems of bounded rationality and service measurability, will affect the way performance measures are developed and used in departments.

The design of the three possible strategies for change, and hence the selection of the mix of detailed interventions and the extent of change proposed, depends on the view of the fundamental constraints and limitations on improving organisational performance within the overall system. If the dominant problem is one of poor implementation rather than design flaws or incompleteness, the most effective responses are most likely technical ones, such as a product re-launch and greater focus on the implementation approach. If, on the other hand, the dominant problem is the iron rule of politics, then a technical solution based on a product re-launch is unlikely to be effective in achieving a step change, and a change in the authorising environment may be required.

The strategies set out below are drawn from our consideration of the dimensions discussed in this chapter – the dominant purpose for performance information, the locus of attention and focus of control, and the scope of formal performance information. The dimensions take contrasting approaches to the four elements of organisational performance management. Given the mix of

possibilities for addressing the dimensions and elements, it is not feasible to develop an exhaustive set of detailed options. Therefore, the strategies are an expositional device to illustrate the possibilities for change and encourage debate and progress in improving the contribution of organisational performance information to improved public sector performance – and achieving a step change.

The description of each strategy includes a table that presents a high-level summary of how the strategy addresses each of the dimensions and elements.

Strategy 1: Building on the basics around outputs

This first strategy is based on the view that a major contributing factor in the lack of sustained progress on improving the use of performance information is a lack of effective demand (Table 18.1). The assumption underpinning the strategy is that the major problem is one of poor implementation rather than inherent design flaws – thus, the ‘next big idea is to make the last big idea work’.

From a political perspective, attempting to make the reforms of 20 years ago work is a ‘realist’ strategy, in that it recognises the day-to-day operation of the authorising environment and the iron rule of political contest. The strategy also involves modifying the formal system to make it more consistent with practice. In so doing and to achieve a step change, this strategy also returns to aspects of the reforms as originally contemplated, with a strong leaning towards high-powered incentives such as the retention by departments of surpluses and the review of chief executive performance based on organisational performance. In keeping with its political realism, the strategy does not, however, return to notions such as ministers as active purchasers of the goods and services provided by departments (and others).

The strategy, which we call ‘building on the basics around outputs’, works within the constraints of the authorising environment and constitutional requirements, particularly with respect to parliament’s role in authorising ministers to incur expenditure through their departments.

Table 18.1: Strategy 1 – building on the basics around outputs

Dimensions		Elements	
<i>Purpose</i>	External organisational accountability	<i>Objective setting</i> – how	Led by chief executive
<i>Locus</i>	Individual agency	<i>Organisational performance information and development</i> – where the emphasis lies	Focus kept on outputs Focus on agency outcomes de-emphasised
<i>Focus</i>	Outputs	<i>Monitoring</i> – where and how performance information is monitored	Service performance information used in chief executives' performance reviews and linked to remuneration
<i>Scope</i>	Comprehensive outputs reporting, with reduced emphasis on outcomes	<i>Performance information reporting</i> – where and how performance information is reported	Quality of output performance information improved and requirement for outcome information reduced
		<i>Decision rights</i> – where they are assigned	Formal decision rights of ministers strengthened

The quid pro quo, or balancing change, in this strategy is to de-emphasise the focus on high-level outcome information. De-emphasis would include removing outcomes from service performance reporting, reversing a practice that has tended to take outcomes into the accountability space under the banner of 'general purpose reporting'. Under this strategy, the Public Finance Act 1989 would be amended to remove statutory references to outcomes. Having removed it from the accountability space, outcome information would nonetheless be used, for instance, in the provision of high-quality policy advice, which requires good information on high-level societal outcomes or outcomes specific to particular government policy initiatives.

This strategy retains outputs as the predominant focus for the formal relationship between parliament and ministers, for budget control purposes

(through appropriations) and for external (non-financial) departmental reporting purposes. As the strategy relies, however, on strengthening output specification and service performance reporting such that the information reported is of value to central agencies, in particular, it is both a return to and enhancement of the role or place of outputs in the formal system. The strategy looks to build on outputs as the foundation of the formal organisational performance management system and reverse the drift in the quality of output performance information over much of the last decade (at least). Thus, the strategy also looks to address the risk that poor quality non-financial reporting undermines the credibility of departmental performance reports.

Under this strategy there would be more focus on output reporting at the level of individual organisations, including greater leadership from agencies at the centre, in particular Treasury, and increased expectations of high-quality output information and more concerted focus on fulfilling the expectations from legislation and formal guidance, including in the structure and scopes of appropriations. These expectations should be supported by a clearer, single set of service performance reporting standards set by the Minister of Finance under section 81(1)(ba) of the Public Finance Act 1989. The Minister of Finance could use the powers to “make regulations ... prescribing the non-financial reporting standards that ... departments ... must apply and the form in which they must provide the information”. With Treasury (and the minister) as the standard setter, a peer review or quality improvement process could be introduced to build a greater community of practice around performance reporting.

The quality of output reporting is likely to be improved if it could be accompanied by changes to the incentives regime, so that departments faced meaningful consequences for actual performance relative to expected performance. This natural extension would increase emphasis on high-quality output information and performance (and de-emphasise focus on outcomes) and would move to a departmental funding system based on output unit prices, with the Crown taking the volume risk – provided other aspects of ex ante performance information place performance expectations on the areas of performance that are most important. This change would require greater emphasis on measuring and pricing outputs, which would allow a more sophisticated surplus management regime rather than the current system facing departments – ‘use it or lose it’ – under section 22 of the Public Finance Act 1989.²⁴⁴ The chief executive

244 In comparable jurisdictions such as Singapore departments are paid after the event on a per unit basis and are able to retain efficiency savings with the consolidated state accounts bearing the volume risk. In New Zealand, departments are paid in advance on the basis of the total annual cost of outputs (operating baseline). In some cases, such as for Work and Income, Treasury resisted

performance management process could also return to a concern for departmental service performance. The at-risk performance element of chief executive remuneration could be partially based on the extent that departmental service performance measures are achieved.

A major part of the debate on the New Zealand experience has been about why it has been so difficult to make progress on the second leg of the output and outcome management platform of the formal system. In chapter 17 (p 453), it was argued that:

the outputs/control, compliance and accountability foundations of public management in this country get in the road of the development of a complementary approach based on outcomes/learning, enablement and responsibility.

Strategy 2 involves putting outcomes on centre stage. Strategy 3 takes a different approach again and introduces the role of an independent goal-setter and reporter.

Strategy 2: Building-up the role of outcomes

The second strategy focuses on strengthening leadership around outcomes, in the current authorising environment. This strategy places outcomes at the centre and shifts the balance between outputs and outcomes, reflecting two complementary facets of observed practice. These facets are the:

- limited or uneven involvement of ministers in determining outcomes and outcome targets to date, which has resulted in an absence of shared strategy and priorities (context) for shaping departmental operations
- frequency of a compliance-focused approach to output reporting by departments to the detriment of both meaningful accountability and organisational learning.

Strategy 2 has three variants, which differ depending on whether leadership on outcomes comes from chief executives and senior leaders, ministers and chief executives jointly, or ministers.

Leadership from chief executives and senior leaders recognises the default responsibility taken by chief executives and senior leaders in recent years as a formal expectation that chief executives and senior leaders are responsible for outcome leadership. From a political perspective, this first variant is also a realist strategy (as is strategy 1).

attempts to move to explicitly paying departments on the basis of price per output, which means the volume risk on outputs is borne by departments.

Leadership from ministers and chief executives jointly establishes an administrative requirement that the government's responsibility for setting strategic direction and priorities is formally complemented by responsibilities on chief executives and senior leaders to shape the framework of high-level outcomes. This variant is a minimal change option that 'works with the grain' by leveraging the government's priority-setting process and explicitly recognising the joint role of ministers and senior leaders.

Leadership from ministers establishes a formal outcomes leadership role for ministers that is manifest in Outcome Responsibility Statements. This variant involves the greatest change under this strategy as it formalises the role of ministers in relation to outcomes through a statutory responsibility.

A reduction in the role of outputs, including as a budget control device and as the primary focus for external departmental reporting, is common to all variants of strategy 2. In operating under this strategy, there would, nonetheless, be an expectation that departments retain a critical internal focus on outputs for management purposes, in the same way that the private sector focuses on the production or delivery of goods and services. The effect of these changes would be a shift in the balance of organisational performance information from the almost exclusive purpose of accountability to a greater concern for performance improvement (organisational learning).

Strategy 2 variant 1: Chief executives leading outcomes

The first variant of the outcomes leadership strategy involves looking for quick wins from small changes in practice at the margin, and relatively small changes in the current legislative framework and authorising environment (Table 18.2).

The strategy variant involves chief executives assuming formal responsibility for leading the articulation of outcomes, including the development of outcomes hierarchies and associated indicators and targets, reflecting the reality of limited ministerial involvement in determining outcomes, and in particular, indicators and targets. The strategy thus seeks to address the current absence of shared strategy or priorities (context) for shaping departmental operations. The new formal role in outcome leadership for chief executives would be accompanied by increased requirements for external reporting on outcomes. The quid pro quo in this strategy, however, is a reduced emphasis on outputs reporting, consistent with practice, which is increasingly de facto being focused on outcomes. The subtext for this variant is, therefore, 'work with what you've got'.

Table 18.2: Strategy 2 variant 1 – building-up the role of outcomes – chief executives leading outcomes

Dimensions		Elements	
<i>Purpose</i>	Decision-making (including priority setting and resource allocation)	<i>Objective setting</i> – how	Outcome development led by chief executive
<i>Locus</i>	Clusters of agency activities contributing to specific outcome areas	<i>Organisational performance information and development</i> – where the emphasis lies	Sector and high-level outcomes and organisational outcomes hierarchies
<i>Focus</i>	Outcomes, with contributions from multiple agencies	<i>Monitoring</i> – where and how performance information is monitored	Contribution to collective used in chief executive performance reviews
<i>Scope</i>	Outcomes, high-level and organisation-specific, with reference to outputs / other interventions	<i>Performance information reporting</i> – where and how performance information is reported	No additional external reporting, some reduced output reporting
		<i>Decision rights</i> – where they are assigned	Role of chief executives in intervention selection strengthened

Under this first variant of strategy 2, selected chief executives would develop high-level outcomes and interventions for cross-organisational implementation,²⁴⁵ with all chief executives integrating those outcomes and interventions into the planning and priority-setting for their organisations. This process, which would occur under the leadership of a named chief executive, would involve a cluster of chief executives mandating joint responses to ‘wicked’ problems such as homelessness or service integration problems such as positive

245 ‘Interventions’ is jargon for a variety of policy instruments, including outputs, specific taxes, transfers and regulation.

ageing or to addressing groups of issues on a sectoral basis.²⁴⁶ This approach would involve chief executives leading the development of end-to-end solutions for particular public policy problems, including acting as champions for particular management issues such as measurement, organisational learning and evaluation.

Thus, some chief executives and senior officials would assume responsibility for ‘two hats’. In addition to their vertical line responsibilities, they would explicitly be double-hatted by being assigned formal responsibility for providing leadership to articulate and set targets for high-level, cross-cutting outcomes. Other chief executives would contribute to the process of determining the high-level cross-cutting outcomes, indicators and targets, as well as any cross-cutting interventions, and develop additional outcomes for the remaining areas of their organisations and the activities to best contribute to them.

Part of this strategy 2 variant is that chief executives would assume greater responsibility for the selection of interventions. That process must take place in a constitutionally appropriate way, by which we mean that ministers would be consulted as part of the development of the cross-cutting outcomes and interventions, as well as the particular department’s specific strategies, priorities and activities. Ministers would also, as now, approve the associated appropriations. The focus of the general operating appropriations, however, would shift away from the current expectation that the authority is limited to the supply of the similar goods and services grouped in each class of outputs, which is then described in each output expense scope statement. The general operating appropriation type would be based on outcomes, with the agreed high-level outcomes being used in all relevant Votes. This shift would reflect the increasing practice of ‘output class’ appropriations covering dissimilar services grouped on the basis of asserted contribution to outcomes. This change would require an amendment to section 7(3) of the Public Finance Act 1989, which establishes and defines the make-up of output expense appropriations, to reposition classes of outputs by focusing the activities grouped under each on the basis of contribution to outcomes rather the similarity in nature.

The expectation is that departments would work in a more coordinated way to contribute jointly to the agreed high-level outcomes. Multiple departments, therefore, might be involved in delivering particular outputs (interventions) as part of pooling resources towards the achievement of the outcomes. This partnership approach, under the leadership of one of the chief executives, is likely

246 There are few good examples of coherent and mutually exclusive ‘sectors’ in government as the relationships between policy problems and government agencies are many to many, not one to one.

to involve wider use of two of the ‘flexible’ appropriation provisions of the Public Finance Act 1989 (section 20 for department-to-department appropriations,²⁴⁷ and section 7(3)(b) for multi-class output appropriations (although the latter would also be re-named as part of the amendment noted above). The department-to-department appropriations were developed to enable a department to coordinate and manage the work of several departments working together to provide an integrated service, as anticipated under this variant.

This approach involves a change in leadership style by rebalancing the focus away from agency-level output management to a greater joint outcomes focus, along the lines of outcome leadership adopted in Western Australia (Table 18.3). The approach harnesses the commitment of the staff in departments by providing the legitimacy, supporting structures and focus on a sense of ‘making a difference’.

Table 18.3: Outcome leadership in Western Australia

Among its recommendations for promoting sustained improvement in the outcomes achieved by the public sector in Western Australia, the Economic Audit Committee (2009, p iii) recommended the adoption of an Outcome Area approach to strategic management and accountability.

The Outcome Area approach, among other things, would involve forming groups of related service areas, identifying issues that traverse traditional agency boundaries, assigning for each Outcome Area lead roles and responsibilities for policy development, and organising groups of senior executives from different agencies to work collaboratively in leading each Outcome Area. The committee’s view was “that the Outcome Area approach ... provides a framework that will support more useful and meaningful performance metrics that meets the need of Cabinet, citizens and the Parliament” (p 39).

The Outcome Area approach would be arranged in terms of functional areas of government that are meaningful within the community, including health, education, law and order, the protection of children, the development of infrastructure and the protection of the environment (p 26). The committee, however, noted that for the approach to be successful, “there needs to be a quantum shift to public sector systems, processes and policies that encourage and reward collaborative and innovative behaviours” (p 148).

247 Section 20 of the Public Finance Act 1989 establishes department-to-department appropriations under which one department may incur output expenses for another under a specific agreement between the two departments.

These leadership changes would need to be supported at the level of performance indicators, performance reporting and monitoring. Measurement would play an important role as a motivational and learning tool, rather than solely as an accountability and control device. The double-hatted senior officials, referred to above, who may also be outcome champions, would be explicitly assigned responsibility for developing and migrating good practices. Areas of responsibility would include development of the performance indicator frameworks for one cluster of chief executives to be used by other clusters of chief executives.

The purpose, locus and focus of performance information would need to change under this variant in order to support chief executive leadership of outcomes, by reducing the existing output reporting requirements facing public agencies, in particular, making them increasingly selective and differentiated to match different decision-makers. Amendments to the State Sector Act 1988 may be used to signal the importance of joint working, and the chief executive performance management process would need to be amended by explicitly strengthening the collective interest component of the review by highlighting priority areas for joint working. The chief executive performance management process could introduce greater focus on intervention selection and the use of evaluative evidence in decision-making.

Strategy 2 variant 2: Joint leadership of outcomes

The second variant of strategy two involves ‘working with the grain’ by establishing a strategic management system as the centre piece for the organisational performance management system to address the current absence of shared strategy or priorities (context) for shaping departmental operations (Table 18.4). The strategic management system could be based on the government’s strategic priorities²⁴⁸ akin to the system of strategic result areas and key result areas under the previous National administration (1990–1999), or an enhanced version of the government’s priorities under the previous Labour-led administration (1999–2008).

248 The government’s strategic priorities are the priorities it wishes to pursue through a variety of policy interventions. There is an important distinction between ‘outcomes’ and ‘government priorities’, a phrase that has more general coverage. Government priorities may address interventions, capability building and so on in addition to outcomes.

Table 18.4: Strategy 2 variant 2 – building-up the role of outcomes – joint leadership of outcomes

Dimensions		Elements	
<i>Purpose</i>	Decision-making (including priority setting and resource allocation)	<i>Objective setting</i> – how	Joint ministerial–chief executive leadership of strategic management system focused on high-level outcomes
<i>Locus</i>	Clusters of individual agencies’ activities contributing to priority outcomes	<i>Organisational performance information and development</i> – where the emphasis lies	Cascade from government outcomes to agency outcomes
<i>Focus</i>	Selected priority outcomes and activities	<i>Monitoring</i> – where and how performance information is monitored	Information on intervention (and delivery approach) selection and use of evidence used in chief executive performance reviews
<i>Scope</i>	Selective outcome reporting, with reduced emphasis on and variability in outputs reporting	<i>Performance information reporting</i> – where and how performance information is reported	Contribution to agency outcomes the focus
		<i>Decision rights</i> – where they are assigned	Formal steering role of ministers strengthened

These strategic management systems were applied above the level of specific portfolios or departments and caused a degree of clustering amongst departments as chief executives sought to work together to achieve specific aspects. Thus, leadership occurred at two levels – by ministers acting collectively in articulating the government’s strategy across portfolios, and by chief executives working together in self-determined clusters to agree areas for cooperation and collaboration aimed at best achieving those strategic objectives, under the ministerial mandate. Further, a panel of the heads of the three central agencies

reviewed the Key Result Areas. Chief executives responded to the implicit responsibility for understanding the intervention logic, measuring and otherwise gathering information to demonstrate progress towards them, and leading the performance drive focused on achieving the strategies objectives.

As with the previous variant, this variant is based on the view that political restraint underpins the lack of sustained progress on responsibility for outcomes. This variant is, therefore, a strengths-based approach that builds on political leadership practice within the current legislative framework and authorising environment.

A more formal, well-articulated, whole-of-government strategic management system would allow a clear cascade down from high-level government outcomes and policy priorities to agency-level strategic priorities.

Under this strategy, leadership for achieving priorities would be led by chief executives, with those priorities being determined jointly by ministers and chief executives. As with strategy 2, this approach involves a change in leadership style by rebalancing the focus of chief executives' attention away from agency-level output management to shared government strategic priorities. As with the first variant, these priorities may be expressed as high-level outcome, or outcomes relating to more specific policy issues. The priorities would have an explicit political mandate, supported by leadership from chief executives and senior managers in their development and for their achievement. This approach is consistent with moves in 2010 towards more formal sector leadership responsibilities for some chief executives.

New Zealand has led the world in this area before.²⁴⁹ Other jurisdictions have been successful in implementing formal systems allocating accountabilities to ministers and chief executives and cascading planning, priority-setting and performance targets – in particular in the 'state-level planning' initiatives in sub-national government in Australia (see Table 18.5), Canada and the United States. The principal learning from New Zealand's experience is that a strategic management system is particular to the government of the day, and previous systems have not withstood a change of prime ministers.

249 For a discussion of the requirements for an effective strategic management system, including political leadership, bureaucratic capability, the quality of outcomes information and clarity of analysis, see *A Better Focus on Outcomes through SRA Networks* (SSC, 1998).

Table 18.5: Planning in Australian states

In recent years, Australian states have produced whole-of-government or state plans. The rationale for such plans is to mitigate the effects of short electoral cycles, the lack of trust held by citizens in government and the call for better outcomes in society (Kelly et al, 2009, p 67).

As Kelly et al (2009, pp 67–68) has observed state plans:

provide a clear indicator of government priorities that can flow through most areas of central agency activity: the budget process can be built around them; ministerial accountabilities can be directed toward them. Depending on the mechanisms for formulating the plan, it can become an example of citizen engagement and consultation; critiques say this is really just a document for political advertising but the duration and engagement across many jurisdictions suggest otherwise.

For instance, the New South Wales Government launched its inaugural state plan in 2006 and a new plan in 2010. The plan sets out the long-term priorities and targets for the government and helps to direct its decision-making and resource allocation. The New South Wales Premier appointed a Minister for the State Plan whose mandate is the plan's delivery.

The 2010 state plan focuses on three goals: economic recovery through supporting jobs and investment in New South Wales, provision of the best quality health, education and transport services in Australia, and care for the most vulnerable members of the community.

The New South Wales Government engaged in extensive consultation on the state plan with stakeholders in its constituency, covering over 3,500 groups and individuals, to determine the issues most important to the communities. The 2010 state plan has retained about 75% of the priorities and targets in the 2006 plan. In addition, 10 new priorities and 20 new targets have been included, together with many more actions in response to the issues raised by communities.

For each priority setting, the plan designates a lead director-general and a lead minister responsible and accountable for that priority. The Cabinet Committee on State Plan Performance oversees the realisation of targets in the plan.

This variant to strategy 2 would require a high-quality policy development process to establish high-level shared objectives (whether outcomes or other responses to policy and capability issues), require agreement on the intervention logic²⁵⁰ to support achievement of the objectives, and need to be backed up by a measurement system focused on outcome indicators and targets, as well as measures relating to the interventions. The basis for these measurement systems already exists in some areas, particularly where sector reporting is already required, such as through the environmental report (prepared every 10 years since

250 'Intervention logic' is the evidence-based articulation of the relationships, particularly causal relationships, between government objectives (including outcomes) and government policy instruments (interventions), including the actions of government agencies.

1997²⁵¹), the *Social Report* (prepared annually since 2001²⁵²), and the economic development indicators report.²⁵³ The current review of official statistics provides an opportunity to establish greater coherence in the development of performance indicator sets. The approach would have an explicit political mandate in combination with leadership from chief executives and senior managers. There is also a bottom-up empowerment component, as the variant aims to harness the commitment of departmental staff motivated by the desire to ‘make a difference’.

As with the previous variant, the purpose, locus and focus of performance information would need to change, with increasing emphasis on selective reporting and the development of new outcome-related performance indicators (with inevitable cross-agency boundaries). This change could be accompanied by a move to more selective and variable reporting of outputs based, for instance, on the nature of the outputs, the ‘customers’ to whom the services are provided, and materiality within and, in aggregate, across departments. Consideration could be given to simplifying reporting requirements by removing service performance reports from the current attest audit approach,²⁵⁴ and removing financial reporting from annual departmental reports. Departmental financial statements could be made available on Treasury’s website as part of the financial statements of the government or on each department’s website. The chief executive performance management process could be amended by explicitly including progress against the agency’s main priorities in the review.

Strategy 2 variant 3: Legislating for outcomes at the centre

The third and final variant of strategy 2 involves enhancing the design of the formal performance management system by providing an explicit role for ministerial leadership of outcomes (Table 18.6). This design would have at its centre-piece a statutory requirement for ministers to assume formal responsibility for the articulation of outcomes, including performance information (indicators and targets), and reporting results. This variant involves similar clarity in new areas as already exist for the government’s fiscal strategy under the fiscal responsibility provisions in the Public Finance Act 1989.²⁵⁵ The option is based

251 For example, Ministry for the Environment (2007a).

252 For example, Ministry of Social Development (2010).

253 Ministry of Social Development et al (2007).

254 ‘Attest audits’ involve the auditor providing a clear expression of opinion, based on their review and assessment of the conclusions drawn from evidence obtained in the course of the audit. Attest audits are intended to provide assurance about the written assertions made by the party that has been audited (NZICA, 2006, pp 317–318).

255 Section 26I of the Public Finance Act 1989 requires a fiscal strategy report each year with the Budget, which includes explanations of variations and changes from the previous year’s report,

on the view that underpinning the lack of sustained progress on outcome performance information is the incompleteness in the design of the system due to a political constraint. Nonetheless, this variant works within the current authorising environment, so we have called this variant ‘finish the job’.

Ministers would provide parliament with ex ante ministerial responsibility statements and annual reports on progress towards the achievement of the outcomes presented in the previous year. The role of chief executives and their departments would be to assist ministers in the development of a societal-level outcomes architecture and the measurement systems necessary for tracking progress in both societal-level indicators and outcome measures closer to the interventions (‘impact’ measures, in current Public Finance Act 1989 terms). This requirement is likely to encourage a comprehensive or, at least, clustered approach to outcome leadership by ministers and chief executives, similar to the two-levels of outcomes leadership discussed under variant 2. Table 18.7 describes arrangements based on ministerial leadership for outcomes in one jurisdiction. This requirement may also lead to the establishment of administrative arrangements such as cross-agency advisory boards.

This variant may be followed by an increased use of multi-class output appropriations to support greater flexibility across output interventions aimed at better achieving outcomes, similarly, and increased use of and department-to-department appropriations for output expenses to reflect greater specific collaboration across departments. We also expect that the increase in collaboration under this variant would bring into sharp relief the excessive number of ministerial portfolios and other responsibilities in the New Zealand public management system,²⁵⁶ which is high by world standards. Over time, these changes may reduce this fragmentation.

Table 18.6: Strategy 2 variant 3 – building-up the role of outcomes-legislating for outcomes at the centre

Dimensions		Elements	
<i>Purpose</i>	Ministerial accountability	<i>Objective setting</i> – how	Ministerial Outcome Responsibility Statements

and section 26N requires a statement on the long-term (40 years) fiscal position at least every four years.

256 There were 109 ministerial roles in 2007 in the last Cabinet of the Labour-led government, covering ministers, associate ministers, ministers outside Cabinet and ministers with other specific responsibilities such as for named Crown entities.

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<i>Locus</i>	Ministerial portfolios, flowing into clusters of agencies	<i>Organisational performance information and development</i> – where the emphasis lies	Organisational outcomes hierarchies and measures in ministerial statements anchored
<i>Focus</i>	Ministers – sector outcomes Organisational – specific outcomes hierarchies	<i>Monitoring</i> – where and how performance information is monitored	Quality of outcomes-thinking used in chief executive performance reviews
<i>Scope</i>	Ministers – intervention choices (comprehensive) Organisational – outputs and capability (comprehensive)	<i>Performance information reporting</i> – where and how performance information is reported	Annual report by ministers against their Outcome Responsibility Statements Annual report by organisations against organisational outcomes hierarchies and outputs (limited)
		<i>Decision rights</i> – where they are assigned	Steering role of and selection of interventions by ministers strengthened

Table 18.7: Minister-led outcomes management in Fiji

Fiji enacted legislation in the mid 1990s that introduced a new public sector management regime based on the New Zealand financial management reforms. What was interesting about the Fijian model was that it added the so-called missing Part zero of the Public Finance Act 1989 by including an explicit ministerial responsibility statement for outcomes. Each minister with portfolio responsibilities was required to prepare and table in parliament an ex ante portfolio responsibility statement that formally articulated ex ante the outcomes to be achieved and to identify the mix of interventions and related outputs selected to achieve those outcomes. This statement would accompany the departmental statement showing how the outputs selected by the minister were going to be delivered

At the end of each financial year, each minister was responsible for providing a report that gave an account of how the outputs they were purchasing from their departments contributed to the achievement of the outcomes set out in the portfolio statement. This too would be accompanied by a departmental annual report that provided an account of the resources used to deliver the outputs required by the minister.

Soon after the legislation was enacted, Fiji experienced a military coup and the legislation was initially suspended and subsequently repealed. As a result the provisions were never utilised. The Fiji experience remains a thought experiment – what would have happened if ... The answer remains to be provided.

The change in style required for a system focused more on cross-agency outcomes than on agency-specific services, would usefully be reinforced by legislative amendments to the State Sector Act 1988 to establish incentives for joint working, and to the Public Finance Act 1989 to utilise the available flexibility in appropriations more effectively (as well as introduce some broadening of the nature of output expense appropriations, as discussed under variant 1). There are two elements in the rationale for these statutory changes. The first is that the legislation proscribes the required ways of working from occurring (for which the evidence is not strong).²⁵⁷ The second reason for changing legislation is that making options explicit provides a means of legitimising certain ways of working and signals the sorts of behaviour that need to be changed.

Such an initiative may require a process akin to the Pathfinder project in the early 2000s,²⁵⁸ where a dedicated team, drawn from central agencies and line departments, provided analytical leadership, technical assistance and peer support to build capability in line departments.

257 For example, see *Better Connected Service for Kiwis* (Eppel et al, 2008, p 51) for a discussion of the (lack of) hard system boundaries to inter-agency collaborative working in New Zealand.

258 See the Pathfinder website <http://io.ssc.govt.nz/pathfinder>.

As with the second variant for strategy 2 this third variant involves a change in leadership style by rebalancing the focus away from agency-level output management towards explicit government outcome goals. Performance measurement would be pivotal but it would be the measurement of outcomes rather than increased measurement of outputs and activities. The measurement role would be to promote motivation and learning rather than accountability and control. As with the previous strategies, the increasing emphasis on selective reporting and the development of new outcome-related performance indicators could be accompanied by a move to a more selective and variable reporting based on size or materiality, customer and function (nature of the services provided). The performance management process for chief executives would be amended by including in the review an examination of the understanding of progress against the outcome indicators.

In summary, the ‘finish-the-job’ approach essentially builds on the foundations of the Public Finance Act 1989 and would lead to increased emphasis on comprehensive outcome reporting of performance at all levels. The strategy variant is based on the view that the lack of sustained progress on outcome performance information is due to incompleteness in the design of the system. Consequently, this variant aims to achieve the subtle yet important rebalancing of the formal system to include explicit responsibility for outcomes as well as accountability for outputs. The New Zealand public management model has always had an inherent tension between the bureaucratic accountability for output delivery and responsibility for outcomes. We called this strategy ‘finish the job’ because it strengthens the dual focus on outputs and outcomes.

The potential for this strategy to drive change in practice will depend on the extent to which ministerial Outcome Responsibility Statements (and the attendant changes) address the constraint imposed by an authorising environment dominated by the ‘iron rule of political contest’. It is to this constraint that discussion of strategy 3 turns.

Strategy 3: Reframing the political contest

Strategies 1 and 2 (including the three variants) involve relatively modest change and will contribute only so far to a step change in organisational performance management. The earlier strategies represent changes to the existing model of management of the state sector. The thrust of these strategies is to change aspects of the formal performance management system design in order to reinforce the desired changes in practice. To varying extents, therefore, the strategy adopted will also effect changes to management within the state sector. They are all, however, essentially technical solutions that take as given (and do not seek to

resolve any of the political factors in) the authorising environment created by New Zealand's Westminster – and mixed-member proportional – system of government.

Strategy 3, therefore, takes a fundamentally different tack and builds on two important findings from the case studies in this project (Table 18.8). The first of these findings is that the application of the performance-control framework established by the formal system confirms – rather than mitigates – well-known bureaucratic pathologies of public organisations, in particular risk-averse, rule-driven behaviour. The second finding is a strong thread running through the case studies that reinforces how important structural and cultural characteristics of the authorising environment create the conditions that underlie these bureaucratic pathologies. Whilst these conditions are familiar (eg, accountability processes and norms predicated on adversarialism, framed by collective ministerial responsibility and informed by fault finding and blame), they are rarely identified as a legitimate (let alone necessary) target of public management reform.

The premise for Strategy 3, therefore, is that it is not possible to get traction with improving public management performance without changing the more important or dominant characteristics of the authorising environment, even if only by chipping away at them. In a nutshell, this strategy would involve broadening the focus of change to cover elements of the authorising environment and repositioning the nature of the relationships between the bureaucracy, ministers, the legislature and the wider public. Strategy 3 has the potential to achieve transformational change. This strategy is based on breaking the blame game by moving to a more community-based and consensual multi-party approach to improving performance and, as part of that, to more shared arrangements for policy-making.

Strategy 3 starts from the position that accountability for performance requires change in the 'two cultures' of the political world (the executive and parliament) and the managerial world (appointed public officials) (Prebble, 2010, p 50). This strategy requires an acknowledgement that managerial solutions (such as using performance standards to control the exercise of delegated authority) cannot, by themselves, address what are principally political problems (that become manifest within organisations in the imperative to avoid error by defaulting to compliance with rules). Therefore, as a starting point, strategy 3 seeks to modify cultural characteristics of the authorising environment by relocating political responsibility for performance to apolitical structures that can potentially use consensual decision rules to emphasise improvement over fault finding.

Table 18.8: Strategy 3 – reframing the political contest – breaking the blame game

Dimensions		Elements	
<i>Purpose</i>	Public participation and dialogue, and organisational learning	<i>Objective setting</i> – how	Societal level outcomes, benchmarks and measures set by Kiwis’ Council (or equivalent)
<i>Locus</i>	Independent analysis of credible societal outcomes information	<i>Organisational performance information and development</i> – where the emphasis lies	Organisational outcomes hierarchies and measures anchored in societal outcomes
<i>Focus</i>	Independent – societal outcomes Organisational – specific hierarchies	<i>Monitoring</i> – where and how performance information is monitored	Quality of outcomes-thinking used in chief executive performance reviews
<i>Scope</i>	Societal – comprehensive outcomes reporting Organisational – specific outcome reporting	<i>Performance information reporting</i> – where and how performance information is reported	Societal outcomes reported independently, regular (less frequently than annual and varying cycles); Annual reports against organisational outcomes hierarchies and outputs by organisations
		<i>Decision rights</i> – where they are assigned	Following community engagement societal outcomes are determined

This strategy involves a step change beyond the current practice of organisations selectively reporting outcomes, often with few indicators and no explicit targets. The strategy makes a shift to target setting for agreed indicators of progress towards agreed societal outcomes, and monitoring and reporting that progress. Moving to target setting across outcomes in a way that is removed from the political contest would require statutory independence. Statutory independence is a matter of function and not, specifically, about organisational form (Gill, 2009). Functions that have statutory independence may be located in specified positions within departments or Crown entities, and the Crown Entities Act 2004 explicitly protects functions undertaken by Crown entities that have statutory independence.²⁵⁹ The Government Statistician²⁶⁰ and the Director of Proceedings in the health and disability sector²⁶¹ are two examples of positions that have statutory independence. Statutory independence may also relate to the core operation of an organisation, as with independent Crown entities for which the distinguishing characteristic is that such organisations “are generally independent of government policy”.²⁶²

The intention of strategy 3 is that an independent function, either within an organisation or as a standalone organisation, would be established with the purpose of building multi-party buy-in to societal goals and relevant benchmarks. The strategy could, for instance, involve modifying the role of the Government Statistician by identifying societal goals (outcomes), benchmarks against those goals and reporting progress against the benchmarks and goals, with the current independence extending to this new function. The strategy could also involve modifying the design of the formal system more obviously by assigning the role for outcomes leadership to a new non-partisan body – with a possible working title ‘Kiwis’ Council’ (or the ‘New Zealand Progress Council’). The Kiwis’

259 Section 113(1)(a) of the Crown Entities Act 2004 states that “This Act does not authorise a Minister to direct a Crown entity, or a member, employee, or office holder of a Crown entity in relation to a statutorily independent function”.

260 The Government Statistician has “sole responsibility for deciding the procedures and methods employed in the provision of any statistics produced or to be produced by the Statistician, and shall also have the sole responsibility for deciding the extent, form, and timing of publication of those statistics” (section 15(1) of the Statistics Act 1975).

261 “In exercising or performing the powers, duties, and functions of the Director of Proceedings ... shall not be responsible to the Commissioner but shall act independently” (section 15(2) of the Health and Disability Commissioner Act 1994).

262 Section 7(1) of the Crown Entities Act 2004. Fuller protection of independence for this category of Crown entity is provided in section 105: “A responsible Minister of an independent Crown entity ... may not direct the entity or company to have regard to or to give effect to a government policy unless specifically provided in another Act”.

Council could be modelled on the Oregon Progress Board,²⁶³ which has been in place for over 20 years with responsibility for leading the Oregon Shines strategic performance model (see Table 18.9).

Table 18.9: Oregon Shines

Oregon Shines is the strategic plan that addresses the future of the US state of Oregon and its citizens. The governor of the state authorised the plan in 1989 as the strategic vision intended to deal with the state's troubled economy. The plan established three goals and proposed strategies for attaining them. In addition, it implemented 259 Oregon Benchmarks to measure progress against the goals.

In 1990, the legislature established the Oregon Progress Board as an independent board to monitor the progress of and periodically update the strategic plan, Oregon Shines. (Due to substantial cuts in the state government's budget, funding for the board was removed from 30 June 2009. Notwithstanding this, the Department of Administrative Services now hosts the board's web content and the Secretary of State's office is responsible for ensuring the benchmarks data is kept current.)

There have been three versions of Oregon Shines. The original plan endorsed three goals: a superior workforce, an attractive quality of life and an international frame of mind (Oregon Economic Development Department, 1989). The first revision of the plan Oregon Shines II occurred in 1997 (Oregon Progress Board and the Governor's Oregon Shines Task Force, 1997). Whereas the original plan was directed at the economy, Oregon Shines II elevated the community and the environment to equal status with the economy. Three new goals were stipulated: quality goals for all Oregonians; engaged, caring and safe communities; and healthy, sustainable surroundings. Furthermore, the Progress Board downsized the Oregon Benchmarks to under 100, with 25 designated as 'key'.

Oregon Shines III was adopted in September 2008 as another iteration of Oregon's strategic vision (Oregon Progress Board, 2008). While working towards the same three goals confirmed under Oregon Shines II, the latest plan ventures substantially beyond the traditional areas of planning and analysis. It also focuses on community action and engagement. In particular, Oregon Shines III aims to learn and assess the ways in which communities are making progress on the benchmarks, and to promote these efforts through the media and through an interactive website that encourages the utilisation of the available data and exchange of ideas on benchmark-related solutions by stakeholders.

(Oregon Progress Board website www.oregon.gov/DAS/OPB)

The Oregon Shines example shows that the type of change to the authorising environment contemplated in this strategy requires a long-term coalition of interests that are prepared to entrench the new institutional arrangements; it also shows that the change can be sustained. Similar models exist in Tasmania (Tasmania Together) and Victoria (Victorian Economic, Environmental and Social Advisory Council). The Australian Bureau of Statistics has a model for

263 See the Oregon Progress Board website www.oregon.gov/DAS/OPB.

engaging with communities in developing societal outcomes information from within a line government ministry.²⁶⁴

The Kiwis' Council (or equivalent) would be a statutorily independent body charged with engaging with the community and all political parties in the development of societal outcomes, benchmarks and targets, and reporting progress against those outcomes and benchmarks. Depending on the council's function, benchmarks could be developed by reference to states in Australia or comparable OECD jurisdictions. We call this strategy breaking the blame game because it involves reaching out to communities and across party lines to build consensus around desired societal outcomes (economic prosperity, social cohesion, environmental sustainability, national identity, and security), and identifying how progress could be reasonably measured.

Importantly, this approach would build a platform for performance dialogue that emphasises improvement and rectification over fault finding and retribution. The strategy starts from the proposition that there is space for political convergence around big policy outcomes. Although the politics is intermittently drawn to the lightning rod of values trade-offs between societal outcomes, generally the substance of current policy debate is about the best means to achieve the outcomes.

To be successful, this strategy would require effective leadership backed by sustained capability to develop the outcomes hierarchies and performance benchmarks to support them. Critically, and consistent with the need to bridge political and administrative cultures, it would also require new strategies to 'frame' performance issues and information for broader use by politicians and the community. The strategy would require a dedicated team, which initially could be drawn from a range of central agencies and line departments, including Statistics New Zealand. The team would not be responsible to or controlled by the central agencies or ministers; it would be working for the Kiwis' Council.

The Kiwis' Council would provide parliament with regular reports of progress against benchmarks and (possibly) proposed options for improvement strategies.²⁶⁵ This independent reporting approach is likely to encourage greater

264 See Trewin (2004).

265 This option suggests that the Kiwis' Council would set the societal outcomes and benchmarks and prepares a summary report on progress. This approach leaves open the question of where responsibility lies for selecting measures and measurement standards and developing data sets and suites of indicators to support measurement of societal progress, analysis of measurement data, and reporting data and analyses. A detailed design question that this option also raises is the interface with current sector reports (such as the Social Report), and the Government Statistician's responsibilities for the Official Statistics System (including the review under way of Tier 1

attention being placed on what is required to progress outcomes across government. In turn, this approach may encourage clusters (such as through cross-agency advisory boards) to be established and increased use of department-to-department appropriations as one department takes a leadership role in particular areas and coordinates contributions by other departments. Over time the changes made under this approach may reduce the excessive fragmentation of ministerial portfolios and other responsibilities.

As with the previous strategy, this approach involves a change in leadership style by rebalancing the focus away from agency-level output management towards an explicit performance context of outcome ‘goals’ and benchmarks within which organisations shaped their performance and could assess their contribution to improving societal outcomes. This environment would provide a powerful framework within which staff could be empowered to make a difference. If successful, the strategy would result in societal outcomes that stand as enduring features of the political landscape not political slogans linked to one administration.

As with the previous strategies, the increased emphasis on selective reporting and the development of new outcome-related performance indicators could be accompanied by a move to more selective and variable reporting based on size, customer and function. The chief executive performance management process would be amended by including in the review an examination of chief executives’ understanding of progress against the outcome indicators and their effectiveness in balancing political pressures with longer-term outcome achievement.

Common strands: Supporting all strategies

Underpinning each strategy (including the variants) is the fundamental objective of moving away from the one-size-fits-all approach that was adopted in the implementation (rather than the design) of the formal system. With this objective in mind, we also propose changes that address increased leadership by agencies at the centre, including increasing the focus on organisational learning; greater variation in the frequency and focus of external reporting and audit requirements; ‘crowd sourcing’ to facilitate external analysis of organisational performance data; and the strengthening of incentives, at the chief executive level as a base.

Statistics, that is, statistics that are performance measures for New Zealand that are essential for decision making). Resolving this interface issue is beyond the scope of this project. One option, however, is for the Government Statistician to be an ex officio member of the Kiwis’ Council and to be formally assigned responsibility for coordinating and developing the data sets and suites of indicators required to measure progress against societal outcomes.

These common strands are possible modifications to various settings in the formal system (in guidance and legislation) and, most importantly, in the practices and approaches of the agencies at the centre. The common characteristic of these strands is that all of the specific changes proposed could (and should) be implemented as part of or alongside any of the three strategies – they support all of the strategies.

Increased leadership by agencies at the centre

The discussion in Part Two brought out how the decline in the leadership from the agencies operating at the centre of the system has muddied the understanding and practices of organisations in implementing the formal system. The relative attention given to accountability over performance improvement and organisational learning has promoted a dependence on rules and a compliance approach to the detriment of performance.

Organisational performance would be increased through greater leadership by agencies at the centre, shifting from performance information being regarded as a fire alarm to its being used to, for example:

- support closer examination of longer-term trends in outcomes achieved relative to the resources deployed
- allow a stronger evaluative lens
- provide an increased focus on organisational learning
- achieve improved output specification
- inform modified reporting standards
- establish clearer appropriations.

Closer examination of longer-term trends in outcomes achieved relative to resources deployed

Regular feedback from central agencies on trends is likely to improve the quality of the information reported, slowing the current pattern of degradation. A peer-review quality improvement process akin to that used in the initial period after the reforms could also be introduced to build a greater community of practice around performance reporting.

Stronger evaluative lens

Increased evaluation would make a broader evidence base (including long-term time series data relating to outcomes and interventions) available for use in (and to improve the quality of) policy analysis and advice.

On a larger scale, the investment in research and evaluation capability could be established at an institutional level, which would have the added benefit of a greater a degree of independence.

Increased focus on organisational learning

The predominant practice of focusing solely (and in a distorted way) on accountability has meant lost opportunities for organisations to use performance information in an organisational learning setting. Controlled risk-taking and considered innovation frequently result in short-term or even one-off performance 'failure'. Such failure is nonetheless well recognised (Moynihan, 2005, p 203) as a source of learning for improvement, provided it is not accompanied by a blame culture leading to defensiveness.

Improved output specification

Greater sophistication in how non-financial performance expectations are specified is required as part of the stronger monitoring approach. A move is required away from accepting the 'easy to count' irrespective of whether the aspects of performance being counted are important. A move towards improved performance information needs to highlight the important aspects of performance identified, for instance, in the policy development process, and include consideration of any known evaluation activity to follow.

Overall, expecting the specification of outputs and output performance information to be of a higher quality requires a preparedness to address as many concerns about measurability as is feasible in each setting (primarily related to service quality), as well as concerns about achievability (including areas such as average unit costs).

Modified reporting standards

An existing vehicle for providing formal leadership in relation to organisational performance reporting and for increasing the attention given to the quality of output reporting, in particular, would be for the Minister of Finance to mandate the service performance reporting standards.

Clearer appropriations

Since appropriations provide the legal starting point for how organisations present their output performance information, improvements are also required in the clarity of appropriation structure and scopes, especially for output expenses. A broader view on the nature of classes of outputs, and of the outputs within classes,

would also be useful here as these provide the basis for output expense appropriations.

Progress can be made under the current legislation

Progress can be made in all of the above areas of change under the current legislation, including setting reporting standards.²⁶⁶ The specific change in the nature of classes of outputs suggested in the final point would require an amendment to the statutory definition. By its nature, increased leadership would be achieved through changes in the formal expectations set by the agencies at the centre, guidance promulgated by those agencies to establish and promote understanding of the expectations, and follow-through by the agencies in their day-to-day practices to walk the talk.

Greater variation in the focus of external reporting

Variation in some aspects of ex ante and ex post reporting is already available under the formal system. Areas of potential variation include the nature of output expense appropriations providing greater flexibility to reallocate resources during the year in response to changing circumstances, enabling greater financial relationships between departments, and seeking certainty of funding beyond a single financial year.²⁶⁷ Variation is also possible in administrative matters such as the capital asset management initiative and frequency of regular reporting to ministers. Ex post variation is available within the differential reporting regime under generally accepted accounting practice. Greater use could probably be made of the flexibility that is available, although the reasons for the relatively low use of these mechanisms are unclear.

Minimal variation is available, however, in some of the central aspects of the performance management system, where greater variation would ease the pressure from a one-size-fits-all approach. Variable reporting requirements to better align reporting with the context within which performance occurs could be considered in relation to, for example:

- the customer – intra-government services
- the type of service – regulatory services

266 The Minister of Finance has the power to “make regulations ... prescribing the non-financial reporting standards that ... departments ... must apply and the form in which they must provide the information” (section 81(1)(ba) of the Public Finance Act 1989).

267 The arrangements suggested refer to multi-class output expenses appropriations, department-to-department appropriations and multi-year appropriations, respectively, which are all available under the Public Finance Act 1989.

- the contribution to ‘shared outcomes’
- materiality (financial and non-financial).

The customer: Intra-government services

The ‘customer’ for intra-government services is the executive and/or parliament, including other government organisations. Expectations around output reporting for the services internal to the Crown could be focused on quality and/or timeliness, and efficiency, with any concerns for volume specifically removed from external reports. Organisations providing intra-government services would still be expected to monitor wider performance aspects, such as trends in volumes, as a matter of good management.

Further, in relation to outcomes reporting, these services are not in any meaningful way contributing to societal outcomes. The current practice of organisations presenting societal outcomes to which these services are supposed to contribute should cease and be replaced by the already available concept of ‘objectives’. A more meaningful (and less arduous) expectation is that organisations understand and report how their delivery of these services addresses the efficient operation of government and that decision-making is informed by evidence-based analysis and options.

Type of service: Regulatory services

The most meaningful aspect to understanding regulatory performance is likely to be in demonstrating the efficacy of the regime over the medium to longer term, rather than an ongoing focus on the volume of actions. Similar to intra-government services, therefore, expectations around output reporting for these services could focus on timeliness and efficiency, with performance concerns relating to volume focused on instances in which regulatory decisions were overturned. Concerns for ‘quality’ would thereafter relate to the regime, to be measured and analysed through evaluative approaches focused on the purpose (outcomes) of the regulations. As above, organisations providing regulatory services would still be expected to monitor wider performance aspects, such as trends in volumes.

Contribution to ‘shared outcomes’

When the services provided by more than one organisation are making the significant contributions to the same societal outcome, it may be beneficial to make greater use than is currently made of the existing flexibility for department-to-department appropriations and, in some settings, multi-class output appropriations. Further, central agencies, in particular Treasury, could initiate

discussions with departments about using these mechanisms in situations where there is a clear benefit.

Materiality (financial and non-financial)

The relative size or significance of an organisation may suggest that less information is required.²⁶⁸ For instance, the requirement for full financial statements²⁶⁹ as part of the external reports for small organisations could be removed or modified, and replaced by an extension of the differential reporting arrangements available under existing financial reporting standards. Small organisations would still be expected to prepare and use financial statements for management purposes as a matter of good governance and management practice. The requirement to provide external financial reports to parliament could, however, be modified, consistent with consideration below of providing independent assurance on financial statements for some organisations less frequently.

Some requirement for statutory amendment

The first three changes above are unlikely to require statutory amendment, although some amendment to promote a broader understanding of an existing provision, such as the definitions of appropriation types, might be useful.

The changes to reporting and auditing frequency, however, would require statutory amendment. Guidance from agencies at the centre would be critical for establishing and promoting understanding of the variable reporting options and for promoting the expectation that organisations will identify (and be able to explain and support) the options they have selected.

Variations in the frequency and focus of audit requirements

Variation in some aspects of the independent audit requirements would also ease considerable pressure in the current compliance-focused environment. We consider three options:

- less frequent auditing
- the de-coupling of service performance reporting from financial statements
- increased independent performance auditing.

268 The significance of an organisation may be considered in terms of the contribution of its services to societal outcomes. The relative size of an organisation may be determined on a financial basis in terms of the total annual operating revenue and/or the level of taxpayer investment in the organisation.

269 For current purposes, the term ‘financial statements’ excludes service performance reports.

The first two changes would require statutory amendment.

Less frequent auditing

The requirement for full attest audits for all organisations every year could be removed (or modified) in respect of small organisations, especially those primarily providing intra-government services. However, because these organisations, irrespective of size, form part of the Crown reporting entity, some form of assurance would still be required. The assurance approach could draw on existing flexibility in general audit practice, using reviews rather than full attest audits or alternating between reviews and full audits. It may also be appropriate to reduce the frequency of external assurance to every second year in some situations.

De-coupling of service performance reporting from financial statements

Consistent with a move towards organisational learning, separating service performance from financial performance reporting would support a more appropriate focus on both. Although this change would reduce the scope of attest audits, it would not change the ‘general purpose’ nature of the reports. Auditors, therefore, would continue to consider service performance (and outcome) information in the course of their audit work.

Increased independent performance auditing

The removal of service performance reports from the attest audit could be balanced by an increased frequency of more in-depth performance audits. The criteria for determining areas for a performance audit would be likely to reflect a risk-based approach, with the resulting assurance more focused and more likely to contribute to learning and improvement than the current approach.

Crowd sourcing to facilitate external analysis of performance data

Performance information, as Pollitt (2006a, p 47) observed, has an innate value in a democratic system so that the regular production of performance reports is as important as their regular consumption. Nonetheless, much could be done to increase the use of organisational performance information by a wider group of external analysts and other users. Increasing the usefulness and accessibility of performance information is pivotal to achieving significant change in the level of public engagement in areas such as determining social outcomes and monitoring trends in other aspects of government activity.

One of the powerful recent developments on the web has been the use of ‘crowd sourcing’. Crowd sourcing refers to outsourcing the analysis of data through a distributed problem-solving model. This approach is beginning to be applied in the government sector to performance information in particular areas. For instance, the Ministry of Transport posted accident data on the web and has run a process to encourage citizens to suggest ways to reduce the road toll based on their own analysis of the patterns in the data. Organisations could also be required to post organisational performance data routinely on a coordinated website to facilitate analysis, including of performance data across organisations. Enabling this way of working would require compatibility of the format in which organisations post data and is likely to require more meaningful long-term performance information than is currently consistently available.

Consideration of implementation issues for increasing and broadening the use of crowd-sourcing opportunities highlights the need for clearly identified custodians of a centralised repository of long-term data series (to support ease of access), a data steward responsible for setting standards and ensuring series continuity (to support usefulness and reliability of data), and greater engagement with citizens (especially those choosing to act as public analysts) on identifying the performance information that they want.

Strengthened incentives for chief executive performance

Incentives, which include external factors such as how performance-based pay is set and internal factors such as the moral drive to make a difference and do the right thing, motivate people to take particular courses of action. Incentives are particularly powerful when they are lined up so the head and the heart are guided to take the right course of action. The incentives arrangements in the formal system focus, at an organisational level, on the capital charge regime and, at a personal level, on performance-based pay along with other more intrinsic rewards available to chief executives.

Although the full spectrum of possible features of the incentives regimes, such as chief executive remuneration systems, falls outside the scope of this study, implications have emerged from our deliberations. The design of the incentives regimes needs to be tailored to the environment, requiring different approaches under each of the strategies, while other elements could be applied under any of the strategies. Moving chief executive performance management back into the central frame is common to all the strategies. Stronger leadership of organisational (and chief executive) performance by central agencies is critical to this shift. The creation of safe spaces for challenging the unchallengeable is also

required to promote and support organisational learning through risk-taking and innovation.

The primary tailored characteristics of incentives regimes, each of which is an integral part of the respective strategies, are:

- strategy 1: building on the basics around outputs – a focus on unit pricing to support shifting the demand risk to the centre alongside a credible surplus management regime
- strategy 2: building up the role of outcomes – formally recognising the role of chief executives in intervention selection and requiring effective use of evidence in decision-making
- strategy 3: breaking the blame game – balancing competing pressures (political priorities and credibility of long-term outcome achievement).

Discussion of strategies for change

The three strategies discussed above are arranged along a continuum involving minimum to maximum change. The attentive reader will already have noticed that, although the variants in strategy 2 are focused on bringing outcomes to the centre, the other strategies are not mutually exclusive. Similarly, strategy 3 could be implemented in combination with strategy 1. The purpose of outlining the strategies (and variants) was an expository device to illustrate the main possibilities rather than an attempt to provide an exhaustive set.

Table 18.10 compares the three strategies and the differences between them in terms of purpose, locus, focus and scope. The table also highlights the critical factor for the success of each strategy.

Table 18.10: Comparison of strategies for achieving a step change

	Strategy 1: Building on the basics around outputs	Strategy 2: Building up the role of outcomes			Strategy 3: Breaking the blame game
		Variant 1: Chief executives leading outcomes	Variant 2: Joint leadership of outcomes	Variant 3: Legislating for outcomes at the centre	
Purpose	External organisational accountability	Decision-making (including priority setting and resource allocation)	Decision-making (including priority setting and resource allocation)	Ministerial accountability	Public participation and dialogue and organisational learning
Focus	Individual agency	Clusters of agency activities contributing to specific outcome areas	Clusters of individual agencies' activities contributing to priority outcomes	Ministerial portfolios, flowing into clusters of agencies	Independent analysis of credible societal outcomes information
Locus	Outputs	Outcomes, with contributions from multiple agencies	Selected priority outcomes and activities	Ministers: sector outcomes Organisational: specific outcomes hierarchies	Independent: societal outcomes Organisational: specific hierarchies
Scope	Comprehensive outputs reporting, with reduced emphasis on outcome	Outcomes, high-level and organisation-specific, with reference to outputs and other interventions	Selective outcome reporting, with reduced emphasis on and variability in outputs reporting	Ministers – intervention choices (comprehensive) Organisational – outputs and capability (comprehensive)	Societal: comprehensive outcomes reporting Organisational: specific outcome reporting
Focus of change	Limited – output focused	Limited – outcome focused	Moderate – focus on priority outcome	Significant outcome focused	Sea change Societal outcome focus
Primary success factor	Closing the organisational performance information loop	Chief executives leadership backed by the centre	Well developed, meaningful priorities	Ministerial buy-in and investment	Quality of engagement and buy-in. Credible reports against benchmarks

Strategy 1: Limited change option

Strategy 1 – building on the basics around outputs – is a limited change option that aims to de-couple outputs from outcomes. This realist strategy to performance reporting, places a greater emphasis on improving the quality of existing ex ante specification of outputs and appropriations as well as the ex post reporting of non-financial performance measures in particular. The focus is at an individual agency level for external accountability purposes. In the absence of regular feedback from peers and comment from central agencies, the quality of the information reported is unlikely to improve and may well degrade.

This option reflects the judgement that the ‘problem’ is one of poor implementation so that the ‘next big idea is to make the last big idea work’ by raising the standards applying to performance reporting. The strategy involves de-emphasising the focus on high-level outcome information, and uncoupling or removing outcomes from service performance reporting.

Under this strategy, the Public Finance Act 1989 would be amended to remove statutory references to outcomes. Having removed it from accountability, the focus on outcomes under this strategy is more a bottom-up organisational learning tool at the client and programme level. Outcome information can also be used in areas such as informing high-quality policy.

Strategy 1 recognises that the imperative for control remains dominant in the face of the imperatives of an authorising environment dominated by the ‘iron rule of political contest’ and shifts outcomes from the accountability space. The key to the success of the strategy is creating sustained demand for quality financial and non-financial performance information from central agencies, which, in turn, will drive sustained improvements in the quality of information.

Strategy 2: Responsibility for outcomes leadership on different actors

Strategy 2 – building up the role of outcomes – had three variants, each of which placed responsibility for outcomes leadership with different actors.

Strategy 2 variant 1: Limited change that takes a strengths-based approach

Strategy 2, variant 1 – chief executives leading outcomes (working with what you have got) – is a limited change option that takes a strengths-based approach. The recommended approach to performance reporting is to place a greater emphasis on cross-agency outcomes and a reduced emphasis on output class information at an individual agency level. Information reporting would become increasingly selective and differentiated by being tailored to different decision-makers. Thus,

the locus would shift to selected outcomes (with a focus across agencies) and the purpose would shift to learning and internal decision-making.

This variant is based on the view that underpinning the lack of sustained progress on responsibility for outcomes is political constraint. It appears that New Zealand politicians are reluctant to commit themselves to specific measurable targets because they believe they could be “held hostage to fortune”.²⁷⁰ This option would reinforce current joint working among chief executives and their staff (discussed in a March 2010 Cabinet paper) such as the community links programme (integrated tax and social assistance) and joint border sector governance.

This first variant also builds on the professional pride senior public sector leaders have in wanting to make a difference despite the somewhat hostile authorising environment. The determinant of success will be chief executive leadership, which is enabled by astute support from the central agencies.

Strategy 2, variant 2: Limited change that builds on the strategic management system of the government of the day

Strategy 2 variant 2 – joint leadership of outcomes (working with the grain) – is a limited change option that builds on the strategic management system of the government of the day. In summary, this approach to improving performance reporting builds on the government’s policy priority-setting process and cascades this down through sector-level outcome information and into individual public agencies. This variant would lead to reduced emphasis on comprehensive reporting of the performance information at an individual agency level and greater focus on sector-level achievements. Information reporting would become increasingly focused on societal outcomes (and strategic priorities and be tailored to different decision-makers. The locus would shift to outcomes (with a focus across agencies) and the purpose would shift to learning and internal decision-making.

To be effective, this strategy would require a quality policy development process to establish rigorous intervention logic, backed up by investment in a system of performance measures.

270 The land transport network case study is the exception to the rule (see chapter 13,p 346): “If you don’t achieve them then it’s a constant whipping that you get every year when ... the target hasn’t been met”.

Strategy 2, variant 3: Intermediate change that builds on a comprehensive outcomes hierarchy led by ministers

Strategy 2 Variant 3 – legislating for outcomes at the centre – is an intermediate change option that builds on a comprehensive outcomes hierarchy led by ministers. In summary, this ‘finish-the-job’ approach essentially builds on the foundations of the Public Finance Act 1989. It would lead to increased emphasis on comprehensive reporting of performance at all levels. It would also achieve the subtle but important rebalancing of the formal system to include responsibility for outcomes as well as accountability of outputs.

The strategy is based on the view that underpinning the lack of sustained progress on outcome performance information is the incompleteness in the design of the system. The New Zealand public management model has always had an inherent tension between the bureaucratic accountability for output delivery and politicians’ role in articulating outcomes. We called this strategy ‘finish the job’ because it strengthens the dual focus on outputs and outcomes by including explicit responsibility for outcomes.

To be effective, this strategy would require ministerial buy-in backed up by a quality policy development process and investment in a system of performance measures. To achieve the change in the ‘culture’ created and sustained by the authorising environment, the pivotal – if not circular – question is: how is credible ministerial buy-in to outcomes going to be encouraged when the problem being addressed is the distinct lack of ministerial buy-in? But the goal is worthy because of the potential to create greater shared understandings among politicians, public servants and the public as a basis for more durable policy bargains.

Strategy 3: Transformational change by altering the authorising environment

Strategy 3 – reframing the political contest – is the sea-change option that aims to achieve transformational change by altering the authorising environment. This strategy involves moving from oppositional politics to a more consensual multi-party and community-based approach to improving performance. The aim is to shift the political constraint that has limited sustained progress on outcome performance information by creating a political circuit breaker that disrupts the iron rule of political contest.

The strategy involves an independently-led community-based process that seeks to utilise the ‘grand narrative’ and ‘evidence-based’ performance improvement potential residing in outcomes hierarchy methodologies. To be effective, ‘breaking the blame game’ would require high-quality engagement and genuine buy-in, as well as the development of credible and accessible state reports

against benchmarks. In the process, this strategy has the potential to shift political discourse into a more outcome- and evidence-informed space.

What is to be done?

The preceding discussion has outlined possible directions for change, without expressing an explicit view in favour of one over the others and leaving unanswered ‘what is the preferred way ahead?’. To answer this question however, we need to revisit the premises about the role of key actors underpinning the formal system (summarised at the beginning of this chapter):

- the role of parliament in using departmental performance information to scrutinise the performance of the executive
- ministers having clearly defined roles that are distinct from those of chief executives, which provide a strong platform for distinguishing ‘politics’ and ‘administration’
- the role of ministers in determining desired outcomes and selecting outputs and other interventions
- the role of performance information in helping ministers scrutinise organisational performance
- the role that performance information would play in assisting the State Services Commissioner to review the performance of chief executives.

Similarly, the design of the reforms 20 years ago was (in large part) predicated on more clearly distinguishing the role of ministers in determining desired outcomes and selecting outputs and other interventions from that of chief executives. The literature review found, consistent with the limited observations in the case studies and our experience as practitioners, that direct use of performance information by ministers was uneven as it depended on the portfolio as well as the personal characteristics of the individual minister. It seems clear that ministers – in general and on average – do not and are not going to actively use performance information to monitor organisational performance generally. That said, ministers can and will use organisational performance information selectively. In some cases, ministers will use performance information as a fire alarm, ignoring it until it goes off, and in other areas as an attention-focusing device to signal priorities throughout the organisation.

In the discussion of strategies for change, we drew the distinction between limitations and constraints. We described limitations as the design variables that were specific to the New Zealand public management model of organisational

management as it has been designed and implemented. These limitations need to be clearly distinguished from the constraints that are inherent in politics, people and public services and are faced by any conceivable public management model.

Although technical solutions can address limitations, they cannot address fundamental political constraints. No change to the legislation underpinning the public management system will fundamentally change Ladley's iron rule of politics. Behind Ladley's law is, of course, hundreds of years of political philosophy highlighting that public policy invariably emerges from a process of political contest of perceptions and values. The formal institutions play a role in providing the rules of the game, framing and shaping how the political contest and debate is going to be conducted. Institutions such as a Kiwis' Council can contribute to a better informed debate by making publicly available more information about our lives, changing our collective understanding of how the actions of government can change our lives. A Kiwis' Council will not, however, take the politics out of politics.

By contrast, the role played by the agencies at the centre of the state sector is a limitation that can be varied, rather than a constraint under which we are compelled to operate. It was expected at the time of the public sector changes that central agencies would use performance information to hold chief executives accountable for organisational performance. In reality, however, we found relatively little (and decreasing) use of performance information by the central agencies, other than as a measure of bottom-line performance when things go wrong. The strategies we have proposed in this chapter suggest a more active leadership role by the centre in developing organisational performance management systems and more actively using the information that emerges.

The three strategies proposed in this chapter present options for what could be removed from the performance management system as well as what might be added. Half-hearted change (and reform) involves the addition of new features to what may be an already cluttered system, without removing other components. Such an approach is likely to make system performance worse. Addressing this problem will require a properly designed system that integrates new components into the formal system and reduces or removes others. Accordingly, we have developed six principles that we think should guide the development of the changes in New Zealand.

The first two principles are management of change principles:

- improve system coherence and avoidance of accretions (eg, for every addition to the public management system something needs to be taken away)

- distinguish givens or constraints for which the opportunity for change is limited from design features and practices where there is considerably greater opportunity for change.

The second set of principles involves embracing and managing inevitable tensions:

- break the one-size-fits-all dynamic (which is largely focused on administrative efficiency) by, in the formal system, allowing tailoring to individual organisational contexts (with a greater focus on effectiveness), while avoiding ‘anything goes’
- reclaim accountability from the ‘blame game’, while retaining democratic accountability mechanisms
- acknowledge the tension between learning (performance improvement or development) and accountability (performance management)
- acknowledge the tension between formal constitutional roles and the characteristics (motivators, practices and so on) of real actors.

Next steps

New Zealand has shown an ability to forge ahead with path-breaking public sector reform. It was the first country to introduce output-based budgeting and accrual accounting in the public sector. New Zealand should be applying the same innovative approach – that both pioneers and consolidates public management practice – to the next generation of problems discussed in this chapter. We have the opportunity to learn the lessons from the experiences of other leading jurisdictions (such as Oregon) in implementing innovative approaches that enable a more sustained focus on understanding progress towards and achieving outcomes. We also have the opportunity to learn from the experimentation under way that was set off by the fiscal crisis in other OECD countries (‘necessity is the mother of invention’).

The imperative for the last step change, the reforms of the 1980s, came from the fiscal imperative of the time to ‘do more with less’. For the greater part of the last two decades New Zealand enjoyed favourable demographics (a growing labour force) and sustained, if unspectacular, economic growth. Treasury’s (2009b) latest medium-term fiscal forecast shows a much less positive picture for the next two decades – at the same time as the relative cost of public services is likely to increase, demand-side pressures will rise because of the end of the ‘golden years’ of favourable demographics. Overall, however, the public sector will be required to operate under significant fiscal restraint, which is a two-edged

sword. Used badly, fiscal restraint results in a focus on cutting and containing costs, rather than providing an impetus for a sustained focus on improving overall cost-effectiveness. This chapter has set out a range of possible strategies for developing the system of organisational performance management to focus on improving the overall cost-effectiveness of the state sector. Regardless of the broad strategy, or mix of strategies, chosen, important implementation issues and challenges will need to be addressed, including leadership, capability building, and realism about the resources and time required to move forward.

A seasoned Wellington commentator classified the capabilities of New Zealand public agencies to manage for outcomes as follows: organisations “either don’t have the data; have the data and lack the ability to interpret it; or have the data and capability, and have never tried”. While this judgement may be harsh, the implication is correct. Using performance information to manage for outcomes may not be a holy grail though it is certainly a long quest. The quest requires a sustained commitment of resources to build the capability dedicated to measuring outcomes and the effectiveness of interventions. Pursuit of the quest is analytically challenging and expensive, requiring time, sustained investment, commitment and leadership within public agencies.

The three strategies proposed in this chapter have presented options for what could be removed from the performance management system as well as what may need to be added. Half-hearted change (and reform) involves the addition of new features to an already cluttered system without removing other components, which is likely to make system performance worse. Addressing this problem will require proper system design that integrates new components into the formal system and reduces or removes others.

Making progress will also require effective concerted leadership from the agencies at the centre. That leadership will need to be based on an informed understanding of the positive role of performance measures as well as the inherent limits in terms of gaming, cheating, limited coverage (synecdoche) and complexity. The starting point is that those who act – and exercise accountability – must have a degree of self-awareness of the lenses that they bring to bear to particular issues. The numbers never speak for themselves, and inevitably there is some subjectivity around their meaning. Bedding in this change will require greater sophistication from the agencies at the centre to manage the inherent tensions in the second set of principles set out above.

Leadership, capability building and adequate resources are necessary, but they are insufficient on their own. Underpinning the lack of sustained progress on improving the use of performance information is a lack of effective demand from external users. In terms of departmental financial and non-financial performance

information, New Zealand has experienced a vicious cycle of low demand, limited use and poor quality of supply, which, in turn, has led to limited demand.

Continuation of the status quo, though possible, is not desirable. Twenty years ago New Zealand embarked on an ambitious change path to design and implement a coherent performance management system; over time this grand design has been eroded and become cluttered. In recent years – like the proverbial New Zealand bach – features have been tacked on such as ‘performance improvement actions’, but little has been removed. Nor has there been a systematic attempt to integrate the new features into the original design, such as the Managing for Outcomes initiative, or an endeavour to understand the roadblocks before progressing with still further initiatives, such as the Review of Accountability Documents. New Zealand is not unusual in this regard, public management systems in most countries (as Light (1997), reminds us) are cluttered by the flotsam and jetsam of previously failed changes.

Anchoring the changes we have suggested for achieving a step change in public management in New Zealand will require building a shared and sustained understanding and commitment from all those involved – managers and staff in departments as well as ministers. Achieving the changes in practices will require sustained and astute leadership from the centre and concerted effort from line agencies. A system that is cluttered by the debris of previously failed changes is an entirely predictable outcome from a half-hearted approach to change. We owe it to New Zealanders to do better than that.

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