

PUBLIC SECTOR REFORM IN NEW ZEALAND: TRANSFORMATION OF THE SOCIETY

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Yeni Zelanda Kamu Yönetimi Reformu: Toplumsal Dönüşüm

Özet

Önceleri sadece özel sektörle ilgili olduğu düşünülen rekabet kavramı, artık günümüzde kamu yönetimi ile ilişkili olarak da kullanılmaya başlanmıştır. Rekabet özel sektörde, etkinliğin, verimliliğin, kalitenin, çabukluğun bir teminatı ya da tetikleyicisi olarak algılanmaktadır. Bir yanda uygulamada rekabetin bu yöndeki olumlu etkileri, diğer yandan da kamu sektöründeki verimsizliğin, etkinsizliğin, hantallığın, aşırı bürokrasinin sebebi olarak görülen tekel niteliğine karşı duyulan tepki, rekabetin kamu yönetiminde de gündeme gelmesine neden olmuştur.

Bu çalışmada, kamu yönetiminde rekabetin olabilirliği, işlevleri, rekabet biçimleri ve mekanizmaları, ortaya çıkabilecek muhtemel sorunlar tartışılmıştır. Çalışmada özellikle kamu sektöründe rekabet yerine geçebilecek yöntemler üzerinde durularak, kamu yönetimini modernleştirme çabalarına, yeni kamu yönetimi anlayışı (NPM) çerçevesinde ışık tutulmaya çalışılmıştır.

Anahtar Kelimeler: Politika transferi, yönetsel reform transferi, yeni kamu yönetimi, yönetsel reform, stratejik yönetim.

Abstract

Reform of public administration is now a worldwide phenomenon, as governments grapple with rapid social, economic and technological change, including the effects of globalization. New Zealand has implemented radical and comprehensive public sector reforms since the mid-1980s. These reforms have established objectives and set incentives for productive performance and involve greater transparency. The opening of government agencies to competition, greater privatization and accountability standards contributed to improved government performance. These reforms have reduced the New Zealand Government's market involvement relative to the total economy. Other countries have taken similar measures, but New Zealand's public-sector reforms have been more radical and comprehensive. This article examines comprehensive and fundamental administrative reform adopted in New Zealand. The role of politics and political leadership is linked to the various models of reform. Lessons learned from New Zealand reforms in other countries are briefly described.

Key Words: Policy transfer, administrative reform transferring, new public management, administrative reform, strategic management.

Public Sector Reform in New Zealand: Transformation of the Society

Introduction

The 1980s and 1990s have seen a plethora of reinventing, rationalizing, reengineering and reforming initiatives designed to improve the organizational efficiency and effectiveness of the public service. Collectively, these initiatives represent a substantial shift away from the traditional bureaucratic paradigm towards a post-bureaucratic paradigm. While clearly offering a number of benefits to the public service, these reforms have also contributed to an environment of turmoil, a largely disillusioned and cynical public service, and almost pervasive strain between competing values and goals (AUCOIN, 1990; BOSTON et al., 1996).

The need to move towards a value-driven public administration that incorporates improved management but more fundamentally addresses the right and entitlement of clients, taxpayers, and citizens is clear. Given the challenge ahead, this will require the development of strong policy community that works together *horizontally* to gather, share, and process information, as well as coordinate solutions. To this end, knowledge creation and organizational learning will play important roles (MOORE, 1995; MARCH / OLSEN, 1995).

New Zealand has implemented radical and comprehensive public sector reforms since the mid-1980s (SCOTT, 1994; OLSEN/PETERS, 1996). These reforms have established objectives and set incentives for productive performance and involve greater transparency. The opening of government agencies to competition, greater privatization and accountability standards contributed to improved government performance. These reforms have reduced the New Zealand government's market involvement relative to the total economy. Other countries have taken similar measures, but New Zealand's public-sector reforms have been more radical and comprehensive (OECD, 1995).

New Zealand's approach is deserving of careful study and that certain aspects of it may well be worthy of adoption or adaptation to the governments

of other societies. This paper analyzes the public sector reforms to the functions of central government in New Zealand has radically transformed the public sector of this remote country since 1980. Some of the theoretical influences that provided insight to the advice given to the government officials will be noted. The essential elements of the system will be described briefly. The results will be summarized in terms of how the ideas were implemented, the extent of their acceptance, the importance on leadership behavior, and the effects on government in terms of the objectives that were originally set out. Some suggestions will be driven regarding the messages that might be drawn upon the New Zealand experience for other societies.

New Zealand: Its People and Government

New Zealand is an island nation in the South Pacific, roughly the size of the United Kingdom in area but sparsely populated, with 3.5 million people, and geographically remote from other countries. A former British colony and a member of the Commonwealth, New Zealand is a democratic nation with a parliamentary system of government. New Zealand was the first English-speaking nation to adopt the ombudsman concept from Scandinavia in 1962 (SCOTT, 1996).

New Zealand is a constitutional monarchy, with a governor general acting in place of the British sovereign, the conventions of responsible Cabinet government. However, New Zealand's unitary structure of government (there are no provinces), single legislative chamber and recent adoption of a form of proportional representation are major differences. The Constitution of New Zealand, like that of the United Kingdom, is largely unwritten and is a mixture of statute and convention. The Constitution Act of 1986 patriated from British statutes constitutional legislation dating from 1852, and consolidated the essential provisions relating to the executive, legislature and judiciary (BOSTON et al., 1996).

Local government in New Zealand is authorized and defined by parliamentary statute. Following extensive consolidation (625 government units were cut to 94) and other reforms in 1988-89, local government includes 13 regional councils responsible for resource management, parks, regional planning, etc.; 74 territorial authorities (for example, city or district councils); and 7 special purpose boards (SCOTT, 1996).

The Context for the Public Service Reform in New Zealand

Over the last decade, governments of New Zealand have undertaken sweeping reforms of social and economic policies and of the public sector. Indeed, the magnitude of the change that has swept that country has led authoritative commentators to speak of a “transformation” of New Zealand society. Certain of their public service reforms are innovative efforts to solve long-standing dilemmas in public administration (INGRAHAM et al., 1998).

By the time a reforming government was elected in 1984 it was evident that inefficient public sector performance was a cause of poor economic performance; there was a serious fiscal problems; the public sector management regime was unsatisfactory for politicians, public servants and the public; changing circumstances and new policies would call for more refined and flexible administration; and mere adaptations of the old systems would not be sufficient (BOSTON et al., 1996; BOSTON/PALLOT, 1997).

The reforms have had high levels of acceptance both politically and within the Public Service. They have improved parliamentary scrutiny of the activities of the State and have provided a more efficient and effective budget process. They have improved the quality of information for macro-policy development and analysis. Most of the features of New Zealand reform model are not unique to New Zealand, although it pioneered some (like performance agreement) and remains unusual with respect to others (like accrual accounting). Many are elements of the worldwide trend often referred as “the New Public Management.” New Zealand’s uniqueness, and the reason for our special focus on its experience, lies in the comprehensiveness and consistency of its reforms (SCOTT et al., 1997; BOSTON et al., 1996). Rather than experiment with often especially suitable agencies, New Zealand restructured its entire core public sector.

The coherence of the New Zealand’s public management reform has both institutional and intellectual origins. Under its unitary parliamentary system of government, the Treasury has had a near monopoly of economic and political analytic expertise. But the early 1980s, the Treasury had developed a strong intellectual and organizational culture dominated by professional economists and policy analysts, including key leaders trained in US universities. Beginning in 1984, when it helped the incoming labor party government respond to a fiscal crisis, the Treasury enjoyed the confidence of power on cabinet members, who pushed its ideas into legislation during a remarkable period of radical changes (BOSTON et al., 1996). The Treasury’s briefing papers to the incoming government, entitled *Government*

Management, provide both the intellectual foundation and the practical blueprint for the radically changed government that New Zealand proceeded to establish (HORN, 1995).

The role of politics and political leadership is linked to the various models of reform. According to Lane more comprehensive and strategic efforts require great initial political leadership and will (LANE, 1997). The new strategic management system in New Zealand sprang mainly from three sources: the prime minister's concern to operationalize his political vision for the nation, the Treasury's desire to lock in the gains that had been made through active budget management, and the State Service Commission's (SSC) concerns about departmental corporate management and chief executive performance agreements (BOSTON/PALLOT, 1997). The way in which these concerns were brought together will be described in the following sections.

Major Goals of the New Zealand Administrative Reforms

Since the early to mid 1980s, the search for smarter as well as smaller government has led numerous countries to launch upon major public sector reforms. In Britain, the 'Next Steps' initiative has radically overhauled the structure and operations of much of the civil service. In Australia, there have been important financial management reforms and machinery of government changes at the federal, state, and local government levels. And in the US, the Clinton administration has made the quest for a government that 'works better and costs less' one of its top priorities. Although the rhetoric might have varied around the world, most of the recent efforts at governmental reinvention, restructuring, and renewal have shared similar goals. The major goals are to improve the *effectiveness* and *efficiency* of the public sector, enhance the *responsiveness* of public agencies to their clients and customers, reduce public expenditure, and improve managerial *accountability* (KETTL, 1997; HALLIGAN 1995). The choice of policy instruments has also been remarkably similar: commercialization, corporatization, and privatization; the devolution of management responsibilities; a shift from input controls to output and outcome measures; tighter performance specification; and more extensive contracting-out (HOLMES, 1992; BOSTON, 1987).

New Zealand's model of public management has without doubt been the most widely acknowledged and prominent. Not only has it drawn high commendations from international agencies and leading academics, but it has also figured prominently in the debates over public sector reform in numerous countries - Australia, Britain, Canada, Ireland, and the US, to name but a few. Among those most enthusiastic about the new approach to public management

pioneered in New Zealand are David Osborne and Ted Gaebler. In their influential and widely read book, *Reinventing Government*, they note that:

New Zealand has gone the farthest along the entrepreneurial path . . . In one fell swoop, New Zealand did away with its old civil service system, freeing department managers to negotiate their own contracts with their employees. It eliminated regulations that inhibited competition in both the private and public sectors- forcing government-owned businesses . . . into more competitive markets. And it adopted a budget system focused on performance . . . and an accrual accounting system modeled on business accounting (1992, p. 330).

A further feature distinguishing the New Zealand model- and one of the main reasons why it has attracted such enthusiastic reviews internationally - is its conceptual rigor and intellectual coherence. Unlike most previous administrative reforms, which tended to be discrete and relatively ad hoc responses to perceived problems, those between the mid 1980s and early 1990s were part of a carefully crafted, integrated, and mutually reinforcing reform agenda (BOSTON et al., 1996; LANE 1997).

From the outset, the main objectives lying behind the development of the new model of public management were (BOSTON et al., 1996; HALLIGAN 1995):

- a. To improve allocative and productive efficiency;
- b. To enhance the effectiveness of governmental programs;
- c. To improve the accountability of public sector institutions and the accountability of the executive to Parliament;
- d. To reduce the level of government expenditure and the size of the core public sector;
- e. To minimize the opportunities for the non-transparent use of public power;
- f. To improve the quality of the goods and services produced by public agencies; and
- g. To make public services more accessible and responsive to consumers, as well as more culturally sensitive.

Principles of the Administrative Reform

Among the key principles underpinning the new model are the following (INGRAHAM, 1997; WORLD BANK, 1997; BOSTON et al., 1996; KETTL, 1993; TREASURY, 1987):

- a. The government should only be involved in those activities that cannot be more efficiently and effectively carried out by non-governmental bodies,
- b. Any commercial enterprises retained within the public sector should be structured along the lines of private sector companies,
- c. The goals of governments, departments, Crown Agencies and individual public servants should be stated as precisely and clearly as possible,
- d. Potentially conflicting responsibilities should, wherever possible, be placed in separate institutions,
- e. There should be a clear separation of the responsibilities of ministers and departmental chief executives,
- f. Wherever possible, publicly funded services, including the purchasing of policy advice, should be made contestable and subject to competitive tendering; the quality, quantity, and cost of publicly funded services should be determined by the purchaser's (i.e. minister's) ('smart buyer') requirements rather than the producer's preferences,
- g. Preference should be given to governance structures that minimize agency costs and transaction costs,
- h. In the interests of administrative efficiency and consumer responsiveness, decision-making powers should be located as close as possible to the place of implementation.

Despite the massive changes in the principles and practice of public management in New Zealand since the mid 1980s, the central issues of governance remain fundamentally the same. The preceding discussion has highlighted just a few of these continuing themes and dilemmas. There are, of course, many others: How can adequate political control of the bureaucracy be achieved? How should departmental CEs be appointed, remunerated, and assessed? How can the strategic management capabilities of the government be strengthened? What are the limits to contracting out? How can corruption be minimized? And how can values such as justice or equity be adequately protected in a public management environment characterized by ever present fiscal constraints and an overriding emphasis on efficiency (BOSTON et al., 1996; POLLITT, 1990)?

Learning Strategies in the New Zealand Administrative Reforms

The whole process of reform in New Zealand has been an attempt to redesign the relationship, that is, to improve the interaction between government agencies and the policy-making process where policy and administration are closely linked in its parliamentary system. The nature of this relationship “contributes significantly in determining how the limited resources of public sector agencies can be organized most rationally to achieve purposeful goals in an environment of purposeful change” (GAWTHROP, 1984, p.87).

The realization that the current direction of administrative reform involves a fundamental shift in the role of the state has prompted March and Olsen (1989) to broaden the debate to one seeking alternative institutions with characteristics ranging from aggregative to integrative and committed to the popular sovereignty. “During recent decades, as consciousness of the significance of adaptiveness has grown, democracies have been urged to allocate more attention and resources to learning” (MARCH/OLSEN, 1995: 183). In the following part of the paper, it is sought that whether is it possible to build political institutions that civilize transformational political change and achieve intelligence through learning (MARCH/OLSEN, 1995). Administrative reform in here is considered as a learning strategy for political systems.

Role of Institutions in the Reform Process

The chief institution for mediation and advocacy of ideas, and their translation into specific policy proposal, was the Treasury. State Service Commission (SSC) also made important contribution to the reform agenda, as did various politicians, academics, and business leaders. In support of ministers, the Treasury played a key role in developing a theoretical framework for public service reforms making extensive use of economic and management theory. The Treasury articulated the policy implications of the theories at appropriate moments in the genesis and implementation of reform. That analytical base allowed coherent, consistent solutions to problems in public service management to be put forward as the government dealt with the economic crisis and undertook major economic and social change (SCHWARTZ, 1997).

There is little doubt that the Treasury provided the driving force for reform within the bureaucracy and furnished most of the policy proposals.

Large numbers of Treasury briefing papers and other documents have been released over the years under the Official Information Act 1982. These papers reveal that the Treasury had an interest in public sector reforms since at least the late 1970s. Significant resources were devoted to the task of developing comprehensive policy proposals from around 1982-83. Equally revealing are the briefing papers for incoming governments prepared by the Treasury before each general election (BOSTON et al., 1996). *Government Management* (Treasury, 1987) argued for sweeping changes for public sector industrial relations, departmental structures, the budgetary process, the system of performance assessment and the role of the central agencies. It also advocated privatizing most of the state owned enterprises (SOE). *Government Management* supplied the blueprint for the reforms of the public sector during the 1980s. "This remarkable document sets out the administrative revolution – goal clarity, transparency, contestability, avoidance of capture, the enhancement of accountability and the cost-effective use of information - and relates all the elements of the reform program to these principles" (HOOD, 1990, p. 210).

The Treasury is a small, tightly knit organization. Those most involved in the various public sector management reforms were all highly educated, many having received their graduate education (primarily in economics) at overseas universities (mainly in the US). Some had also worked overseas. As a result they had been exposed to a range of views of public sector management or they had direct personal experience working in other government systems. Few had direct personal experience of management in the private sector. In terms of their ideological leanings, most were market liberals (or neo liberals) rather than social democrats (BOSTON, 1987 & 1996).

The strong interest in theory evident among the New Zealand reformers stands in market contrast to a more pragmatic approach to reform taken in other parliamentary systems, such as in Australia, the UK, and Canada (Mascarenhas, 1993). While Treasury officials gave much attention to the theoretical underpinnings of the reform, they also kept a watchful eye on public management reform in other jurisdictions. For example, they followed fairly closely the Financial Management initiative in Britain and the Financial Improvement Program in Australia. They were also familiar with policy developments in other areas like privatization, expenditure control, machinery of government changes, and local government reform. This knowledge undoubtedly contributed to the process of policy formulation in New Zealand.

While many ideas were borrowed from elsewhere, there was no single overseas model of public sector management, which was deemed worthy of emulation. Instead, Treasury officials pieced together the different elements of

a comprehensive reform package drawing partly on theory, partly on overseas models, partly on previous New Zealand experience, and partly on their own thinking (BOSTON et al., 1996; SCOTT et al., 1997).

Apart from the Treasury, the other central agencies - the State Service Commission (SSC), the Department of Prime Minister, and the Cabinet contributed to the reform agenda in a number of important ways. The SSC was a central player in implementing many of the reforms, especially those concern with corporatization, human resource management and machinery of government matters. As one of the government's main advisors on public sector management, the SSC has sought to establish and maintain a network of contacts around the world on matters of the public sector reform. SSC staffs regularly attend overseas conferences on public sector issues and maintain bilateral relationships with their counterparts in central agencies elsewhere, especially in Australia and the UK. In addition, there is regular contact with various international organizations most notably the Organization for Economic Cooperation and Development's Public Management Service (PUMA) (OECD, 1993). The State Service Commission (SSC) also has from time to time employed specialists on aspect of the public sector management from around the world and has undertaken various staff exchange with similar organization in other jurisdictions (e.g. the Cabinet Office in the UK).

The inputs of the political parties to the reform process have been relatively modest (BOSTON, 1987). With the exception of the main political actors, few individuals outside the bureaucracy contributed decisively to the ideas, which inspired in the New Zealand model. Many private sector-consulting firms provided expertise on many aspects of the reform agenda. But most consultants have been involved in implementing policy rather than in initiating and formulating the policy. There have not been significant academic contributions to the public sector reform ideas. In New Zealand almost all -major research institutions, and all universities are State-owned and operated. By the mid-60's, the long history of welfare statism and social stability had left most of them poorly prepared to initiate, identify, support or advocate a major political drive for administrative reform. Indeed, many academics with an interest in public sector management were either not directly involved or opposed to some of the key changes (MARTIN, 1994; BOSTON et. al., 1996).

The fact that most of the ideas for public sector reform have come from within, rather the outside, the bureaucracy is not altogether surprising. New Zealand has a small population and correspondingly a small academic community. There is an Institute of Public administration but it has never had a major policy role in policy initiation and formulation. The lack of external input into the reform process was also an inevitable result of Labor's style of

governance. Instead of embarking on extensive public consultation of commissioning in-depth, independent policy reviews, the Labor cabinet preferred to develop policy in house and then implement its chosen strategy with great speed (DOUGLAS, 1990).

The Importance of Leadership and People in the Reform

One aspect of public sector management in New Zealand that increasingly has been recognized as important in attaining results is the people factor. As the reform program unfolded, attention was initially focused on structures, incentives and systems, but in later stages, institutional learning made it clear that only through people - their motivation, dedication, skills, training and experience - could excellence be achieved. The notable success of the corporatization initiative was in part attributable to the quality of the people at the top - the commercial, financial and other skills of the directors, chief executives and senior staff, together with the leadership they provided to staff drawn primarily from the public service (BOSTON et al., 1996; SCOTT et al., 1997). Douglas has identified, as one of his principles for successful reform: "for quality policies, you need quality people." Policy starts with people. It emerges from the quality of their observation, knowledge, analysis, imagination and ability to think laterally so as to develop the widest range of options. Replacing people who cannot or will not adapt to the new environment is pivotal. Getting the incentives and structure right can also transform the performance of many dynamic and capable people who were not able to achieve the right results under the old system (DOUGLAS, 1993: 219; MORGAN, 1997).

The New Zealand public sector reforms have given far greater responsibility to chief executives, allowing them to be responsible for the outputs of their organizations. Such freedom to act is unusual in a public sector. New Zealand has been at the forefront in the world in its reforms in this area, and has thereby created an environment of autonomy in which leadership can better flourish. "If the New Zealand experience were to be summed up in a sentence, it would be that good managers cannot succeed in a bad system and bad managers cannot succeed in a good system both are required to be good" (SCOTT, 1996, p. 2)

The major structural changes have meant that with a few exceptions the systems are functioning well. With the structural changes and implementation to date, New Zealand is effectively 80% of the way towards having vibrant, responsive public sector organizations (World Competitiveness Yearbook, 1997). However, effective executive leadership is vital in all aspects of the

Public Service to the transition from the traditional, structured, bureaucratic organizations, which once comprised the public sector, to the new, less formal, more independent organizations. Transparency International (an annual international rating organization) recognized that New Zealand has the least corrupt Public Service in the world (Corruption Perception Index, 1995).

Good management and hierarchical leadership are no longer enough. All stakeholders are demanding that their interests be taken into account; and in the case of public sector organizations, this means that the public at large must be listened to. Chief executives are required to present the vision to all stakeholders, including the public at large: to inspire, to teach, to encourage and to support. They are expected to provide vision, to innovate, to communicate and to empower. In these public sector organizations there is a need for well-rounded leaders (MOORE, 1995; MARCH/OLSEN, 1995).

Since the market-place philosophy of contestability and asset utilization has created the need for organizations to be adaptive, the role of chief executive and management has also changed. The way the organization is managed should reflect the nature of the environment (MORGAN, 1997). Appropriate management has to be delivered. The challenge that we face is how do we manage change as a natural part of our business? How do we incorporate and maintain change in an organizational culture? The quality of leadership will determine how well we handle the matters that will confront us and the outcomes that will flow from them, whether they are successes or failures (SCHEIN, 1992).

The public sector reforms redesigned the mix of levers used by government to control and coordinate the actions of its agents. The balance moved from tight central control in the form of detailed input controls by Treasury and the SSC, through to devolved decision making by managers within a higher-level accountability framework. Prior to the reforms, Ministers were actively involved in minute decisions (such as determining how many chainsaws were required by the Forestry Service) leaving them little time to devote to strategic policy making. The reforms gave public sector managers responsibility for operational decisions, while freeing Ministers to focus on broader questions of policy and strategy. According to the World Competitiveness Yearbook (1997), the New Zealand government is the most decentralized government among 46 countries in the World.

Leadership is obviously a key issue in good government. People cannot be expected to adopt new systems, practices and behaviors instinctively - the new ways of doing things must be very effectively demonstrated. It is recognized that senior public officials must take personal responsibility for

promoting and initiating reform and improvement - particularly through introducing or reinforcing concepts of customer focus and of modern leadership (SCHEIN, 1992). New Zealand's public service of administrators was turned into a service of managers through a comprehensive change in culture in which chief executives were key movers. Chief executives who most thoroughly understood and exemplified the 'management tradition' themselves tended to produce the most substantial transformations. The manager corps was not 'retrained' - but pushed to 'relearn by doing' - by performing the new roles (BOSTON/PALLOT, 1997; SCOTT et al., 1997).

The Ideas and Theories Underpinning the New Zealand Model

It is difficult to find reform designs or strategies that are clearly grounded in principle and theory. New Zealand has embraced principle-agent theory and public choice theory as its theoretical foundation. In this case, a significant alternative to bureaucratic structure and process is firmly established. It is possible, of course, to derive different models or different strategies for reform by relying on different literature or different disciplinary perspective. The New Zealand reforms have relied on an economic, market-oriented emphasis; the system and incentives that the reforms have created - smaller, more independent agencies; performance contracts; and financial incentives reflect this emphasis. It is assumed in the New Zealand case that performance contracts and related mechanisms are an adequate substitute for the rules and regulations that have traditionally governed public organizations. To date, at least, these reforms have assumed that essentially economic strategies are compatible with political setting (INGRAHAM, 1997).

Politicians in New Zealand sought to make fundamental changes to the strategic direction of New Zealand's economic policy, to profoundly alter the role of the state, and to increase the efficiency and effectiveness of public management. They acted out of a conviction that their policies would solve the problems they saw in the New Zealand economy and its government. It was not because of a desire to see any theory implemented for its own sake. However, the body of advice that was developed by professional policy advisors in the government, especially those in the Treasury, was based on substantial elements of the literature on institutional economics and contemporary macro and micro economic theory (BOSTON et al. 1996; SCOTT et al., 1997).

From this perspective, the goal of designers of public sector institutions and processes is to avoid public choice problems and minimize agency costs.

Public choice problems arise when the transaction cost of gathering information and influencing policymakers enable special interests to become better organized and informed, so that they can succeed in turning public policies in their favor at the expense of the wider public interest (SCOTT C., 1996). In modern management theory and practice, direct control systems are widely seen as a poor solution to the agency problem. Instead, the sociology of organizations is a key determinant of successful performance, which requires that staff be empowered (MARCH/OLSEN 1995; SCOTT, 1998; SCHEIN, 1992). Institutional economics also provides insights into the importance of features in the design of public institutions which signals credibility and longevity about the policy commitments of the legislature to the electorate (SCHWARTZ, 1997).

The New Zealand remarkable wave of public sector reform during the mid to late 1980s was the product of a unique convergence of economic pressures and economic opportunities. But while the political desire for bureaucratic reform strong and economic imperatives undeniable, one of the distinctive and most striking features of the New Zealand's public management reforms was the way they shaped by certain bodies economic and administrative theories. Particularly influential in this regard were *public choice theory*, organizational economics- especially *agency theory*- and *managerialism or the new public management*- NPM (HOOD, 1991). The three theories and organizational designs based on these theories will be briefly explained in the following paragraphs.

Agency theory deals with relationships in the public service in terms of various kinds of agreements or contracts between "principals" and "agents." The theory grapples with the problem of ensuring that agents serve principals in accordance with stated or implied contractual conditions. The essential policy prescription is to clarify and define the relationships between ministers and top officials, and between the latter and departmental managers at lower levels. Agency theory also played an important role in developing the policy framework that underpinned the corporatization and privatization programs (Schwartz, 1997; Boston et al., 1996).

An important application of that theory was the replacement of permanent heads of departments by chief executives. Permanent heads, appointed by a group of their peers, had tended to remain in office until retirement, and there was no legal provision for assessing their performance. Chief executives, in contrast, are hired on contract, with performance expectations laid out in written agreements with ministers. They face a regime of rewards and penalties that, in terms of agency theory, focuses on the

incentives of a key agent, who can affect the incentives and thus the performance of other agents in the organization (BOSTON et al., 1996).

Public choice theory undoubtedly influenced the climate of opinion within which the development of the New Zealand model occurred. For instance, the drive to separate the provision of policy advice from policy implementation and regulation was inspired at least partly by public choice theory. Public choice theory helps to identify and respond to perceived problems such as bureaucratic "empire-building." One implication of this theory is that public officials tend to behave in self-interested ways by maximizing rewards, including an increase in the size and power of their organizations (BOSTON et al., 1996; SCOTT et al., 1997).

In policy terms, the theory suggests that bureaucratic structures and behavior within those structures need to be re-examined to ensure that individuals serve the public interest. Both agency and public choice theories recognize that incentives are an important means of changing bureaucratic behavior. Such incentives may help to ensure that contractual agreements are fulfilled and that self-interest is channeled productively. Attention to incentives has been a recurring theme of New Zealand reforms (BOSTON et al., 1996; INGRAHAM, 1997).

The influence of the *New Public Management* has been evident both in the way policy debates over public sector reform have been conducted and in the specific policies that have been introduced. Thus, government agencies have been seen as businesses, ministers have been linked to broad chairpersons and departmental heads to chief executives; the central agencies have been depicted as a firm's corporate office; and taxpayers have been seen as shareholders (HOOD, 1991).

Organizational Separation of Policy and Operations

One dimension of the management model is the organizational separation of policy and operational matters. This structural reform was a response to the need to increase efficiency and to ensure strategic co-ordination of policy; making sure that institutional arrangements served the country's needs, by resolving conflicts of interest of policy makers and policy implementers - e.g., departments giving advice to ministers about the regulation of activities in which they were involved (HOOD, 1990; WISTRICH, 1992).

The significant devolution of authority in New Zealand, however, has been effected within a framework that involves the clear specification of

desired results, effective monitoring of performance, and the application of incentives to achieve results in the most cost-effective manner. As well, devolution of management authority has been pursued within a framework of corporate management policies and with due regard to best practices. Chief executives, for instance, are required in law to meet the standards of being a "good employer," which includes responsibility for staffing on the basis of the merit principle and for adhering to employment equity policies; they are also responsible for ensuring that systems for managing their resources and operations are in place and meet high standards in respect to transparency, reliability and disclosure (SCOTT C., 1994). The New Zealand reforms have enhanced ministerial and public service accountability. This has been achieved primarily by linking the distinction between outcomes and outputs, the separation of policy and operational responsibilities, and the delegation and devolution of authority, to mechanisms for securing accountability.

Strategic Management in the New Zealand Public Sector

The concepts of strategic management can be seen as an extremely effective way to convert political priorities and programs into coherent and effective implementation and action by the agencies of government. These techniques can be reinforced by instruments such as performance agreements, and by revised budget processes. Comprehensiveness and consistency are quite clearly essential in developing the mix of strategies and instruments employed in any change enterprises (MOORE, 1995).

Most departments had no clearly defined goals or management plan. There were few effective control mechanisms to review the performance of departments in meeting their required outputs. Departmental management had little freedom to change the way their departments operated to meet their goals, especially in staffing matters. Too much emphasis was placed on control of inputs. There were no effective review mechanisms for dealing with poor performance by senior management. Economic Management has been described as "a remarkable briefing document in which the Treasury analyzed the causes of New Zealand's economic malaise and prescribed policy directions..." (MARTIN, 1992, p.2).

New Zealand opted for a working model of strategic management, whose key design idea was simplicity. Government officials wanted to minimize impositions and let improved information carry most of the weight. The key elements of the design are a selective set of generalized policy objectives (termed strategic result areas); a process for coordinating

departmental contributions to those objectives and making related researching decisions; a set of critical medium-term commitments (termed key result areas), which anchor departments' strategic contributions to the chief executive performance agreement; a requirement that chief executives regularly report progress on those commitments to their Minister and to the State Services Commissioner; and an expectation that chief executives will take responsibility for making, and taking care of, the connections between their commitments and those of other chief executives, while also ensuring that their own commitments flow down through their department's chain of accountability (BOSTON et al., 1996).

Perhaps the most novel dimension of the New Zealand approach to strategic management is the emergence of sectoral strategy. This is consistent with the way in which strategic result areas are framed: high-level, medium term and cross-portfolio. Sectoral co-ordination is essential if strategic objectives are to be achieved. Because it is largely unmapped territory, the emergence of sectoral strategy has prompted some quite innovative approaches. The environmental agencies have formulated a 'green package' of priorities and advocated an 'environmental envelope' of new spending to achieve them (BOSTON et al., 1996).

Research and technology related agencies are working towards a GDP-linked spending target, and are trying to ensure that all relevant expenditure in department budgets is identified for the purposes of counting against that target. In the area of border control and bio-security, sectoral effort has been applied to developing policy principles, which can be consistently applied through the key result areas for individual departments. The development of sectoral strategy has already led to improved information flows, more substantial consultation with commercial interests and non-profit organizations, greater clarity about the Government's vision and priorities and a surprisingly powerful synergy among agencies with a history of sometimes fractious relationships (SCOTT C., 1996; MOORE, 1995).

In particular, departments can now make their Budget bids and do their business planning within a common strategic framework. They are also more able to involve managers and staff in their own strategic management initiatives, because there is now a clear source of external demand for that sort of capability. Those initiatives typically include flatter structures, devolved managerial responsibility, and empowerment of front-line staff, investment in information technology, stronger performance cultures and greater attention to evaluating the impacts of policy and services (BOSTON, 1987; LEEUW, 1994).

The success of the New Zealand approach depends on the willingness of the major players - Ministers, chief executives and central agencies - to take shared responsibility for making it work. Reinforcing that responsibility is a range of influences, both subtle and sharp, which keep the Public Service, focused on strategy. The sharp influence of the pressure on chief executives to perform means that the Government's priorities receive attention and ensures that the chief executive's commitments are meaningful. More subtle influences are provided by the *shared values* and web of relationships found in the public service which foster a culture of co-operation and sustain the 'free play' needed to resolve conflict and adjust quickly to changing circumstances (MOORE, 1995).

Conclusion: Lessons from New Zealand Experience

New Zealand moved decisively towards the management tradition. The key principles include clarity of purpose and objectives, freedom to manage, effective accountability, incentives, transparency, contracting and contestability.

Although there is considerable doubt about whether the New Zealand model could be used as a template by other countries, is the fact that there is no dispute that strategic management is an appropriate tool of government. Thinking and acting strategically seems to be a requirement for good government in the contemporary context for public governance. There are evident benefits in terms of direction, focus and cohesion within government, and better information about the intentions and impact of the Government for its public and its international audience (OLSEN/PETERS, 1996; KETTL, 1997).

New Zealand's experience indicates some requirements for successful administrative reform of the public sector: 1) Widespread acceptance of the problem, 2) Political commitment to solve the problem, 3) Leadership from the top of the bureaucracy to empower change agents below, 4) Clear picture of the end-point and a schedule for getting there, 5) Effective communications programs, 6) Planning for early results, and 7) Effort to manage transitional risks.

In New Zealand there appears to be general satisfaction with most components of the reform. But serious questions are emerging about whether it may have gone too far in ignoring the special responsibilities of public organizations. The question is a variation on the top-down or bottom-up issue, defined in terms of the center. If virtually all of the government's activities and services can be decentralized, privatized, or contracted out, what remains in the core to hold them together?

Internal evaluations of the New Zealand system have been both extensive and remarkably positive. Although difficult problems of assessing alternative performance management and policy-advising systems remain, there has been clear progress on measures of improved productivity, of controlled and predictable budgets, and of linkages between management and organizational performance. The government argues that although the model of reform has yet to be fully implemented, it is meeting most expectations and does not need to be altered. Further, despite the small size and relative isolation of New Zealand, its reforms have become a *leading model* for other nations. The reforms introduced in the mid to late 1980s have been reasonably successful in meeting most of their objectives. The New Zealand model provides a robust and coherent approach to public-sector management.

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