

# **STRATEGIC MANAGEMENT IN GOVERNMENT: EXTENDING THE REFORM MODEL IN NEW ZEALAND**

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## **Introduction**

The idea that government<sup>2</sup> can manage itself strategically, in a similar manner to well-performing private sector organisations, has featured prominently in New Zealand's contributions to PUMA work since 1994. The purpose of this paper is to outline the rationale for a strategic approach to government management, to describe the elements of the approach which we have developed, to assess its impact to date on the performance of government and to point out future opportunities and challenges.

## **Rationale for a Strategic Approach to Government**

*Government is a complex business requiring high quality decisions.*

A critical determinant of successful government is the ability to make good decisions, and manage their implementation. Modern government is complex. It requires thousands of decisions to be taken and acted upon each day. The compound effect of these decisions is enormous, due to the size and pervasiveness of government. The dramatic decline of New Zealand's fortunes during the 1970s and early 1980s exposed the inherent flaws in our version of the traditional model of centralised government decision-making and management. We discovered the cumulative costs of poor decisions the hard way.

We learnt that, under stress, centralised authority fails to cope with entrenched features of public administration such as value conflicts, ambiguity and uncertainty over cause and effect, asymmetries of information about performance and the likely consequences of decisions, skewed incentives, and the difficulty of distinguishing at any given moment the accidental from the systemic, and the trivial from the significant.

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<sup>2</sup> In this paper, *government* refers to the complete system of public governance and management, including both political and administrative dimensions; *Government* refers solely to the Ministers who collectively exercise political authority.

The public sector reforms begun in 1986 reflected the realisation that our arrangements for government decision-making and management needed a radical overhaul. New Zealand set about developing a management system that would provide greater assurance of the quality of decision making and the overall level of performance. For high quality decisions it is important that people are appropriately empowered. It is vital that they have a good understanding about Government's overall priorities and the types of behaviour being sought, and about the impact of their decisions and actions on the government system. It is important that good information be available to them or that they have incentives to get that information. It is also crucial that those people be held properly accountable for their decisions.

***Making managers manage improved the quality of decisions.***

The shift from centralised regulation to decentralised management was the defining event in New Zealand's public sector reform. Deregulation of the public service compelled managers to move from a passive compliance mentality to an active management mentality. The contractual emphasis in the New Zealand model pushed the need for intelligent decisions on resource allocation down through the administrative chain to the point at which services are delivered. This forced managers at every level to focus on the Government's objectives, to manage the risks to those and to become more responsive to the requirements of the recipients of their services. Freedom of information legislation, introduced prior to the reforms, was instrumental in changing attitudes to the value of information, and in improving the volume and quality of information about government. Decisions at all levels are now based on better information, better budgeting processes and a longer time frame.

The process of clarifying objectives and then demanding good quality information on their achievement illuminated what public servants actually do and assisted decisions around resource allocation, notably during a period in which government was reduced in size. However, there are limits to the gains to be had through specification and monitoring. While the reforms made government more manageable, they did not in themselves ensure that decisions affecting the longer-run interests of government as a whole were properly balanced against the particular interests of the component parts. The devolved management system tended to obscure the fact that government is a single enterprise, which should be unified around commonalities of purpose, behaviour, management standards and reputation. Re-building commitment to the collective interests of government was an early priority of the National Government<sup>3</sup> after it was first elected in 1990.

***Autonomy, though necessary, is insufficient for effective governance.***

The trigger for a strategic approach to managing government was the realisation that effective public governance now requires the capacity to design and execute long-term solutions to complex problems, often with fuzzy boundaries and both international and inter-generational consequences.

It has become a truism of business that the increasingly integrated global economy is testing the competence of managers to the limit. Government, too, operates in an international market for ideas, people, reputation, information and policies. Democratisation, the information revolution and global

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<sup>3</sup> New Zealand held its first general election under the new proportional electoral system (MMP) on 12 October 1996. At the time this paper was presented to the PUMA meeting in early November, the identity of the new Government had not been determined. On 11 December, a coalition Government was formed in which the National party is the majority partner.

integration have reduced the capacity of governments to control conditions within their borders relative to the international community, while increasing the relative autonomy of their citizens and raising their expectations of government.

The only decision-making model which can cope with these conditions is one based on directional signals about the Government's purpose and priorities, which guide decisions taken autonomously by managers close to the action. Good decisions then depend on a high-quality flow of information, well-tested analysis and advice, and a balanced set of controls, plus the ability to learn and adapt. We can capture these insights about the modern conditions for optimal performance in the motif: ***direction, autonomy and control***. Implicit in this formulation is the idea of dynamic equilibrium between the three elements.

### ***Making governance more effective challenges the role of government.***

In government as in business, one of the greatest benefits arising from the adoption of a strategic approach to decision-making is the premium it places on identifying and strengthening core competence. It leads to a disturbing question: what is government good for? In the initial period of reform, the question was posed in the negative: what is government not good for, and therefore should no longer do? Now we are better placed to identify the important and unique job that government has to do, and has to be good at doing. Aberbach and Rockman<sup>4</sup> propose that government's essential competence lies in its ability to:

- make quality long-term decisions;
- create and distribute knowledge;
- implement decisions effectively; and
- mediate amongst competing interests.

Strategic government also means good government, since the quality of government will increasingly determine international competitive advantage. In the words of one commentator looking to the requirements for national success in the next century:

*While efficiency is a necessary condition of wider prosperity and influence, it is not sufficient. Enduring prosperity requires societies that are safe, ordered and honest.*<sup>5</sup>

### ***The importance of leadership***

The strong need for developing a strategic approach to government in New Zealand was matched by the readiness of Ministers and senior public servants to take the reform model into a new phase. Political leadership was vital. The National Government made a public commitment to a range of policy objectives over the period up to the year 2010. It also decided to publish annual updates of progress towards those objectives. Some Ministers adopted the same approach within their portfolios, and published '2010' documents for areas such as the environment, science and technology and education. It is difficult to overstate the importance of such clear and public objectives, and of sustained commitment to their achievement.

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<sup>4</sup> Aberbach, Joel D & Rockman, Bert A., *Does Governance Matter - and if so, how? Process, Performance and Outcomes. Governance: an International Journal of Policy and Administration*, Vol5 (2): April, 1992.

<sup>5</sup> McRae, Hamish, *The World in 2020 : Power, Culture and Prosperity : A Vision of the Future*, London: Harper Collins, 1994.

Dr Allen Schick, Professor of Public Policy at the University of Maryland and Visiting Fellow at the Brookings Institution, recently concluded a commissioned, independent study of the New Zealand public management reforms.<sup>6</sup> He found that few elements of the New Zealand reforms have been as well received by Ministers and senior public servants as the recent initiatives to strengthen our strategic capacity. What those initiatives are is the subject of the next section.

## **The Elements of the New Zealand Approach to Strategic Management**

### *Designing for selectivity and simplicity*

Being strategic means being selective -- sorting the critical few from the important many, and giving that selection 'bite' by shifting resources and demanding performance sufficient to make the desired difference. New Zealand opted for a working model of strategic management, whose key design idea was simplicity. Government officials wanted to minimise impositions and let improved information carry most of the weight, in recognition of the critical role of information in guiding behaviour in a free-to-manage situation. The key elements of the design are:

- a selective set of generalised, cross-portfolio policy objectives set by Cabinet (**SRAs - strategic result areas**);
- a process for co-ordinating departmental contributions to those objectives and making related resourcing decisions (**strategic dialogue**);
- a set of critical medium-term commitments (**KRAs - key result areas**), which anchor departments' strategic contributions to the policy objectives, through incorporation in the chief executive performance agreement;
- a requirement that chief executives regularly report progress on those commitments to their Minister and to the State Services Commission; 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 management chain.

The distinguishing features of SRAs and KRAs are their selectivity and flexibility. For all of the reasons that doom long-term central planning, particularly the complexity and the uncertainty of the future, it is not possible to come up with a complete set of higher level strategic objectives, finely specified. The best we can do is to pick out a few objectives which, given our understanding of the systems in which they are embedded, are most likely to exert the desired leverage on those systems. This means that most higher level output objectives are not included. Moreover, the path to achieving the selected objectives is not pre-determined. SRAs and KRAs are not so much performance checkpoints as beacons: luminous catalysts of information which guide behaviour and focus attention in a devolved management situation.

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<sup>6</sup> Schick, Allen, *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, August 1996.

### *Creating common space between politicians and administrators*

We have coined the phrase "the purple zone" to describe how the approach works (refer diagram at Annex One). The traditional bureaucratic model could be described as an 'indigo' zone: one in which it was impossible to distinguish the actions and responsibilities of politicians and administrators, and in which information about cause and effect, expenditure and result was elusive and vague.

The initial period of reform resulted in a dramatic separation of primary colours: blue for politics, and red for administration. Between them rose a wall of contracts, in which the resources were exchanged for results. But experience taught us that much of what is important about government is not amenable to close specification and monitoring, and does not fit neatly into annual cycles and is not easily separated into compartments labelled *politics* and *administration*. The purple zone is the product of that experience: an amalgam of separation and integration, in which the benefits arising from distinctive responsibilities are complemented by those flowing from strategic coherence and common "branding".

Essentially, the purple zone is the arena of conversation between Ministers and their senior officials which ensures that appropriate attention is being paid to the Government's priorities and that the consequent interdependencies, risks and departmental initiatives are being managed in a way that serves the interests of government as a whole. Its tangible products are the SRAs and the KRAs around which the public service builds its purchase and performance agreements. The conversation also strengthens the informal, cultural components of strategy, notably the sense of shared purpose and collegiality among the key players. The red and blue zones, and the purple zone in which they blend, encapsulate the total performance management system. The trick from an overall system perspective is to maintain an optimal balance between direction, control and the autonomous energy of individual managers.

### *An incremental design*

It is important to understand the evolutionary nature of our approach. It was not the product of a master plan devised by Ministers or officials. Rather, the core elements emerged separately and came together in a loose, experimental manner.

The initial step was taken by the Government, which in 1993 published a long-term vision for New Zealand through to 2010. The strategic management process gained momentum the following year as a result of the Prime Minister's concern that the public service give more tangible expression to the medium term steps it would take to move toward the desired vision. We developed **Strategic Result Areas** (SRAs) - a limited number of major desired results for the public service as a whole. The SRAs inform the agreement of **Key Result Areas** (KRAs) for chief executives of individual departments. The critical difference between the SRAs and the KRAs is that the latter are medium term, largely within the influence of the public service and formed within the assumptions of the budget policy statement. Resources are recognised to be limited and trade-offs are made. Annex Two contains examples of current SRAs and KRAs.

KRAs provide the means by which departments expose the 'critical few' targets which they wish to achieve over a two to three year period. Measurable milestones associated with each KRA allow Ministers and others to track progress towards those targets. KRAs might have a direct or indirect link to an SRA, or they might focus on an important aspect of organisational capability. KRAs should be few in number - generally not more than six. The requirements to expose KRAs to critical scrutiny by central agencies and other departments with related interests, and to obtain the Minister's endorsement of the selection, ensure that chief executives direct effort and resources towards those few priorities which offer

the greatest potential return to the Government. Moreover, chief executives have a direct stake in the strategic performance of their department through the incorporation of the KRAs in their performance agreement with the Minister.

### *Conversation in the common space*

The annual SRA/KRA process encourages ministers to interact with senior public servants on the desired high-level deliverables for the public service, and for departments and central agencies to interact with each other to address cross-sectoral issues, establish priorities and assist Ministers to fix key responsibilities for individual department delivery. The process sets individualised service delivery within a long term and whole-of-government context.

The key instrument for Government strategy is, and has always been, the budget process. The new strategic approach seeks to enrich the budget process by ensuring that wider policy issues are more consciously reflected in the formation of the budget and in appropriation decisions. The present Government has instituted an annual retreat to allow Ministers to more deliberately set the budget parameters and their strategic objectives within them.

### *Distinguishing substance from shadow:*

Because the SRA/KRA framework differs in design from the established contractual instruments (the purchase and performance agreements), we have found it necessary to explain what the strategic approach is **not** about.

### *...not strategy by measurement...*

The approach is not an elevated form of management by objectives; it is not a planning model, but rather a strategic decision support model. Those who view it as a planning tool tend to advocate ever tighter pre-specification of intended performance. Effectively this means trying to treat strategic objectives in the same manner that annual operational objectives are treated in the purchase agreement. Should this view prevail, and it is one which comes very naturally to public bureaucracies, we risk undermining the advantages we have gained from letting managers manage, and imposing progressively higher transaction costs in the form of more detailed planning, monitoring and reporting documentation. We would also shift the risk of not doing the right things from departments to the central agencies, and encourage risk-averse target setting.

Key Results are (or should be) inherently quite difficult to achieve. Their accomplishment will often be subject to unpredictable influences. This means that total pre-specification will rarely be possible, much less desirable. Much must be left to departmental discretion, while the evaluation of performance against KRAs tends to contain a considerable element of 'judgement', related to the particular circumstances and track record of each department. While there is much that can be done to improve selection of the few key things which will most affect department performance, the notion that *generically* KRAs can be improved by more pre-specification is flawed.

*...nor strategy by inclusion.*

A second possible distortion is the "me too" syndrome. Those whose function is not captured by an SRA or a KRA feel that the function is somehow being treated as of less worth, and will push for its inclusion. While the argument has a superficial appeal, conceding it would destroy the strategic character of the model. Given the role of SRAs as a selective set of major cross-sectoral results, it is to be expected that many departments will not relate directly to SRAs, and many functions will not be captured in their KRAs. Indeed, the more comprehensive SRAs and KRAs become, the less valuable they are as a strategic management tool, given the limits to the kind of influence leaders of organisations can bring to bear at any one time.

A related distortion is that of special pleading. It is tempting for advocates of particular causes to seek the explicit inclusion of their cause in the KRAs, or even better in the SRAs. This distortion stems from a failure to distinguish between the wide category of things which are important to government, and the selected high level results judged most likely to further the Government's overall strategy over a specified period. It is possible to say that while  $x$  is a very important component of government policy,  $x$  should not be an SRA. Otherwise, special interests will rapidly degrade SRAs into a shopping list of unsorted priorities.

The final selection of SRAs is not a measure of importance *per se* but a dynamic judgement about what key points of leverage should receive scarce high level attention, and equally scarce additional resources, over a defined planning period. Because something is an SRA for one period does not mean it should continue to be so. Indeed, if our strategising works we would expect a healthy level of turnover, as attention moves from one major problem to another.

### ***Interaction of formal and informal processes***

The new strategic management system is straightforward -- Ministers decide and specify the Government's priorities, the public service distils these into achievable objectives for each chief executive and department, Ministers and chief executives conclude formal agreements to cover these, performance against the agreements is assessed, and the information obtained feeds back into the loop to improve the quality of the next cycle.

The rather simple formal strategic mechanism is wrapped in an informal process of conversation, monitoring, adjustment and evaluation. The informal process cannot readily be described or specified, but it is critical to making the approach work.

It is important to restate that the process adopted is not geared towards producing a centralised strategic plan which is circulated through the public service, nor creating a set of iron-clad undertakings which consume a chief executive's every waking moment. Rather, it is geared to constructing an 'open agenda' between Ministers, chief executives and the central agencies which ensures that major issues receive regular, detailed and well informed attention and discussion. Clarity about what sits in the common space between the key decision makers then should lead to a common view of the nation's medium-term direction, as a basis for good decisions and performance.

The next section of the paper examines the impact of the new system on government's performance so far, and on the roles and perspectives of the key players.

## **Impact on Performance**

We introduced a strategic management process to improve attention to longer-term priorities, government co-ordination and consideration of overall effectiveness, which were initially overlooked in the shift away from central regulation. But what results can we claim so far from our attempts to re-balance our devolved management system?

### ***Departments are becoming more strategic.***

There has been a considerable spin-off from the Government's strategic approach within departments. In particular, departments can now make their Budget bids and do their business planning within a common strategic framework. Almost all departments are developing strategic business plans, allowing them to make clear connections between what they have to do to contribute to the wider strategic picture and the organisational implications in terms of structure, skills, capital investment and external relationships. They are also more able to involve managers and staff in their own strategic management initiatives, such as flattening structures, devolving managerial responsibility, empowering front-line staff, investing in information technology, and paying more attention to evaluating the impacts of policy and services.

### ***Departments are beginning to co-ordinate business strategy.***

Perhaps the most promising development is the emergence of sectoral strategy. Given 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. 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 biosecurity, effort has been applied to developing sectoral 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 organisations, greater clarity about the Government's vision and priorities and a surprisingly powerful synergy among agencies with a history of sometimes fractious relationships.

### ***Chief executives now have a bigger job.***

Chief executives have become the Government's business partners, responsible both for helping to shape the broader policy environment and for making real progress towards specific objectives. Their role compels them to contribute to the spectrum of the Government's interests, beyond their organisational boundaries. The specification for the ideal chief executive is changing, favouring persons who can see the big picture and convey that to their organisation, who have an entrepreneurial bent, who feel comfortable in common space and are able to make connections between their business needs and that space. Departmental managers are also becoming more demanding of the government system as a whole, now

that their sights have been raised. They expect a more sophisticated approach to government strategising, budget setting, policy resolution, interactions with central agencies and Parliamentary accountability.

### *A reoriented role for the central agencies*

The story of the New Zealand reforms can be expressed as a swing from central regulation (control on inputs) to self-regulation (control on outputs) and now to system regulation (control on strategic capacity and results). Pivotal to this story is the role of our three central agencies, the Treasury, the State Services Commission and the Department of Prime Minister and Cabinet, who have both separate and shared responsibilities for the government-wide functions of financial management, policy co-ordination and performance assurance. The three agencies form the Government's 'corporate office', a term which conveys a sense of the fuzzy boundaries and over-lapping responsibilities which the three roles entail. Another way of viewing the three roles is that they span the Government's 'value chain': resource inputs, production process and strategic results.

Trends in the central agency role include a more consistent focus on the whole business of government, pooling of expertise, a greater concern for adding value through knowledge creation and keeping up with the play internationally, and a preference for facilitation and guidance over direct intervention. In particular, the three central agencies are seeking improved alignment amongst the instruments for which they are responsible, namely the Budget process, Cabinet decision-making and chief executive appointments, contracts and performance assessment. Integration of those instruments, underpinned by shared values and confident transactions amongst the agencies, should help departments manage in the wider public interest without undue central control.

### *Strategic considerations underpin the Government's ownership interest.*

We have also put considerable effort in recent years into clarifying the interests of the Government as owner of its departments, as distinct from the earlier focus on its interests as the purchaser of their services. The work on clarifying the ownership interest, and developing an approach to managing that consistent with our devolved management system, has neatly complemented the greater accent on strategy. We have determined that the owner is interested in strategic alignment, commitment to collective interests, future capability and long-run cost effectiveness, with the following implications:

- The Government is a single owner, with a common strategy and co-ordinated arrangements for making important decisions.
- The Government has a strong interest in ensuring it has the right set of institutions to serve its priorities, and in ensuring they are capable of meeting future demands, reliably and cost-effectively.
- The Government can impose collective obligations and standards of management and behaviour on departments and other Crown organisations, so that the actions of one do not have adverse consequences for others, or create unnecessary costs between departments, or damage the reputation of government as a whole.
- Managing the Government's ownership interest in a way that gives Ministers confidence that their department is in good shape and is making the desired impact on the relevant priorities is the cornerstone of the chief executive's job.

- For chief executives to meet Ministers’ requirements, they need to: operate reliable systems for managing resources and activities; place effective controls on those systems; select and develop people with the right skills; develop a capable senior management team; and ensure that the right information and incentives are in place to align the efforts of all parts of the organisation with its purpose and the relevant priorities of the Government. They also need to co-ordinate their business strategy with that of other departments with overlapping contributions to one or more of the Government’s priorities.

***The strategic approach suits both ownership and purchase interests.***

There is considerable overlap between the approaches taken to our strategic purchase process and to managing the ownership interest. The first, and probably most important, common feature involves creating a context for conversation between Ministers and chief executives about matters of importance to the owner. There is now an expectation that chief executives will be able to offer Ministers reliable information about their management of the Government’s interests as owner, and to identify the ownership implications of Ministers’ major purchasing preferences.

The second common feature is the provision for Ministers to require chief executives to develop one or more key result areas (KRAs) which address aspects of the ownership interest about which Ministers have concerns. Chief executives then have to provide credible reports on their progress.

The third common feature relates to the strategic co-ordination function of the central agencies. At key decision points in the life of a department, there will be an opportunity for Ministers and central agencies to test the quality of its management of the owner’s interest, and to subject its business strategy to critical scrutiny. Such points include bids for new capital or for a change in output price, or the transition to a new Government, new Minister or new chief executive.

***The new role for control: balancing autonomy and direction***

Adopting a strategic process has also altered our perspective on control, consistent with the need to balance that with direction and managerial autonomy. Much of our new thinking on control has been prompted by Robert Simons’ work on a balanced approach to control. Simons<sup>7</sup> has identified four complementary levers or modes of control:

- ***Reflective/integrative*** control, through attention to common interests, values and beliefs. This is the prime means of influence provided by leadership.
- ***Pre-emptive*** control, through specification and enforcement of boundaries, imperatives and prohibitions. Successful organisations tend to make explicit what behaviour is unacceptable, and seek to reinforce this in the minds of staff by swift and certain action against transgressors.
- ***Diagnostic*** control, through clarification of targets and monitoring of their achievement. Most financial, output and process management information systems support diagnostic control.

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<sup>7</sup> Simons, R., *Control in an Age of Empowerment*, **Harvard Business Review**, March-April 1995.

- *Interactive* control, through open-ended dialogue geared to adjusting strategy as events unfold future. Inherent in this is the notion of strategy not as a single plan but as a stream of adaptive decisions.

The old public service was run predominantly by integrative controls (culture) and pre-emptive controls (the centralised regulation of inputs and process). Great gains were achieved when detailed pre-emptive controls largely gave way to diagnostic controls: making managers manage and introducing output based appropriation and monitoring to reduce cost and improve efficiency. However, once government's attention moved towards longer term strategy, this set of techniques was clearly insufficient. Our search for a point of balance between the available means of influencing the performance of government has now led to the introduction of an interactive control system -- the strategic management process.

The advantage of a multi-layered approach to control in a devolved management system is that it allows the mix of controls to be tailored to differing circumstances and risks. The more that can be achieved through informal means, such as affirmation of values and beliefs, development of relationships and opportunities for dialogue, the less reliance need be placed on formal instruments and exchanges. By shifting the balance, from formal to informal and from extrinsic to intrinsic, the control system can send a powerful signal about the role of trust in a well-performing management system.

### ***Success in staking common ground***

Our reflection then is that there have been considerable gains from the original decision to adopt a more strategic approach to the business of government. The success to date of the New Zealand approach can be attributed to 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.

But while the successes have been real and substantial, challenges and opportunities abound which will test our willingness and ability to sustain strategic momentum. The final section of the paper discusses the most prominent of those challenges and opportunities.

## **Challenges and Opportunities**

### ***Improving the process***

It is important to acknowledge that our strategic management process, based on the SRA/KRA framework, is probably somewhere between infancy and adolescence. Our first set of SRAs are not uniformly well-sculpted objectives. KRAs, too, are of uneven quality. Improving them will require more careful analysis and challenge from central agencies and departments around what are the key operational problems for the department involved, better tailoring of specification effort to operational risk and more attention to the quality of reporting and its analysis.

However, this is an area where the **process** of focusing on the major issues, and seeking alignment amongst the key players, is more important than the final written **product**. Accordingly, care must be taken that this process, designed to facilitate debate and the making of joint cause between senior decision-makers, does not regress into centralised regulation with its associated bureaucracy, compliance costs and constrained operational autonomy. We can progressively improve the process by ensuring that it is supported by good quality staff, that it utilises good quality empirical information and evaluation relating to progress against the Government's priorities, and that the conversation is not unduly impeded by institutional rivalries or historical baggage. The trick is to maintain a balance among the various means of influencing strategy in a devolved management system (Simons' four levers above), suited to the prevailing circumstances.

So far, the strategic management process has won good support from the key players, as Professor Schick has confirmed. There is no dispute that strategic management is an appropriate tool of government. 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.

However, the strategic management model confronts us quite starkly with the challenge of what Aberbach and Rockman and others have identified as the things that government must do well to be effective.

### ***Extending governance beyond government***

The first thing that Government must do is exercise leadership, but this no longer means having a finger in every pie and solving every problem. Under the new model of governance being developed in New Zealand and elsewhere, the Government's leadership role is about framing a vision, setting broad directions, and then creating the conditions in which society as a whole can steer in the desired direction. To maintain legitimacy, democratic government must allow the wider society to share in leadership. The constitutional separation of power, pluralistic politics, a flourishing civic society, a free and competent media, demanding and informed customers for government services, academic freedom and an open economy all help keep government under control.

### ***Restraint: making space for other sources of leadership***

Government under control is one which exercises self-control. A prime example is provided by the Fiscal Responsibility Act. This Act takes a principle with which it is hard to disagree, namely responsible management of public funds, and spins it out into a simple but forceful form of self denial. The Act itself sets no numerical targets and fixes no immutable boundaries, but compels the Government to face the music should it step outside the zone of acceptable fiscal conduct which exists in the minds of informed commentators, whether locally or overseas. Therein lies the elegance of the Act: the Government is not the arbiter of its own fiscal responsibility; the Government no longer exclusively "owns" fiscal policy.

At a more modest level, the same principle of restraint underpins the government management system. For a variety of reasons -- constitutional and motivational in particular -- it is vital that Ministers, the State Services Commissioner and central agencies respect the managerial autonomy of chief executives. Chief executives can only learn to be responsible by having to exercise responsibility; they can only share in leadership by exercising leadership.

### ***Improving government: becoming a learning organisation***

Improving the quality of government's role depends on enriching the flow of information and analysis upon which government can base good decisions, implement them effectively and intervene appropriately to reconcile competing interests. Essentially this is a question of government's knowledge capacity: how well it learns and adapts in response to information about the impact of past or current decisions and actions.

This is a particular challenge for New Zealand, because knowledge capacity takes us into the realm of evaluating outcomes, which were quite consciously sidelined in the original reform model which assigned responsibility for outcomes to Ministers. Yet we now recognise that good strategy, and intelligent government, is impossible without a steady stream of empirical findings on whether the Government is attaining its goals, leading to corrections to strategy or management controls.

SRAs are of value in identifying, and lining the public service up behind, some over-arching operational priorities. They contribute to goal congruence, and they reach across from the political to the operational domain by influencing the goals and incentives of chief executives. However the SRAs are still expressed as high level operational goals, so far unsupported by any requirement to identify indicators of effectiveness or to have that effectiveness evaluated.

Remedying the deficiency of outcome information in our system will require a marked shift in our thinking. We need to put aside the preoccupation with accountability which has blocked attention to outcomes and agree that while nobody can be held directly responsible for outcomes, the success of the governmental process depends on each decision maker in the chain being as well informed as possible about the impact of their decisions on the community. While the output/outcome distinction remains important in terms of clarifying what public servants actually do, and should be held accountable for, externalisation of outcomes denies the reality of managing difficult functions in a complex environment and prevents government acquiring the habits of a learning organisation.

Interestingly, Professor Schick's report argues that we should cease talking of outcomes as things which politicians can be responsible for. He suggests that outcomes...

*...should be employed more for formulating policy than for maintaining accountability.  
They are powerful directional signals: are things getting better or worse?*

The approach to evaluation that best fits a system of both democratic governance and devolved government management is one where important empirical and theoretical information is produced independently and made available as a matter of course to policy makers, producers and consumers. The Reserve Bank and Fiscal Responsibility Acts have demonstrated the benefits of making good quality information widely and routinely available as a means of modifying behaviour and encouraging appropriate decisions. There is no reason why we cannot gain similar benefits from a commitment to creating good information about other aspects of government activity, whether through independent evaluators or the mandatory production and disclosure of key outcome information. This will help 'close the loop' on government's performance, aid judgements about benefits gained for money spent and strengthen our strategic capacity.

The gradual strengthening of strategic management in recent years has helped create the demand conditions for outcome information that were previously missing. Now that Ministers are more strategically focused, they are seeking better advice and information on the impacts of policies than they currently receive.

A complementary managerial strategy would give attention to the skills, incentives and attitudes needed to ensure officials seek out and respond appropriately to evaluative outcome information, including the occasional 'forensic' studies which extract lessons from instances of policy or operational failure. Various quality-based initiatives such as awards, league tables and charters have been used elsewhere to encourage a culture of continuous improvement in government. It might be timely for New Zealand to look more closely at that type of incentive.

### ***...and strengthening our institutions***

New Zealand's public sector reform programme has resulted in a large number of small departments, each of which must sustain a fairly standard load of management and accountability requirements. Concerns have emerged that in some departments, controls are draining managers' energy and narrowing their perspective. We are now focusing attention on ways of reducing systemic obstacles to dealing with the complex problems faced by government. In particular, we need to strengthen our capacity for co-ordinating departmental policy initiatives and dealing with unintended effects. We also need to improve our understanding of how the operation of the public sector labour market affects institutional capability, and what interventions might be appropriate to offset adverse features of that market.

Stronger institutions are needed to sustain a shift in the Government's and community's priorities from macro-economic to macro-social policy. That shift will test the Government's willingness to allow community interests to take the policy initiative and to support devolved decision-making with resources and information. We need to get closer to community interests to build our knowledge about the constraints on, and effects of, social policy choices.

The shift will also test public confidence in government, based on the integrity of government institutions and the quality of their services. Public service managers have to temper their operational autonomy with a strong sense of ethics and professionalism, while meeting the steadily increasing service expectations of the public.

### ***The challenge of political change***

The final challenge is that posed by our transition to proportional representation and the likelihood of consequent changes in government processes. Under the MMP electoral system, public servants will have to be more skilled in the selection and management of processes of decision making. Policy processes are likely to be more open and require more public input, multi-party consultation and Parliamentary debate. The indications from elsewhere are that the new political system will place a premium on clear Government objectives, and will create a demand for good information about whether the Government is realising those objectives.

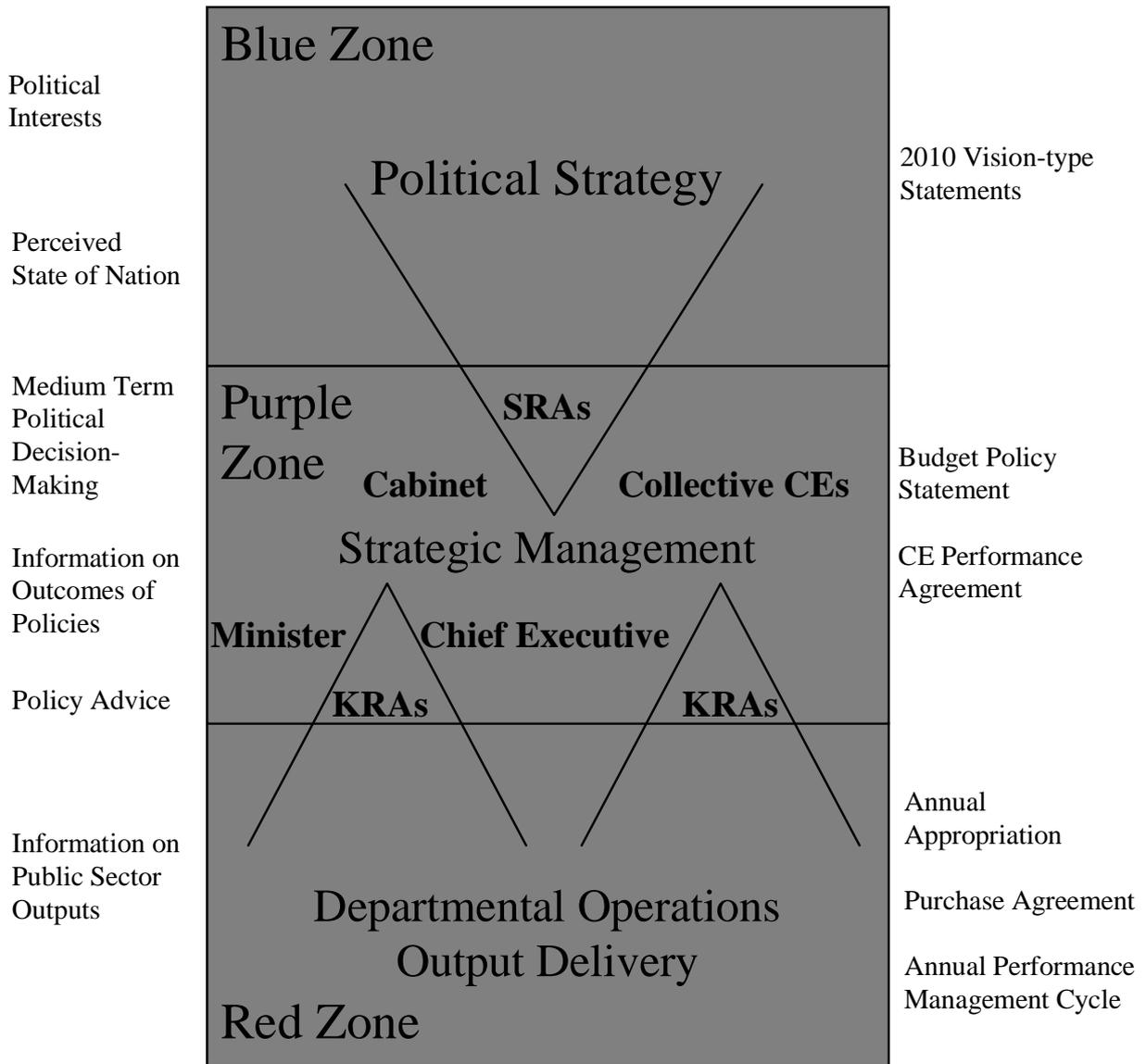
### **Conclusion**

According to Professor Schick, the recent advances made in building New Zealand's strategic capacity "*demonstrate the elasticity of the reforms and their openness to new ideas,[since the advances have been] accomplished in ways that comport with the logic and practice of the New Zealand model*". We have experienced innovation because we have permitted innovation.

While the strategic management processes discussed in this paper represent a logical extension of the reforms, they are now taking us into unfamiliar territory. We have created an arena in which strategy

can be debated, priorities tested, outcomes evaluated and significant benefit/cost assessments reached. But we are not yet sure who all the players will be or what rules they will play to. What happens will depend on the quality and motivation of the players, their capacity to communicate with each other and the depth of their shared knowledge. There is no more important determinant of the success of New Zealand's public policy than the quality of this game; played well, it will be one from which we all emerge as winners.

**ANNEX ONE  
Strategic Management Model  
The Purple Zone**



Integration of Budget and Wider Strategy Formation Process

Strengthened “Strategic Conversation”

Interactive Political/Administrative Decision-Making

Outcome Information needed to fuel Strategic Decision Making

## ANNEX TWO

### Strategic Result Areas for the Public Sector 1994 - 1997

- 1 maintaining and accelerating economic growth
- 2 enterprise and innovation
- 3 external linkages
- 4 education and training**
- 5 community security
- 6 social assistance
- 7 health and disability services
- 8 Treaty claims settlement
- 9 protecting and enhancing the environment

The details of the 'Education and Training' Strategic Result Area are shown in the box below. The SRA has significant implications for several departments, including Education, Labour, Youth Affairs, Women's Affairs and Maori Development, as well as the three central agencies. All of these departments contribute to SRAs as well.

#### **4 Education and Training**

*Progress towards higher and more appropriate skill development to support the achievement of stronger employment and income growth.*

Particular emphasis will be placed on:

Development of programmes and a curriculum that will enable an increasing proportion of children to receive effective early childhood care and education, particularly those at risk.

Completion of a redesigned compulsory curriculum which focuses on generic skills, sets learning objectives and monitors the performance of students; monitoring the performance of providers and provider institutions.

Further implementation of the National Qualifications Framework to enable students to build recognised qualifications; and integration of all post-core education and training in a seamless continuum of learning opportunity.

Ensuring that more New Zealanders have access to education and training, particularly through Skill New Zealand; development and implementation of systems that will enable full participation in workplace and post school education and training which leads to recognised qualifications.

Improved systems for the effective delivery of resources to students and providers to enable the flexible provision of educational services to the community and, in particular, to target groups within it.

## **Key Result Areas**

The KRAs agreed this year between the Minister of State Services and the State Services Commissioner, as chief executive of the State Services Commission, include:

*The Commissioner will ensure the Public Service completes an effective transition to the new political environment by 30 June 1997.*

*The Commissioner will put into place, by 30 June 1997, a chief executive employment framework in accordance with the Government's strategic objectives for the Public Service.*

*The Commissioner will identify the Government's key ownership interests and risks in the management of the Public Service.*

*The Commissioner will provide assurance and advice to the Government on performance relating to its key ownership interests across the Public Service by 30 June 1997.*

*The Commissioner will work with other relevant chief executives to implement the Government's objective of strengthening the management and accountability of school boards of trustees and tertiary councils.*

*The Commissioner will ensure that the on-going role of the Commissioner beyond 1996 is fully defined and that the Commission has the capacity to support this role.*

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## COMMENTARY

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### *Strategic Management in Government: Extending the Reform Model in New Zealand*

In this commentary I will discuss: (1) the evolutionary nature of performance management systems and reform efforts, (2) the importance of a contextualistic perspective in reforms, and (3) the key components of New Zealand's strategic management approach.

#### **The Evolutionary Nature of Performance Management Systems and Reform Efforts**

Performance management, in a broad context, can be viewed as a selective learning model. More specifically, as a "Darwinistic model" whereby leaders and others select best practices or approaches and change or dismiss ineffective ones. The term *Darwinistic* is used here as an analogy from biology; however, in a performance management framework the selection process is, or can be, more studied and based upon conscious and selective choices. This is because the most basic concept of performance management is that of leadership. The leaders must have a clear sense of direction, some good measures or navigation tools, and a systematic forum, for applying various change management tools, to (a) select and strengthen best practices or approaches toward a particular direction and (b) change or dismiss ineffective practices.

However, leaders frequently need to reassess their direction in the context of unforeseen external and internal changes. Managing change requires the use of flexible and selective management tools. In line with these principles for managing change, the paper on New Zealand experience offers a description of strategic management as a flexible, selective and contextual management practice.

#### **The Importance of a Contextualistic Perspective**

It is important for leaders of future reform efforts to learn from others. However, while learning from the New Zealand experience, its historic and current context needs to be taken into consideration. Contextualistic world views were first explained by S. C. Pepper in 1942. Others have furthered Peppers work to help us appreciate the complexities associated with understanding the critical components of social changes. Contextualism has mainly two lessons that may apply here.

One lesson is that reforms do not happen in vacuum and a holistic approach to the efforts must be applied for co-ordination. The individual components of reform efforts must be synchronised toward a common future direction. Reforms have involved many different strategies, for example, privatisation, decentralisation, increased accountability and flexibility, empowerment of employees, quality management efforts and more. These change strategies need to be synchronised at the highest level to avoid creating inconsistencies.

Another lesson from contextualism deals with the different historic context and current context of reforms. The New Zealand reforms had a certain historic context that was unique. When individual components of reforms, in any country, are studied, surprising variables and combination of variables may account for much the successes and failures of the efforts. For example, variables such as the power of the individual players and the interaction among them, the willingness of a politician to focus long-term in the face of certain short-term contingencies in the political environment, special interests, the media, unions, and more. The appreciation of historic and current contexts, gives us, the students of New Zealand's reform, a dose of reality while questioning how best to apply the lessons learned in different environments.

### **New Zealand's Strategic Management Approach**

The key components of strategic management include: (a) long-term focus, (b) co-ordination of departmental contribution to long-term priorities, (c) a common space between politicians and administrators, and (d) the focus on effectiveness and therefore commitment to managing outcomes. The New Zealand paper acknowledges that these components were overlooked in New Zealand's initial reform efforts, but its extended reform programme has sought to develop these principles within the management framework. Indeed, the New Zealand paper describes its strategic management process as a contextual, flexible and selective change management approach. Its strategy for integrating each of these components is examined in turn.

A long-term focus was developed through the use of strategic results areas (SRAs) and key results areas (KRAs). The New Zealand Cabinet uses the SRAs to identify a selective set of generalised, cross-portfolio policy objectives. This results in a strategic long-term focus on a few critically important policy areas. Medium term commitments in the form of KRAs are then set within the context of the SRAs. The KRAs are set by departments and tie in with the performance agreement of the chief executive.

New Zealand's long-term focus for the country was expressed in Vision 2010, or Path 2010. Subsequently, the SRAs provided the forum for prioritising efforts for future accomplishments of government departments and agencies. However, it is of interest to see what will happen to Vision 2010 and the set of SRAs when new leaders take over, leaders who may not have participated in formulating Vision 2010 and setting SRA priorities. Long-term targets may need to be set cross-politically to avoid the risk of a new government ignoring the long-term goals set by the previous one. This may have significant implications for the future evolution of political systems.

The co-ordination of departmental contributions to long-term priorities is now being achieved through the SRAs. SRAs are developed through a strategic dialogue with the understanding that most SRAs are cross-departmental. This makes sense, since real world issues are departmentalised. For example, efforts to reduce crime rates may have implication for many departments, such as education, labour, health and justice.

The leaders of the Total Quality Management (TQM) paradigm (e.g. W. Edwards Deming and Jo Juran), centred their philosophy on consistency of purpose in achieving long-term results and linking together the often disparate procedures and processes that develop within and between organisational units. Their approach was contextualistic and centred on leadership and continuous improvement in processes, services and products. Many people doubt that our current political environment, often with elections every few years, will allow the principles of TQM to be effectively applied in the public sector. The verdict has not been reached, yet the nature of New Zealand's strategic management with its cross-departmental co-operation, and built in flexibility, may serve as a good basis for quality management efforts.

The New Zealand paper develops the concept of a "purple zone" to describe the common space between politicians and administrators. It is in the purple zone where the SRAs are systematically broken down to KRAs with input from both politicians and administrators. In understanding management strategies, the notion of a purple zone is appealing in its potential as a forum for more constructive and trusting relationships between politicians and administrators. However, it remains to be seen whether this forum helps overcome the temptation among politicians to provide detailed political supervision, or interference, once targets have been set. The purple zone in New Zealand provides an opportunity for preventive action and learning for both politicians and administrators. It will be interesting to see how this forum will evolve in the future.

Strategic management provides a focus on effectiveness and outcomes. Where it is effective, it should help leaders manage for results. New Zealand's reform efforts have centred on outputs, rather than outcomes, as the means for assigning accountability and assessing results.

The challenge associated with managing for outcomes is that outcomes often take a long time to materialise. For example, if policy-makers set a long-term outcome goal to reduce crime rates, it may take years for outcome measures to reflect improvements. Thus, the more immediate focus on the outputs produced in government has been an easier way to deal with accountabilities and performance agreements. Today, policy-makers are moving closer to accepting that outcome goals and measures are needed in order to manage for results. A way around the output-outcome dilemma is to identify, select and manage the outputs that most closely correlated with the desired outcomes. From a contextualistic perspective, such a process would start with setting long-term targets, clarifying outcome goals and subsequently breaking them into output and process goals. Thus, going from a holistic perspective (i.e. a big picture perspective) all the way down to the unit level or even to the level of individual performers. Successful use of outputs as an interim management focus (as in New Zealand) relies on the ability to identify and select the outputs that are highly correlated with producing the desired outcomes.

## **Conclusions**

The strategic management approach described in the New Zealand paper is contextual, flexible and selective. It appears to be a good steering system for continuous improvement and management for results in government. New Zealand's experience provides many countries with an opportunity to learn best practices in the area of strategic management, and it also furthers speculation about future trends in public sector management reforms.