PUBLIC ADMINISTRATION AND DEVELOPMENT
Public Admin. Dev. 18, 349–363 (1998)

Governing strategically: the New Zealand experience

ALEX MATHESON*
Commonwealth Secretariat, London, UK

SUMMARY

This article describes the evolution of New Zealand's approach to the strategic direction of its public service during a decade of reform. Problems of atomization and short-termism which emerged from the first phase of reform were addressed through the adaptation of the Cabinet and central agency processes for policy, budget and management. © 1998 John Wiley & Sons, Ltd.

NEW ZEALAND'S PUBLIC SECTOR REFORMS

New public management

New Zealand has been a laboratory for some of the ideas labelled 'new public management' which have informed the reform of public sectors throughout the world in the last 15 years. Globalization, the information and communication revolutions and democratization (whether that applies to citizens, shareholders, employees or customers) have created a situation in which the traditional approaches to public administration are no longer working. The gap between what countries need and what they have has created moments of crisis. These have opened opportunities for the inflow into public administration of new ideas from economics, accountancy, management, business and modern political theory (Mathiasen, 1997).

Economic and role-of-government reforms

New Zealand had its moment of crisis in 1984 when the long-standing Prime Minister Sir Robert Muldoon called an early election (Boston *et al.*, 1996; Scott, 1996). After a succession of governments had for two decades unsuccessfully tried to borrow and micro-manage their way to maintaining New Zealanders in the post-war comfort they had mistaken as their birthright, a moment of truth arrived in the form of an economic and then a political crisis in 1984. A Labour government of baby-boomers, led by Sir David Lange, swept into power and, having been forced to devalue the New Zealand dollar by 20% per cent in its first few days in office, instituted cold turkey economic reforms and set in motion changes which would transform public policy and public adminstration and impact significantly on society as a whole. The latest

*Correspondence to: A. Matheson, MTSD, Commonwealth Secretariat, Marlborough House, Pall Mall, London SW1, UK

CCC 0271–2075/98/040349–15$17.50

reverberation from the change at that time was adoption of a proportionally representative voting system—a coalition government was voted in on that basis in late 1996. The referendum-based change to the voting system is interpreted partly as a popular reaction to what seemed, both before and during the reforms, to be excessively powerful executive government.

The thorough-going economic and role-of-government reforms followed what is by now the orthodox prescription (at least for developed countries), and government expenditure has been reduced, debt has been retired and the country returned to growth.[1] New Zealand's social policies show the same mixture of results as other OECD countries. A more open economy and lighter government hand allowed the nation to benefit more from global trade—but exacerbated income disparity amongst New Zealanders. As elsewhere, innovations are emerging to deal with these new strains in the social fabric, but a better framework for their design and governance has yet to crystallize.

PUBLIC SERVICE REFORMS

New Zealand's most novel reforms were in the core mechanisms for allocating, managing, controlling and accounting for public resources.

The key components of the reformed New Zealand[2] public service were:

- A sharp distinction between 'outcomes', the desired impacts of government activity on society, and 'outputs', those goods or services the public service has under its direct control.
- Parliamentary appropriation on the basis of the outputs the department plans to provide for the year in question, specified as to number, quality and cost.
- 'Chief executives' (previously permanent secretaries) with responsibility for the management of their departments and the delivery of the specified outputs. The chief executives have wide authority over the nature and mix of their resources, including authority over staff establishment and their remuneration and deployment.
- Ministerial direction of chief executives by means of annual performance agreements and 'purchase agreements' (specified schedules of annual outputs). These are in addition to the usual less formal ministerial/chief executive interactions.
- Management of chief executives by means of term employment contracts with the State Services Commissioner (the *de facto* head of the public service), including annual performance assessment and the opportunity for performance-based pay increments.
- A sharp distinction between policy advice and service delivery, with separate appropriations, and in some cases separate institutions, for each.
- Accountability against both purchase and performance agreements for the delivery of the agreed objectives and services to number, quality and cost. All three elements of performance must be reported to Parliament according to generally accepted accounting practice and are audited under the authority of the Controller and Auditor General on this basis.

[1] At least until the impact of the recent Asian crisis.
[2] Summarized in McCulloch and Ball (1992).

The reforms have been well regarded by senior public servants within the system (Laking, 1995) and were externally reviewed in 1996 by an eminent international academic, Professor Allen Schick, who concluded in the Executive Summary of his report:

> 'The State sector reforms carried out in New Zealand over the past eight years were heralded at their inception to be bold and unprecedented. This judgement has been vindicated by the transformation of public management through the ground breaking development and application of new methods of managerial accountability, including the shift from input to output appropriation, reliance on contracts, and monitoring of results.
>
> ... In carrying out this study it has become evident that the reforms have lived up to most of the lofty expectations held for them. The organisational cocoon of the old State sector has been broken open and structures reshaped through the application of the reforms' overriding principles. The State sector is more efficient, productive and responsive, and there generally has been significant improvement in the quality of services provided to New Zealanders. However, as with any leading edge technology, it may now be time to "debug" elements which have not worked as well as anticipated' (Schick, 1996).

THE EARLY STAGES OF REFORM

Initially, public sector strategy was driven by the Treasury. The public service reforms were never intended to be solely about cost cutting. Their aim was to change the incentives and thereby the culture of the public service towards internalizing the need for restraint, prioritization and efficiency—rather than the traditional pattern of inexorable expenditure growth curbed only by periodic, politically driven budget slashing. The dominant ideas (Scott and Gorringe, 1989) applied by those driving change were drawn from new institutional economics and especially principal—agent theory. The plan was to make public servants (as 'agents') more responsive to political direction (ministers as 'principals') by clarifying roles and purposes and adjusting incentives and information flows.

In the initial stages of reform, however, the pressures for fiscal restraint dominated the operation of the new system. Departments had to present an annual programme of specified and costed activity for negotiation with the Treasury and agreement with their minister in the form of a draft 'purchase agreement' which then formed the basis of their annual parliamentary appropriation.

Supported by a minister with a strong Cabinet mandate, the Treasury, as the intellectual driver of the reforms within the public service, wielded extraordinary power in this first phase of purchase transactions—because they were not just about the number and cost of services to be 'purchased' by government. The nature of the services themselves became subject to Treasury consent—backed by the strong incentives of the appropriation process.

For the first three years of the reform, therefore, the array of new public management instruments was directed at cutting back departmental budgets—and very effective they were too. However, the reforms, by making departments more independent, created problems of co-ordination, and the annual output purchasing regime tended to give departments a very short planning horizon. It was evident from the early 1990s that the public service was missing a co-ordinating and strategic dimension (Boston, 1992).

STRATEGIC MANAGEMENT: THE KEY ELEMENTS

The process designed to make up these deficiencies is called the 'strategic management process'. It can be simply described. The key elements are:

- A high-level statement by government of its 'vision' for New Zealand society and its consequent national policy priorities.
- A process by which ministers identify medium-term public sector priorities necessary to make progress towards the envisaged state.
- A selective set of cross-portfolio policy objectives agreed and set by Cabinet (strategic result areas—SRAs) within an overall medium-term expenditure framework.
- A process for co-ordinating departmental contributions to the formulation of those objectives and making related resource decisions (strategic dialogue).
- A set of critical medium-term departmental commitments (key result areas—KRAs) 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.
- 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 departments' management chain.

The process by which strategic management evolved, however, provides an insight into the changed dynamics of New Zealand's public management system.

HOW THE STRATEGIC MANAGEMENT PROCESS EVOLVED

From the time that output-oriented management took root, new ideas about the strategic processes of government arose spontaneously and independently in different parts of the system. They arose from a combination of frustration with a blinkered and over specified performance regime and the desire to explore the new freedom following the removal of the compartmentalized mind-set of central regulation. The drive for a new approach to strategizing came from the following sources.

Clawing back the collective interest

The reforming Labour government was replaced in 1990 by a National (conservative) government, which after commissioning a review of the new public administrative arrangements (the Logan Review; SSC, 1991), decided to accept them. However, the incoming Prime Minister, Jim Bolger, felt that the public service had become atomized and that insufficient attention was being given to the 'collective interest' of government. Mr Bolger's intent must also have been a better way of maintaining overall control of Cabinet in an environment of greater autonomy for individual portfolios. The previous administration had failed in its second term because the Prime Minister lost control of Cabinet. In speaking to public servants in mid-1993, the then Minister of State Services, Bill Birch, talked about the need for a 'corporate plan' for government and the public service. In presenting new strategic objectives in early 1995, the Prime Minister described the new strategic management process as 'a strategic governor'.

Chief executives feeling their oats

Some pressure for change came from within the public service. In 1993, the departmental chief executives, who, from early in the reforms, had formed themselves into a 'Chief Executives' Forum', set up a task force to develop a strategic plan for departments collectively. In September of that year they came up with the outline of a plan in which the longer-term desired outcomes of government—including social and environmental—are described so as to form an overarching statement of strategic intent within which departmental purchase agreements could be nested.[3] (text missing ?) higher government expenditure. The SSC was opposed to the Forum (effectively a union or guild for the chief executives) assuming a formal role in the collective management of the public service—a role assigned, by statute, to the State Services Commissioner. There was also concern that such a plan might be seen as public servants taking a role which properly belonged to the political domain.[4]

Managing chief executives: the new instrument on the block

During the same period the State Services Commission (SSC) had itself been working on the strategic management problem.[5] As a result of the reforms the Commissioner had had his role changed from the employer of all public servants to the employer, co-ordinator and leader of the chief executives only. The Commission had been reduced to about a fifth of its original size (down to a staff of about 150) and was struggling with its own restructuring and the implementation of a massive programme of privatization, corporatization and departmental restructuring. It was also developing and implementing the novel policy of influencing the public service through the medium of chief executives rather than through the regulation of the deployment and remuneration of staff.

[3]The background was that the Treasury had produced an 'economic strategy' in the 1992 budget. The strategy was based on a model in the IBRD's 'World Development Report 1991'. The Chief Executives' Forum considered that this model did not capture many of the activities of government in the social policy area. The Forum used what it termed a 'quality of life for New Zealanders' model.
[4]The sensitivity of the public service to this issue had been much diminished by the success of the Treasury's blockbuster 'Post Election Briefing' reports in 1984 and 1987.
[5]The interpretative comment in this section on the SSC's perspective draws on the author's involvement in these issues as Branch Manager, State Sector Development, SSC during the period under discussion.

Early polarization

In the early stages of reform the Treasury used the annual appropriation process as the *de facto* means of managing the public service as a whole. It considered that the SSC had little role beyond change management and ensuring that chief executives were well chosen and well paid. In this environment the SSC, effectively excluded from the influential annual purchase transactions, clutched the chief executive employment responsibilities closely to their bosom. The performance management arrangements for chief executives, with their minister and with the Commissioner, were developed as personal and confidential. The implicit model of the Commissioner—chief executive relationship was a manager—staff relationship with the idea that the Commissioner would support the minister in picking out the particular areas where the chief executive was expected to make a personal contribution. The management of the chief executives was effectively separated from that of their departments.

Up to 1993–1994, therefore, the whole-of-government performance management arrangements were split between a highly specified annual purchase agreement process run by the Treasury (and according to its lights, provided that the outputs were delivered, it did not matter what chief executives chose to do themselves) and a confidential and personal 'black box' performance arrangement with the chief executives. Apart from the Commissioner being informed of the Treasury's assessment of how the department had performed against its purchase agreement, these two processes did not relate to each other.

The eventual synthesis

Within the Commission there was a growing view that a simple manager—staff model was inappropriate for the relationship between the Commissioner and a departmental chief executive. The latter, after all, had comprehensive managerial autonomy conferred directly by the new administrative law, and there were between 35 and 40 chief executives—giving the Commissioner too wide a span of control if his role was to be regarded as managerial in any normal sense. A better model was thought to be that between the chair of the board of a company and the chief executive wherein, in addition to what can be derived from the standard reporting on the performance of the firm, matters of critical importance to the health, performance and direction of the firm would automatically be made the formal responsibility of the chief executive and the basis of performance judgements, but around which, ideally, there would also be a process of informal feedback and counselling.[6]

It was decided therefore that a handful of issues of importance to the department over the next one to three years would be designated as key results areas (KRAs) in a chief executives' performance agreement and that these should form the main agenda for the performance management relationship and, once agreed, would be expected to inform the annual purchase agreement and the subordinate performance and planning documents within the department.

[6]This model too eventually seemed inadequate. What board chairman is reported to by 37 chief executives? Under recent discussion has been the idea of the Commissioner being analogous to the chair (or representative of the chair) for the holding company of a diversified corporation. The focus of such a person would be purely on the corporate interest. For other purposes the chief executives would have their own departmental board.

This move to reconceptualize KRAs not only linked the chief executives' performance agreement with the purchase agreement but also pulled out those departmental priorities for the medium term to which the chief executive would probably have to give particular attention if the department was to be perceived as successful. The critical change was that these priorities were departmental and not directly to do with the chief executives' personal behaviour.[7]

A strategic dimension?

The State Services Commission then had to consider the rationale for highlighting selected departmental objectives. The justification had to be national priorities, and it followed therefore that the process of setting departmental priorities should be preceded by a process of establishing the government's priorities for the public service as a whole—tentatively called strategic result areas (SRAs). These might reflect government's medium-term priorities.

Realizing the national vision

Concurrently, government itself was attempting to better articulate its strategy. In 1993 its political arm produced a statement of national strategic intent (entitled 'Path to 2010') which was eventually put to Cabinet and accepted as government policy. Later that year the Prime Minister asked his head of the Department of Prime Minister and Cabinet (DPMC) to ensure that the government's 'vision' was reflected in the departmental planning processes (purchase agreements and CE performance agreements). From that point, DPMC's chief executive took a more active role in the performance management processes. His instinct was to have a greater influence over both the budget process and the chief executive performance agreements—and the newly hatched idea of SRAs developed into a way of doing that without intruding on the role of the Commissioner.

The Prime Minister wanted an early response, so DPMC went ahead with developing SRAs for the current round (1994–1995) budget. This meant going live with a process of strategic co-ordination without a pilot or further development. DPMC ran a series of one-on-one discussions with selected chief executives, in consultation with their ministers, which resulted in a set of about a dozen draft SRAs which were amended and confirmed by Cabinet. This set the strategic framework for the public service for the next few years.

The Prime Minister gave his own attention to better organizing the Cabinet's strategizing in the lead-up to the budget. He established an annual pattern of bringing ministers to his residence at Premier House where, supported by key officials, they sought to thrash out priorities and create a framework of agreement which would guide the subsequent budget process and proof it against late runs. The impact of this process was to more deliberately engage all ministers in putting a policy front-end on the annual and three-year budget policy.

[7]The Commissioner still had a more personal role as the leader of the public service, the keeper of the political/administrative interface and the developer of the chief executive cadre. The point was that this was quite different from the performance management role in which the chief executive is viewed primarily as the key lever on departmental performance.

Sectoral advocacy

Another push for strategic management came from individual ministers and chief executives promoting strategic objectives for their sector. The first manifestation was when Simon Upton, the Minister of Environment, developed a strategic plan called 'Environment 2010'.[8] The following year, Upton led a group of ministers in coming up with a strategy and overall funding package for those departments concerned with environment and conservation—the 'green package'. Initially the environmental strategy was not linked with the national process being sponsored by the Prime Minister. However, conceptually it was consistent and was in subsequent years incorporated in the Premier House meetings at the front end of the strategic management process.

More strategic budgeting

The Treasury reacted cautiously to the new arrangements lest they disturb the budgeting and purchasing disciplines. It was, however, interested in a better framework around the budget process for allocating envelopes of budget to areas of priority; better connecting the budget with the chief executives' performance agreement; and exploring the possibilities of multi-year budgeting for some departments. Once it was evident that the strategic processes had Prime Ministerial support, the Treasury became involved—seeing the emerging framework as having potential value in each of these areas.

RATIONALE OF OBJECTIVE SETTING

Strategic management arrangements were not part of the original reforms, but, as Schick (1996) observed, they fitted them well.

However, the development of better strategizing processes had to avoid three perils:

- The expectation from some implementers of reform that the same 'discipline' that applied to the annual purchase agreement should be applied to government's larger and longer-term objectives. The SRAs which emerged were regarded by this camp as incomplete as a set and too woolly and unverifiable to be useful.
- Conversely, the poor record of detailed central planning when applied to either the private or the public sector, and the perception that the central agencies were going down that same hazardous path.
- The challenge against too active a role by the bureaucracy in planning at a national level, on the grounds of it being undemocratic—or ultimately futile.

The system was designed to avoid the Central Planning Office error. Neither the SRAs nor the KRAs were intended to be 'complete'—i.e. to add up at an aggregated level to 100% of intended government activity. Any attempt to do so would founder on the complexity of government activity, the unknowability of the future and the iterative nature of democratic decision-making. Proceeding with detailed and complete

[8] See papers from New Zealand Institute of Public Administration Seminar 'Performance Cascade', 1996.

planning in the face of these obstacles produced the failure of the centrally planned economies in which all of the policy risk is carried by the centre and the operators have no incentives other than to be seen to comply with a preordained plan. Rather, the approach is that a handful of higher-level goals are judiciously picked out to serve as directional beacons and with a view to their capacity for leverage of other aspects of organizational performance.[9] It is an approach which recognizes that:

- It is the job of ministers to set policy—and in a democracy this job is on-going.
- Chief executives are critical to the direction, health and control of departments.
- They have a bounded capacity for attention (therefore six key objectives are better than 60).
- Chief executives must be left space to determine how they will produce their outputs, especially when new circumstances arise.
- Any single performance measure tends to corrupt over time, so such measures need to be periodically refreshed and distributed across different dimensions of behaviour to capture the 'balanced score-card' advantages.

It is to be remembered that this approach to strategy is underpinned by a complete system of annual performance specification and reporting—so while longer-term goals may be incomplete, it is possible to verify what the department has actually done in any year.

THE PURPLE ZONE

> 'Public life ... is a continual struggle to rescue an element of choice from the pressure of circumstance' (Tuchman).

The planning 'technology' adopted was one of providing support for decision-making rather than planning *per se*. The idea was that strategizing occurs not through a detailed plan at a fixed point in time, but through a stream of decisions by a range of players over a period of time as the future unfolds. What was needed was a 'strategic conversation' which would encourage busy decision-makers, both elected and appointed, to take time out on a regular basis to think long and wide about what was important about the direction of public policy. It was supportive of democratic process because it was aimed at strengthening, not pre-empting, political decision-making.

The key idea was that a critical element in coherent government policy was the understanding amongst the key players of the intended direction of the whole. It aimed at a sense of joint cause amongst the political and administrative leaders that could then inform their operational decision-making and the role of senior public servants in supporting it. In a diagram[10] to illustrate the new concept, the strategic conversation between and among ministers and administrators was depicted as an intermediate purple-shaded zone where the blue of politics and the red of administration mixed in the process of turning political goals into administrative action.

[9] This way of looking at organizational objectives is developed in Eccles and Nohria (1992).
[10] First attached to 'Future directions in public management in New Zealand: towards strategic management' delivered by Howard Fancy and Alex Matheson at the 'Public Sector Convention', Wellington, November 1995.

The 'purple zone' gained currency as a better way of describing the political/administrative interface than the tidy blue/red contractualism of the earlier reform years.

THE CHANGING RELATIONSHIPS AMONGST CENTRAL AGENCIES

Three different formal instruments now have a major influence on public service-wide performance:

- The Treasury-led budget process, including the bilateral negotiations between the Minister of Finance and the portfolio minister and the relevant chief executive.
- The Cabinet and Cabinet Committee system (which in the New Zealand system is underpinned by standing committees of officials), which is co-ordinated by the Department of Prime Minister and Cabinet.
- The performance management system for chief executives—co-ordinated by the State Services Commissioner in a triangular relationship with their ministers.

The latter was the new addition as a result of the reforms. Each instrument is potentially very influential over the whole of the public management system, and their relative influence varies with the distribution of political and bureaucratic power and influence and the state of the nation.

The move towards managing the public service by performance has required these three instruments (each of which has its own independent statutory base) to be operated in a more co-ordinated way linked by a stronger sense of overall government intent. The three central agencies are being drawn to act something like the corporate office that in the private sector would support the parent board of a diversified set of companies. A greater degree of joint action has been required to operate the performance management system on behalf of Cabinet.

The most significant change in the way of conducting relations amongst the three central agencies occurred in late 1993, when a finely balanced election result motivated the three central agency heads to set up a regular weekly meeting to co-ordinate interregnum issues. This meeting obviously met a greater need because it is now a weekly fixture in which the heads of DPMC, SSC and Treasury, together with a few of their senior staff, discuss strategic and management issues in a relatively informal setting.

The strategic management system drew the central agency heads into a government performance management process which more closely links strategy, budget and management. The State Services Commissioner now sits with his two central agency counterparts when he has formal sessions with chief executives on their departments' performance against KRAs and their proposals for these for the following year. The Department of Prime Minister and Cabinet draws on the Treasury and the SSC in the annual process of developing SRAs—and increasingly the Treasury and DPMC work together in support of the ministerial deliberations on the budget strategy.

HOW STRATEGIC MANAGEMENT WORKED OUT

By 1994, departments and ministers, after almost a decade of reform, were disposed to be suspicious of initiatives from central agencies—especially those which might encroach on their autonomy. However, from the outset the strategic management process was well received by the Prime Minister, many ministers and chief executives and their departments. The reasons seem to have been that:

- By being high-level, medium term and result-oriented, the new objectives did indeed provide the missing link between national vision and the annual departmental management processes.
- The process provided a structure for the Prime Minister's leadership of and consultation with his cabinet colleagues in putting a better-articulated policy front-end on the budget process.
- It engaged chief executives in reflection on the big picture—there was something about the exclusive focus of the previous arrangements on the short-term and measurable that left chief executives frustrated.
- It provided both a forum for high-level interdepartmental co-ordination and a rationale for priority setting for individual departments.
- The process was 'low-tech' and was handled in a relatively informal way by the chief executive of DPMC.
- It gave a stronger role to DPMC (historically that would have been resisted, but at the end of a period of severe downsizing this development was welcomed as a counter-weight to Treasury).

In the years since 1994 the strategic management process has followed the same broad path. The refinements have been:

- To bring the SRA process earlier in the budget cycle (in the first year, by the time the SRAs were agreed, the budget had already been fixed).
- The Prime Minister has included SRA decisions in the 'Premier House' meetings—a ministerial retreat at the Prime Minister's official residence at the beginning of the budget process.
- To have the SRA discussions with *groups* of relevant CEs—as well as with key individuals—and for the meetings of departments contributing to an SRA (e.g. on community security) to occur more often.
- To include a process of reviewing progress against SRAs.
- To replace (in 1997) the government's vision statement with a new coalition agreement.

SRAs reached out three to five years but were re-examined each year, and while the core remained the same (at least between elections), some were added or amended. They quickly permeated the public service, being directly quoted in chief executive performance agreements and departmental strategic plans, and increasingly they were resorted to by both ministers and chief executives wishing to raise the priority of a particular area of public policy. They became a powerful means of communicating and institutionalizing government's strategic intent.

The various parties to New Zealand's strategic management system have judged it a success. In late 1996 a coalition government was elected under the new proportionally representative electoral system. During the 10 years of the reforms, New Zealand had, except for the second term of the Labour government, Prime Ministers and Finance Ministers with considerable joint strength within the Cabinet. These political conditions were obviously important in putting the strategic management processes in place. In the current environment the finance portfolio is held by the leader of the minority party, the Prime Minister's freedom of action is constrained by a coalition agreement and, with greater prosperity, there is less public support for austerity. It may be too soon to assess how the new processes are faring. So far, however, they have continued to be used. Rather than be displaced by the coalition agreement between the two political parties that form the government, the strategic management system has become, in part, a means for its implementation.

REFLECTIONS ON THE NEW ZEALAND EXPERIENCE

> '... the budget office of the future will have to devote more of its resources looking at what is happening outside government and less to what is happening inside' (Schick, 1997).

The reallocation of resources

The allocation of resources in the budget is the prime expression of government's strategic intent. The strengthening of strategic management processes can be viewed as an attempt to ensure that the strategic allocations of the budget better reflect government's policy priorities.

Schick (1997), using a framework developed by Campos and Pradhan (1996), describes the main budget office tasks as:

- *Aggregate fiscal discipline*—a critical input control still necessary in a reformed public sector to put boundaries on the direct cost of government and its opportunity cost for the community.
- *Technical efficiency*—impelling departments to raise productivity and promote efficient service delivery.
- *Allocative efficiency*—ensuring funds are transferred from lower to higher priorities as national conditions change.

Each of these tasks is necessary for good public management, but the mix is critical because the overuse of one creates problems for the others. Schick argues that resource reallocation will be the critical task in the modern environment, but observes that this is the area to which existing budget offices are least disposed and equipped to put their resources. It illustrates his point that the first phase of New Zealand's reforms was characterized by vigorous application of the aggregate and efficiency controls (the latter through output specification). While ministers could theoretically change their pattern of 'purchase' from year to year, the downward fiscal pressure together with the inability to move resources across output classes created an environment which was not conducive to reallocation of resources.

The strategic management processes developed in New Zealand can be seen as a retrofit to strengthen the allocative efficiency of the government processes. They are a way of moving public sector resources and managerial attention as national needs change, without necessarily seeking new resources.

New Zealand's processes have so far been effective at drawing key decision-makers into a strategic conversation and providing a context in which the Prime Minister can better exert leadership. However, the agencies supporting the process have so far failed to provide the external impact information and analysis that will support the assessment of the national benefit derived from current strategies and the development of new strategies. In particular, such information is missing from the big ticket 'entitlement' payments, which are therefore likely to expand because of demographics and client capture. Without that external empirical and theoretical pressure keeping the system honest, it may be difficult to stop the sectoral strategic conversations degenerating into a contest for new money distributed on the basis of short-term political advantage. It takes a considerable force to reallocate 'old' money from one area to another.

The causes for this lack of externally generated performance pressure in the New Zealand system lie not in the strategic management process itself, but in two design flaws in the original reforms. The first was weak incentives on departments to obtain cost and impact information which is useful at the macro-policy level—because of the overwhelming preoccupation with outputs. The second was that the application of the policy—delivery split produced considerable fragmentation of policy agencies and a smaller and poorly co-ordinated constituency for the collective policy interest.

New demands on the centre

> 'In recent years ... it has become clear that the structure of interdepartmental committees, each concerned with a separate area of policy, needs to be reinforced by a clear and comprehensive definition of government strategy which can be systematically developed to take account of changing circumstances and can provide a framework within which the Government's policies as a whole may be more effectively formulated' (Heath, 1970).

As the quotation from Edward Heath shows, the desire of governments to strengthen their collective strategic perspective is not new. However, the environment in which governments now operate has heightened this demand. Governments have decreasing direct control over the state's economic or social conditions and there is a strong tendency for the bulk of their attention to get drawn into reacting to complex and unanticipated domestic and international eventualities. It illustrates the change that most of the big problems of government, such as social alienation, are cross-portfolio in nature. Against this tendency, the modern government, like the board of a modern diversified company, is obliged, if a nation is to prosper, to redefine its traditional role and run its agenda so that it focuses a lot of attention on the strategic framework for the nation and on the various levers—usually indirect—that it has for influencing societal behaviour.

The need for governments to become more strategically able has been widely observed in recent times. Yehezkel Dror observed:

> 'Therefore upgrading the capacity of government to develop, choose and implement novel future influencing policies is, I think, essential' (Dror, 1994).

A Ministerial Symposium covened by the OECD in 1996 picked out as the first of three strategic responses to the new pressures on public services:

> '... (the) efforts to improve the strategic oversight by politicians over the business of government' (OECD, 1996).

New Zealand had traditionally had a minimal formal machinery for interdepartmental co-ordination. Perhaps because it is a small and well-knit community and because ministers are located together (rather than with departments as in the UK system), a powerful Department of Prime Minister and Cabinet had not been thought necessary.

New Zealand's response to the new pressures was for the three central agencies to work more together. However, it is doubtful whether, in the longer run, this will be sufficient. The problem is that while structures and processes can be readily changed, organizational cultures cannot—and the cultures of each of the central agencies will be determined by their main instrument. Possibly New Zealand will have to rethink the role of the current agencies. This might mean creating a fourth agency—an outward-looking multidisciplinary team with the role of monitoring social impacts and co-ordinating macro-social policy development. Alternatively, and this has been suggested by a Cabinet minister, the role of DPMC may need to be redefined along the model used for the Commonwealth government in Australia, with its resources expanded so that its policy support is more for the Cabinet as a whole rather than just the Prime Minister.

If a stronger policy centre means that outcome-oriented pressure on performance can be increased, the New Zealand system may be able to allow well-performing departments more reallocative authority across output classes than is currently possible. This is an area where Schick points out that Australia has been comparatively successful.

Change

The development of strategic management in the New Zealand public service is a case-study of change. After an emphatic break from centralized controls, New Zealand's central processes for the public service have gone through a decade of innovation. Attempts to improve and systematize the leadership and co-ordinating processes of government came separately from Roger Douglas, the political advisers of the National government, the Prime Minister and Minister of State Services, the 'green' ministers, the Chief Executives' Forum, individual departments, DPMC and the SSC.

What caused this spurt of creativity? My own view is that changing the budget process disturbed the interests which normally lock in resource allocation. The annual output-purchasing arrangements which replaced it left a yawning gap in the processes for collective strategy. This disturbance set off old and new forces in a struggle to find a place in the new order, and the race was on to fill that gap. The reforms of the late 1980s created fluidity and tension in the relationships between Cabinet and ministers, ministers and chief executives, chief executives and central agencies, and amongst the central agencies themselves. This opened up the opportunity for change. A 'learning' public management system would be one that is able to institutionalize that tension and fluidity so that vested interests do not just reset in a new mould. 'Strategic management' has been New Zealand's quest to maintain its public management system in the learning mode.

References

Boston, J. (1992). 'The problems of policy coordination: the New Zealand experience', *Governance. An International Journal of Policy and Administration*, 5(1): 88–103.
Boston, J., Martin, J., Pallot, J. and Walsh, P. (1996). *Public Management: The New Zealand Model*, Oxford University Press, Auckland.
Campos, E. and Pradhan, S. (1996). *Budgetary Institutions and Expenditure Outcomes*, World Bank Policy Research Working Paper 1646, World Bank, Washington.
Dror, Y. (1994). *Short Statement on Needed Core Capacities of OECD Governments*, OECD Public Management Service, Paris.
Eccles, R. and Nohria, N. (1992). *Beyond the Hype: Rediscovering the Essence of Management*, Harvard Business School Press: Boston.
Heath, E. (1970). *The Reorganisation of Central Government (Cmnd. 4506)*, presented by the Prime Minister to Parliament, October, para. 45.
Laking, R. (1995). 'Developing a culture of success: reflections from New Zealand experience', *Public Adminstration and Development*, 15: 283–294.
Logan, B. (1991). *Review of the State Sector Reforms*, State Services Commission New Zealand, Wellington.
McCulloch, B. W. and Ball, I. (1992). 'Accounting in the context of public sector management reform', *Financial Accountability and Management*, 8(1): 7–12.
Mathiasen, D. G. (1997). 'The new public management and its critics', *The International Public Management Journal*, 1(2).
OECD (1996). *Ministerial Symposium on the Future of Public Services*, OECD Public Management Service, Paris: 16.
Schick, A. (1996). *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, State Services Commission New Zealand, Wellington.
Schick, A. (1997). *The Changing Role of the Budget Office*, OCDE/GD 97 109, OECD, Paris.
Scott, G. and Gorringe, P. (1989). 'Reform of the core public sector: the New Zealand experience', *Australian Journal of Public Administration*, 48(1), 81–92.
Scott, G. C. (1996). *Government Reform in New Zealand*, International Monetary Fund, Washington.
Tuchman, B. 'Kissinger: Self portrait', in *Practising History: Selected Essays*, Alfred A. Knopt, New York: 219.