

Commentary

The New Zealand Public Sector: Moving Beyond New Public Management?

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Introduction

New Zealand has, since the 1980s, been recognised internationally for its experimentation in what is now widely known as “New Public Management” (NPM) (Boston, Martin, Pallot & Walsh, 1996; Pollitt & Bouckaert, 2004). NPM seeks to bring market disciplines and, hence, greater levels of accountability and efficiency into public sector activities. In this, it is consistent with the general international trend in government economic thinking from the 1970s, sometimes described as Neo-liberalism. NPM is, at once, a descriptive label, an ideology and a set of tools and practices at the disposal of governments.

Our purpose here is not to discuss NPM theoretically. We wish, instead, to recognise its importance in New Zealand government thinking about the public sector in two periods: 1984-1999, and again after 2008 (periods which encompass the reforming Labour governments of 1984-1990, the similarly reforming conservative governments between 1990 and 1999, and the post 2008 conservative governments). In the following discussion, we lay out briefly the rise and nature of NPM in New Zealand, indicating some of the more recent debates about its nature and extent. In particular, we emphasise the extent to which market (private sector) disciplines brought into the public service have affected the employment relations (ER) and human resource management (HRM) practices in the sector. We contrast this with comprehensive counter proposals developed over this period by the Public Service Association (PSA), the primary public sector trade union, in response to the impact of NPM in general, and specifically to its ER and HRM impacts.

Background

In 1984, a newly-elected Labour government, assailed by international financial pressures, surprisingly, adopted a strongly neo-liberal policy orientation. A progressive deregulation of much of the economy followed, with the exception of the employment relations system, which was somewhat amended, but not subjected, at that stage, to rigorous neo-liberal reform. A series of measures were introduced in the public sector, designed to implement NPM. These included the State-Owned Enterprises Act (1986), the 1988 State Sector Act and the 1989 Public Finance Act. The first imported private sector structures and disciplines into government-owned commercial activities; the second brought private sector structures and expectations into the core public sector; the third imposed private sector financial disciplines on the core public sector, in the process introducing a model whereby government “purchased outputs” from ministries and departments.

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After re-election in 1987, and as a result of growing political discontent within the Labour tradition, the Labour government showed less interest in the reform process generally, and in the reform of the public sector. Nevertheless, there was no attempt to reverse the changes that had been introduced. Rather, the reform process was put on hold.

In 1990, a National government came to power and restarted the reform process with great vigour. New reform had two key dimensions. The first was a programme of cuts and reconfiguration in welfare provision. The second was employment relations reform. The latter was embodied in the Employment Contracts Act (ECA) 1991, as applicable to the public sector as it was to the private. The purpose of the ECA was to raise the individual employment relationship above collective relationships and, consequently, undermine collective bargaining and trade union voice in workplaces. In the public sector, the ECA was to combine with other state sector reform measures in order to mimic the power relations, behaviours and outcomes observed in the private sector.

A Labour-led government returned to power in 1999-2008, but under new constitutional arrangements as a result on the introduction of a proportional representation system at national level. On the one hand, post 1999 Labour-led governments funded better the core public service and, as we shall see, were committed to a partnership model with the PSA. On the other, their commitment to NPM remains the subject of debate (see below).

Labour-led governments gave way to National-led governments in 2008, whereupon NPM gained new life as government focused on reducing the size of the public sector. A policy of “doing more for less”, implemented through upwards of 500 reviews since 2008, has seen employment levels in the sector reduced, and a sustained anti-public service rhetoric used by ministers.

Three Moments in the NPM Debate in New Zealand

The nature and extent of the adoption of NPM in New Zealand is well captured in the comparison of three commentaries. First, we have the view of a departmental CEO, actively engaged in the implementation of NPM (Walker, 1996). This interpretation adopts the standard rationale for the reform process. Hence, argues the piece, the reforms were needed because of long-term inefficiencies in the economy as a whole, and in the public sector in particular, and short-term, because of the economic crisis facing the incoming government in 1984.

For Walker, the reforms were a success, in terms of setting in train a model of continuous improvement in which there is no final, known goal. Success is understood in terms of three qualities: the political will to drive the change process; the “broad community acceptance that change was necessary” (Walker, 1996: 356); the reforms were driven by principles, thus, giving them both an analytical grounding and a defence against attacks from the status ex ante. For now, we can accept that there was political will (though it waxed and waned, particularly in the centre-left). The assertion that the wider community supported the reforms is contentious (though, for example, some sectors of the business community clearly favoured a smaller public sector). The third argument about principles is reducible to the ideological domination in the period of core tenets of the Washington Consensus and its neo-liberal form.

Walker’s overall assessment is “overwhelmingly positive”. Things went particularly well in the core public service, in which departmental autonomy has “liberated” managers from central controls, promoted innovative management, improved resource utilisation, sustained “good practice” in HRM, and promoted “an entirely healthy focus on the quality and content of what departments produce rather than on expenditure per se” (Walker, 1996: 363). Of course, there are rough edges, such as the

loss of “horizontal interaction or cooperation” across departments, or the uneven responses of ministers to the new arrangements. However, the balance of judgement emphasises the positive.

A decade on, the impact of NPM was subject to re-appraisal. Chapman and Duncan (2007) suggest a rebalancing of perspectives on NPM in New Zealand, in which the overwhelmingly positive view taken by Walker and others is qualified by the suggestion of growing “misgivings” about its impact (see also, for example, Gregory, 2003; Whitcombe, 2008). To quote Chapman and Duncan (2007: 3-4)

None the less, substantial misgivings about the New Zealand model have since emerged, for example concerns about... poor integration and strategic co-ordination of services ... rigid performance measurement systems that imposed forms of centralized (and often disempowering) control ... a lack of commitment to long-term social outcomes as opposed to short-term business goals... a concern that the purchasing-of-outputs model had over-emphasized efficiency at the expense of ‘long term maintenance of capacity’ in public organizations ... and a lack of managerial discipline among Crown entities.

They go on to note public dissatisfaction, particularly with the public health reforms of the 1990s, and with accountabilities exposed in incidents such as the Cave Creek disaster.

Public dissatisfaction with NPM, argue Chapman and Duncan, grew in a broader context undergoing change for four reasons – the introduction of proportional representation (a mixed member system – MMP), changes in the role of the State Services Commission (SSC), the impact of the 1996 Schick report, and the coming-to-power of a Labour-led government in 1999. In relation to the change in electoral system, the suggestion is that policy reform became slower because of the need to sustain coalitions in power, in turn making it less easy to promote NPM. Given events after 2008 and the election in that year of a National-led coalition, this argument, insofar as it suggests a permanent limitation of NPM, is difficult to support. The second shift – in which the SSC, initially charged under the 1998 State Sector Act with a fairly narrow role in terms of performance reviews, senior appointments and personnel issues, gained a wider (in the sense of issues and organisational scope) and more strategic role – gave, argue Chapman and Duncan, more status to the SSC. This, in turn, reduced relatively the status of Treasury (Ministry of Finance) and its generally effusive support for NPM.

This shift should be understood in the context of the Schick Report. As Chapman and Duncan rightly argue, Schick was expected by many to find little fault with the public sector reforms undertaken in New Zealand. Surprisingly, he was critical of the reforms, pointing to *inter alia* the exaggeration of the application of agency theory and the provider-purchaser split (leading to weaknesses in the ability of departments to service government), the need for an improved whole-of-government perspective, the need for a Senior Executive Service as a pool for senior talent, and less focus on narrow “market-driven” criteria for output purchasing. Again, this commentary did not fundamentally weaken NPM practice in New Zealand, but did play a role in a rebalancing of power between Treasury and the SSC and in the manner by which non-financial measurements of departmental performance gained higher status.

The incoming Labour-led government took up the Schick report and, as Chapman and Duncan suggest, distilled its approach into three priorities for change (a better-integrated, people-focused delivery; less fragmented and better aligned delivery; greater emphasis on people and culture in the sector) and two avenues for change (legislative changes and a focus on improved sectoral capability). The impact of this approach was, in Chapman and Duncan’s view, to modify or reverse the NPM approach adopted in the 1990s on a gradual, pragmatic, piecemeal basis. The “New Zealand model” of the 1980s and 1990s was no longer in place.

By 2011, and three years into a new National-led government, Lodge and Gill (2011) take firm issue with the idea of a shift away from NPM. They offer a technical assessment of the public sector's administrative doctrines, public service bargains (PSB – the conduct of relationships between the public servants and the wider political system) and change in doctrines, as determined by the 2004 Crown Entities Act. They conclude that New Zealand offers little support for a “mega trend” from NPM to a post-NPM environment. Moreover, changes in public sector management in New Zealand in the early 2000s were less of a shift away and more of a construction upon the existing NPM framework. Instead, they point to diversity in the implementation of NPM, a trend that has grown in the 2000s. Their suggestion is that NPM was never a homogenous phenomenon, and that lack of homogeneity has been exacerbated, but still within the broad rubric of NPM.

This, then, is the background against which we must view current PSA proposals for change in the public sector. New Zealand grasped firmly the NPM message in the 1980s, and, notwithstanding, the views of Chapman and Duncan might reasonably be understood in the terms suggested by Lodge and Gill. Certainly, the post-2008 government's focus on cost-cutting and restructuring in the public sector carries many of the hallmarks of NPM.

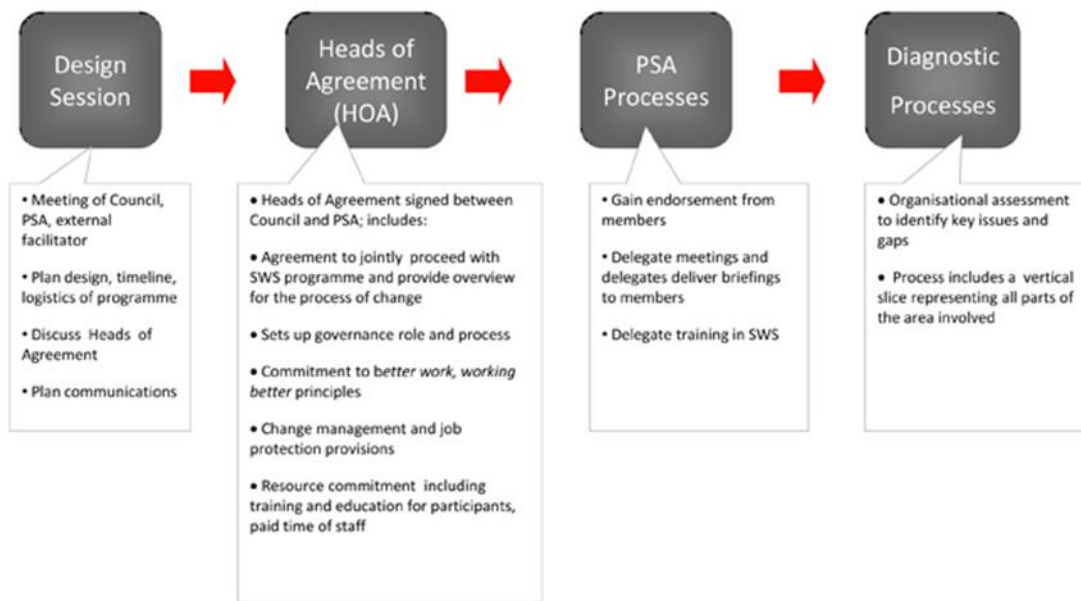
The PSA – an agenda for change

Despite the sustained assault on the public service since the 1980s, the PSA has, when circumstances allow, sought to respond on two fronts – one defensive, in an attempt to protect members and conditions in government departments and beyond; the other positive, in a sustained commitment to improved public service based on decent work and good employment practices. The PSA's Partnership for Quality (PFQ) model was originally developed as an approach to National-led governments in the 1990s. During the period of Labour-led governments in the 1999-2008 period, PSA strategy in the core government sector focused on a “Partnership for Equality” approach, which, through three iterations, came to include government, the PSA and the SSC around the following key elements:

- Enhanced conditions negotiated for PSA members in recognition of their contribution through the partnership approach
- The public service employer-subsidised retirement savings scheme and its extension across the state sector
- Funding increases to improve staff capacity and capability
- Regular meetings between the PSA, government and public service chief executives to discuss key strategic issues in the public service
- Information and consultation on new initiatives and policies

Simultaneously, the PSA undertook development work on improved workplace arrangements, under the rubric of a Sustainable Work System (SWS) model. SWS was a comprehensive organisational change management / transformation agenda, which incorporated a number of key elements: Lean, partnership, staff involvement and effective engagement, including in change management processes. The ‘best practice’ approach was also a major aspect of the PSA SWS model. Note that Lean alone, or Lean Lite, the “watered down”, partial version of Lean, were not accepted by the PSA as a sufficient condition for the creation of high-performing workplaces. Interventions had to be strongly associated with a comprehensive SWS approach. More recently, the PSA has consolidated its thinking around workplace change in Transforming the Workplace, to which we return below.

The PSA SWS model is captured in the following diagram:



As might be expected, the PSA generally anticipate that a centre-left government will be more attuned to partnership-style engagement with SWS and similar initiatives. However, it is also able to see some possibility of progress under centre-right governments, as in the case of the 2011 Better Public Services Report. Hence, whilst its contemporary thinking is orientated in part to the prospect of a change of government in the 2014 general election, it has also seen positive elements in reports produced by the current centre-right government (such as the 2011 Better Public Services report see below).

The PSA has recently developed a comprehensive framework for change in the core public sector (whilst recognising similar needs in, for example, health, local government and community services). The twin key themes of the “agenda for change” are, first, state sector reform on a first principles basis, and, second, the establishment of the state sector as “an exemplar of good employment and employment relations practices”. The agenda marks the PSA as, in contemporary parlance, a “modern” union, that is, to use classical employment relations terms, a union prepared to adopt an integrative (or positive sum) bargaining approach rather than a traditional distributional approach. That said, it is also the case that the PSA understands the importance of, and is committed to, independent worker voice in the creation and management of constructive and mutually respectful working relationships¹. The PSA has arrived at its strategic vision for the state sector as a result of robust internal debate, in which the principles of engagement are subject to regular appraisal and contestation. It is fair to describe the contemporary PSA view as mature, an effect of over 15 years of development.

The current context, especially since the 2008 election, has added urgency to the PSA’s strategic positioning. The incoming government adopted a “more for less” approach to the public sector, arguing that the sector is inefficient, over-staffed and not focused sufficiently on delivery. The intention or claim has been to maintain service provision whilst improving efficiency. The PSA has identified over 500 discrete restructuring “events” since 2008, involving at least 5000 job losses. “Creeping” restructuring has been accompanied by a rhetoric of criticism of public sector

¹ At the time of writing (mid-2014), the prospect of major strike activity in the health sector, led by the PSA, indicates the willingness of the PSA to act firmly as a trade union, representing members’ legitimate demands, when the need arises.

performance, perhaps most starkly seen in the fraught attempts to restructure the Ministry of Foreign Affairs and Trade (MFAT) from 2012. This wave of restructuring takes place against the longer term shifts in circumstances in the public sector in which, for example, the impact of MMP has been to change public servant behaviour. Palmer (2013) describes the erosion of the “free and frank advice” practices of a previous age, and their replacement by “far too much second guessing by public servants of the political incentives on Ministers – and too much pulling of punches in the provision of advice” (ibid: 45). He also notes pointedly, first, the rise to the top of ministries of the managerially-capable rather than the policy-savvy and, second, the threat of politicisation of the public service.

Also, there are the current policy settings for the public service – captured in the government’s Better Public Services strategy – which include emphasis on results rather than outputs, cross-departmental cooperation, improved efficiency and capability, better advice and analysis, improved departmental leadership and a new Performance Improvement Framework. Such expectations may not sit easily in an environment marked by instability and criticism.

In sum, the public service in New Zealand faces short term restructuring and job loss in a longer term environment of change and uncertainty. It is in this challenging context in which the PSA seeks to promote its agenda for change.

Initiative One: State Sector Reform

The PSA argues that there is a need for a “first principles” restructuring of state sector management. This is needed for both practical and philosophical reasons. Practically, the PSA, in line with other contemporary reports on state sector performance, observes a state sector which is fragmented, unable to solve intractable problems, slow to innovate, and performing poorly in terms of leadership and response to change. In philosophical terms, the rationale for the 1980s reforms – neo-liberalism – is outmoded and out of step with the challenges facing the contemporary public sector.

There is evidence to support the practical concerns. The 2001 Review of the Centre and the 2011 Better Public Services make similar points. The PSA has argued that such failings are an effect of the framework imposed in the 1980s, a framework that is unable to provide adequate and effective responses. The PSA notes calls that have been made (especially by Sir Geoffrey Palmer) for a Royal Commission to investigate the challenges facing the state sector². The implication to be drawn here is that there is a groundswell of concern that state sector performance cannot improve under the existing framework. Moreover, it is not a question of returning to some pre-existent model of state sector arrangements but, instead, there is a need for an open-minded consideration of new structural and legislative arrangements which, in turn, will deliver a state services system that is adaptable and responsive. The PSA emphasises the need for new state sector legislation particularly if there is to be improved cross-agency collaboration, improved leadership and, also improved accountabilities.

The proposed re-think of the framework under which the state sector operates includes a number of related considerations. Improved accountabilities for chief executives and the state sector in relation to the Treaty of Waitangi are needed. Staffing caps should be discontinued, and improved investment in the public service is needed (to avoid problems such as, for example, those seen in Education

² The Labour party has included a proposal for a Royal Commission on the public sector in its 2014 election manifesto.

around Novopay, or those which have emerged in the Conservation Estate)³. The current government's heralded but markedly underperforming privatisation campaign should be halted, as should the untested and ideologically-driven experiments with public-private partnerships. The ethos of public service should return to a focus on delivery to the public, and not on a politicised delivery to ministers. The PSA offers a possible but-still-to-be fully-scoped way forward to support a renewed ethos of public service in the guise of Charter of State Servants' Rights⁴ (a specific antidote to managerialist codes of conduct introduced by the SSC). The purpose of the charter would be to uphold the provision of free and frank advice, to establish the right of public servants to respect and dignity in work, and to recognise public servants' rights to be active citizens in a democracy (within the constraints imposed by a professional need to maintain political neutrality). A recent much-criticised report on leaks from MFAT adds a particular piquancy to this last purpose⁵.

In sum, the PSA is recommending a significant re-casting of both the framework and expectations that govern public servants' activities and the organisations in which they work.

Initiative Two: The State as Exemplar Employer

If the PSA desires a comprehensive reform of the framework under which the state sector operates, its expectations on the human capability and organisational performance fronts are no less demanding. It proposes a range of revised or new measures to allow the largest employer in New Zealand to lead by example in the creation of a high-performance culture.

In law, state sector employers are required to be "good employers" and, broadly, this is the case. More can be done on this front, argues the PSA, particularly in terms of accountabilities for, and monitoring and reporting of, good employer and good faith behaviours.

Good employer behaviour is, suggests the PSA, compromised by a pervasive managerialism throughout the public service. "Command and control" management styles, a "right to manage" mentality, and a cult of (senior) leadership are rife across the sector. Lost in this package are the positive workplace arrangements that promote improved organisational performance and productivity, better workplace cultures, and high-trust relationships. The HRM approach adopted is too often an apeing of the corporate sector, unsuited to the requirements and expectations of the public service. Good employer behaviours in the state sector demand improved and changed leadership performance and also a commitment to high-trust practices, supported by appropriate training and development provision. In related recommendations, the PSA is promoting change management practices in the public sector, which reduce or remove the contemporary focus on redundancy and job loss, and replaces it with a focus on employment security, tied to retention and/or redeployment of skills, and improved career structures. In turn, this leads to a desire to see greater emphasis on proactive workplace learning in order to address concerns such as skill

³ Novopay is a controversial salary payment system for teachers in the public system. It has failed consistently and its improvement has required major unanticipated expenditure, and the handing-over of the system from the private sector to public sector management. In the case of the Conservation Estate, underfunding and poor management have been blamed for a decline in conservation performance.

⁴ A title still in development.

⁵ The report relates to an investigation of leaks from MFAT in relation to its restructuring, and led to naming of senior officials in a manner widely regarded as both improper and inaccurate.

shortages, improved career development, adequate capabilities and competencies, and organisational resilience in HR.

High-trust arrangements require high-trust, productive and innovative workplaces. As noted above, the PSA has been at the forefront of the high-performance debate in New Zealand for two decades, and seeks to take this approach further in the state sector. However, they notably couch their approach to workplace reform in terms of a recognition that people want more value to be achieved from constrained public spending. Hence, high performing workplaces provide two related sets of advantages – far better environments in which to work for public servants, and important opportunities to promote productivity and innovation in a constrained financial environment. For members, high-performing workplaces will offer substantive employee engagement and voice, higher levels of autonomy, improved staff retention and employment security and, overall, improved workplace cultures. The PSA is firm that the union – autonomous, organised, progressive – is critical to high performance success in the sector, and that many managers, currently not on board with this idea, will have to understand this to be the case. The PSA also sees greater opportunity to bring government and the PSA together to investigate innovation in the public sector.

The PSA also identifies a pressing need for a new bargaining framework in the state sector. A particular target in the PSA's sights is the fragmentation of bargaining and outcomes across government agencies, and the effect of the enterprise bargaining model. The PSA recognises that the Partnerships for Quality agreements set in place between 1999 and 2008 failed to address this challenge and now argues for the creation of MECAs (multi-employer collective agreements) as the way to achieve common terms and conditions. An added impact of cross-departmental outcomes would be efficiencies gained in bargaining (for example, in relation to salary survey data). Finally, the PSA recognises that the Council of Trade Unions (CTU) and the Labour Party are considering major changes in the ER legislation, which, if implemented following a change in government, would make industry-wide arrangements far easier to achieve.

One effect of new bargaining arrangements might be a mechanism to address increasingly disadvantageous pay outcomes (relative to the private sector) and the difficulties associated with problematic performance-based pay systems. Another pressing issue for the PSA is pay equity. Noting that the public service gender pay gap is 14.2 per cent, and that some departments encompass gaps of up to 40 per cent, the union argues for comprehensive measures in legislation to address these discrepancies.

Finally, the PSA is keen to see effective tripartite arrangements set in place to address health and safety (H&S) issues in the sector, not only in terms of new national H&S arrangements, but also to respond to particular issues that arise in the sector, such as stress deriving from restructuring, casualisation and uncertainty, the risk of violence from clients, and bullying.

Discussion

The PSA is clear that its agenda for change is unlikely to be achieved under centre-right governments. Although not affiliated with any party or tradition, it is anticipated that a centre-left government would be more likely to respond favourably to the agenda. In other words, the politicisation of public sector policy remains deeply embedded in New Zealand as an effect of NPM and its local history.

However, the “branding” of the agenda is important. The PSA has moved away from a simple demand for better resources and more funding. It has, in many ways, turned that traditional argument

on its head, downplaying considerably (but not totally) any expectation of increased funding. Rather, it has driven the agenda from the perspective of improved services and efficiency, arguing that its prescriptions will not only drive improved performance but also create better working conditions for members. This is a mature (and radical) argument for engagement and high performance, in which the PSA, whilst protecting autonomy and voice, also claims (partial) ownership of the sector and its workplaces, with all such ownership's accountabilities and responsibilities. The traditional union call – “it is the manager's job to manage” – has been replaced by a call for joint regulation considerably beyond narrowly-defined wages and conditions.

The maturity of this argument reflects the long experience and discussion in the PSA around high-performance and the impacts of NPM. It also reflects a confidence in the union, based in part on that experience, in part on size and growth, in part on membership mobilisation, and in part on its leadership. Few unions in New Zealand could or would make the analytical leap from traditional “distributional arrangements” to such a mature “integrative” model.

The leap is not without questioning. The PSA has a strong, active membership, which subjects union strategy to careful scrutiny. The “engagement” model must sustain membership support to prosper. At the strategic level, the PSA leadership has consistently maintained the view that only a strong, independent worker voice can become legitimately engaged in joint regulation, establishing a clear bottom line for union involvement in reform of the sector. There is no sense in which the PSA is a supplicant in the debates around public sector reform, and there remains a willingness to couple engagement with traditional union action where and when needed.

The short-term future for the PSA's strategic approach depends on election results in 2014. A left-leaning government will provide a fertile environment for change. A victory for the existing government promises further restructuring in the “more for less” guise. However, the PSA is unlikely to resile from its strategic approach in the near future, not only because of its commitment to reform, but also because of its recognition that reform is in the interests of members and nation.

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