
PERFORMANCE IMPROVEMENT FRAMEWORK

Core Guide 3: Getting to Great; Lead Reviewer insights from the Performance Improvement Framework

April 2013

State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet

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Lead Reviewers' acknowledgement

We are grateful for the contribution made by our colleague Lead Reviewers and the senior leaders across the State Services who have engaged collectively and positively in the reviews to date.

We also appreciate the very helpful comments that other Lead Reviewers and the State Services Commission made on an earlier draft of this Report. While the final judgements are ours, all of their contributions added materially to the finished product. We also acknowledge the input of Kevin Guerin and Deborah Te Kawa, whose analysis of the Performance Improvement Framework (PIF) ratings data since published by Victoria University assisted us greatly.

In particular, we want to make special mention of the chief executives who have engaged in PIF Reviews. For even the most seasoned leader, guiding public institutions through the current uncharted waters is an immensely challenging, and lonely, task. Without fail, each chief executive who has completed a PIF Review has been willing to admit they have to try new things. It takes a sense of self-confidence and courage to do things differently, let alone chart agencies through these times. We would be remiss not to acknowledge them.

Debbie Francis

Lead Reviewer

Dr Murray Horn

Lead Reviewer

Performance Improvement Framework guidance series

The Performance Improvement Framework (PIF) guidance series replaces the 2009 release. It reflects developments in the suite of PIF products and services. As with any good performance improvement tool, PIF will continue to improve to meet the needs of Ministers, the public, chief executives, senior leaders and agencies in the wider State Services.

Performance Improvement Framework

High-level : PIF Agency Model	Lead Questions : PIF Agency Model	Six Dimensions of System Performance
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Core guides

Core Guide 1:	Core Guide 2:	Core Guide 3:
Understanding the Performance Improvement Framework Agency Model	Using the Performance Improvement Framework Agency Model to complete a Self-review	Getting to Great; Lead Reviewer insights from the Performance Improvement Framework

Other resources

Fact Sheet 1:	Fact Sheet 2:	Fact Sheet 3:	Fact Sheet 4:	Fact Sheet 5:
Introducing the Performance Improvement Framework	Introducing the Performance Improvement Framework Review, Follow-up Review and Self-review	How does the Performance Improvement Framework fit with other business improvement tools?	What is the Four-year Excellence Horizon?	What are the Performance Improvement Framework system-level ratings, findings and the Six Dimensions of System Performance?

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“The success of this Government, and thus the success of our Nation, depends in the last analysis upon the quality of our career services.”

“Government service must be attractive enough to lure our most talented people. It must be challenging enough to call forth our greatest efforts. It must be interesting enough to retain their services. It must be satisfying enough to inspire single-minded loyalty and dedication. It must be important enough to each individual to call forth reserves of energy and enthusiasm.”

John F Kennedy

Purpose

The purpose of this Report is to identify good practice from the 21 individual Performance Improvement Framework (PIF) Reviews completed since the PIF was piloted in 2009. The approach aims to draw practical lessons from insights the Lead Reviewers have made about individual agencies they have reviewed. Our public institutions hold themselves to high standards of integrity and have from time to time and from case to case demonstrated superior performance. In writing this Report we aim to provide useful guidance to all those who want to make superior performance common and enduring.

Executive summary

Our key conclusion is that while many of our public institutions are adept at managing immediate issues, transactional stakeholder relationships and the priorities of governments of the day, they tend to be less successful in building strong and enduring public institutions whose purpose and roles are clear and whose core business effectiveness and efficiency are as strong as their ability to manage issues and events.

New Zealand already has good public institutions. Building great public institutions will require ambition and confidence on the part of all players in the State Services: agency officials, central agency officials and Ministers. Officials should not need permission to build great public institutions. Providing Ministers with free and frank advice, building capability for the future and delivering effective and efficient public services is an obligation that comes with their positions.

What does it take to build institutions capable of sustained superior performance? Our reading of the PIF Reviews suggests that the best institutions:

- a Are clear about their purpose; know how they can add most value to New Zealand now and in the future; and are clear about their strategy for delivering that value.
 - *The best agencies articulate a clear organisational purpose and goals that drive their priorities and motivate their people and their partners. Their strategy is aligned to deliver the desired future outcomes and their operating model is designed to deliver those outcomes in the best way. This dimension is absolutely fundamental to achieving and sustaining superior performance and yet it is typically the one that requires the most work. Too many agencies are focused on where they are at and what they need to do next, rather than where they need to go and how to get there.*
- b Enjoy strong internal leadership that can attract talented people and inspire them to dedicate themselves to working with integrity to deliver the outcomes that the agency has identified as mattering most to New Zealand.
 - *Talent is attracted to public service and the best organisations develop and manage that talent to deliver the results that matter most. However, too many of our agencies rely too heavily on the talent and commitment of individuals rather than adding value to the individuals they attract. They cannot harness this talent and commitment to the goals of the agencies, so staff work to their own view of what the agencies should be doing and whose interests the agencies should be serving.*
- c Invest in talent by providing challenging, interesting and important work to do, while also managing poor performers to either improve or to exit.
 - *Superior agencies focus effort where it matters most, set high standards, delegate authority and then help people achieve the agency's goals.*

- *Management manages: it accepts it has an obligation to the community and better performers and to poor performers to address poor performance. It also invests in developing skills the agency needs, rather than simply responding to what staff may want.*
- d Enlist the active support of all those outside of the agency who are necessary to the agency delivering the most it can for New Zealand.
- *Success requires productive engagement amongst Ministers and between Ministers and officials and real partnerships amongst individual agencies, between them and the central agencies, and between public and private sectors. The best agencies understand what others are trying to achieve and how others can help and then work to align others' interests to deliver the desired results. The relationships formed by poorer performers tend to be overly transactional; often defensive; focused on activity rather than results; and driven by narrow rather than broad community interest.*
- e Demonstrate they value learning, innovation and continuous improvement.
- *The best agencies expect and support ongoing improvement and adaption through measurement, testing and review. Too many of the others largely ignore this dynamic element of performance.*
- f Engage corporate support areas like finance, information technology (IT), organisational development, strategy, risk and human resources (HR) units as business partners.
- *The best agencies develop and use information and analysis to support decision-making to add value and manage risk. The others avoid risk rather than manage it. They also see corporate functions as overhead that exists largely to pay the bills, meet compliance requirements and, at worst, keep monitoring entities off their backs.*

Sustained superior performance requires getting the above things right. Once they are right, efficiency and effectiveness will follow. Efforts to improve value for money should be focused here, rather than focusing on expenditure reviews that leave many agencies doing the same things in the same ways with less money and to less effect, which often means initial savings are not sustained.

Superior performance may be more likely when outcomes are easier to measure and when there is a well understood link between actions and outcomes. This may lead some to assume that operational agencies, eg, the Inland Revenue Department (Inland Revenue), Department of Corrections (Corrections) and New Zealand Customs Service (Customs), are more likely to be exemplars than ministries like the Ministry of Education (Education) and the Ministry of Justice (Justice) that have policy and sector leadership roles. While we observe this pattern today, it has not always been the case and need not be the case. Some policy agencies have had a reputation of exemplary practice at different times and some operational agencies that are currently doing well have not always done so. However, all of our public institutions should be able to meet standards of good practice in each of the six dimensions listed above. They should all be able to become great institutions.

Our approach

The individual elements of PIF have been grouped into six thematic dimensions: results, strategy and role, internal leadership, working with others, improving delivery and finance and resources. See Appendix B for a fuller explanation of the Six Dimensions of System Performance.

Each of these dimensions has been examined to draw conclusions that are illustrated with examples of good practice. Throughout this Report we have identified why each dimension is important and the drivers behind the conclusions we have drawn. We have also identified those agencies that exemplify good practice and what these agencies do that makes them exemplary.

The 21 PIF Reviews we have drawn on were completed between 2010 and 2012. Each of these reflects the judgements of the Lead Reviewers based on information gleaned from documents and from interviews with management, staff and key stakeholders, including Ministers and central agency officials. A PIF Review is typically conducted and substantially completed over two to three weeks. The value of PIF comes from the insights of the Lead Reviewers and the quality of their engagement with the agency's management and the other people interviewed.

We have used the summary traffic lights from each review to conduct some simple quantitative analyses to understand what these data might tell us. This is described in Appendix A and referenced throughout this Report. However, these data are of limited value on their own. The simplification and aggregation required to identify relationships amongst different elements discards a lot of useful information. Indeed, it is often the outliers that tell us the most. We have relied more heavily on our experience as Lead Reviewers and the insights in the Lead Reviewers' commentaries.

The ability to draw useful system-level findings requires sufficient comparability amongst agencies and over time. The PIF Agency Model is continually evolving and latter reviews have put more weight on an agency's ability to deliver improved outcomes for New Zealand over a four-year 'horizon', rather than on current performance. Moreover, because standards are refined as they are applied, the first few reviews were inevitably more variable than the latter ones. Indeed, the introduction of a Lead Reviewers' panel was introduced to help ensure greater comparability in the standards applied by different reviewers before final judgements were made. This means we have had to apply more judgement to our assessment of the comparability of the earlier reviews in identifying useful lessons at the system level.

Our conclusions reflect the judgements we have made. It is inevitable that we will place more emphasis on those reviews where we have the greatest insight (eg, because we were the Lead Reviewers; members of the relevant Lead Reviewers panel and/or our knowledge of the agency helps in our reading of the relevant review). We have also had to make

judgements about the degree of comparability of the earlier reviews with the latter ones. While this should not detract from the importance of the bigger themes we have identified, there may be some useful lessons in some of the earlier reviews that we may have missed. Having said that, the review of Inland Revenue was one of the earlier reviews where we had little direct exposure and yet were able to draw useful conclusions from the final PIF Review document.

While other Lead Reviewers might use different examples to illustrate a point or may identify lessons we may have missed, our testing of our penultimate draft with our colleagues suggests a wide measure of agreement with the system-level observations we have made from the PIF Reviews to date.

The Results dimension

Description

Performance on results is assessed across three elements (with the proportion Strong or Well placed in brackets):

- a Government Priorities (72%)
- b Core Business Effectiveness (62%)
- c Core Business Efficiency (52%).

Effectiveness is an assessment of the extent to which the agency's core business delivers the intended results, like quality public services, while efficiency looks at the extent to which these results are delivered for least cost. The core business effectiveness element has been most influenced by the greater focus in the latter reviews on how agencies can add most value to New Zealand over a four-year horizon. It is fair to say the latter reviews have been more demanding than the initial reviews (eg, it is no longer good enough to simply respond well to current pressures).

Why is this important?

The legitimacy of public institutions rests on their ability to demonstrate high levels of integrity and performance. The public and their political representatives need to be confident that public ownership, funding, provision and regulation of activity are adding most value while minimising costs. Making a positive difference should also help attract, retain and motivate the right people to work in the public sector.

Headline findings

While stronger ratings on organisational management or capability, dimensions tend to be positively associated with stronger ratings on the results dimension, there is a lot of variability amongst agencies (see Appendix A). Some agencies are rated more strongly on results than the rating of their capability would imply (eg, Ministry of Foreign Affairs and Trade ((MFAT)) has the biggest positive gap between its results and capability ratings). Others would be expected to produce better results for the capability they have.

There is a stronger relationship between results and the Purpose, Vision and Strategy element of capability, which we see as a particularly critical element of organisational management.

Delivery against Government Priorities is stronger than the Effectiveness of Core Business, which is itself stronger than the Efficiency of Core Business. Agencies are better at managing issues and keeping their Ministers happy than they are at building core institutional capability that adds substantial and enduring value to New Zealand. These relative strengths are well reflected in the more detailed elements of organisational capability. For example,

Engagement with the Minister(s) is typically very strong, while Improving Efficiency and Effectiveness is typically very weak.

While more impressionistic, it is unsurprising that agencies tend to score better on results when they are clear about the goals they are trying to achieve, eg, when these can be expressed as targets, assess progress towards those results, such as using comparative performance data, and align their operating models and other elements of organisational capability toward delivering those results.

Why these findings?

'Outperforming' Capability:

Why do some agencies deliver better results than ratings of organisational capability would suggest and does this tell us something about exemplary performance?

MFAT was the most extreme example of this gap between capability and results. While the review was conducted over two years ago, it found talented individuals were attracted to the agency by the prospect of interesting and varied professional careers, including offshore postings, and were motivated by their sense of what is important to advance New Zealand's interests in the world. The PIF noted that, "Too much of the success it has enjoyed is reliant on the performance of talented individuals, with not enough value added by organisational systems and management. The impression is that talented staff perform well despite the system".

MFAT had a comparatively large number of Government Priorities and talented individuals who could manage issues and events much easier than they could manage agency performance. Moreover, the two weakest performance areas were ones where reliance on talented individuals was problematic: ie, working effectively with other government agencies onshore and the overseas aid programme. Aid officials performed well when their motivations were aligned to the Government's aid mandate but did not work well when this alignment broke down: ie, as the focus shifted from poverty alleviation to economic development more tightly focused on New Zealand's interests.

These observations have much wider application than MFAT alone. The idea of public service is attractive. People are attracted to different branches of the service in part because they are naturally motivated by the job, for example, policing, conservation and border protection are as attractive to many people as a career in the church is to others. Indeed, we are struck by how widespread and powerful this natural sense of mission seems to be.

On the other hand, the State Services tends to underperform against private sector benchmarks on staff engagement, with some staff highly engaged with the job at the same time as they are highly disengaged with their agencies.

Results dimension

Our conclusion is that staff are engaged with what they see as the purpose and mission of their agency but are disengaged with the agency itself and often see the system as getting in the way of what they think needs to be done. This can create serious problems when the views of individuals are not well aligned to the purpose of the agency or to what the Government wants to achieve. Great agencies secure this alignment: especially through the Strategy and Role and Internal Leadership dimensions.

Government Priorities:

Agencies are typically strongest at reacting to the well defined and shorter-term results that are specified by their Ministers (so agencies are Strong or Well placed on 72% of these result areas). The weaker performances are in areas that require effective cross-agency leadership or coordination; executing new initiatives or large transformation programmes; and improving efficiency or value for money. This correlates well with the outcomes for organisational management, where agencies are relatively weak on sector contribution and improving efficiency and effectiveness. There is no obvious pattern by agency size and type. For example, ministries are well represented in both the top and bottom quartiles.

Core Business Effectiveness:

Operational agencies, like Inland Revenue, New Zealand Police (Police) and Corrections, tend to be more effective at their core businesses than the ministries with policy and sector leadership roles; with Education, the Ministry of Pacific Island Affairs (Pacific Island Affairs), the Ministry of Economic Development (MED), Justice, and Defence all in the bottom quartile (although the Ministry of Social Development (MSD) and MFAT were more highly rated).

These operational agencies that are more effective achieve this in part because they are clear about their purpose and have well defined goals aligned to that purpose. This has been the result of deliberate effort to identify the right goals. Police has actively reshaped its community protection role to be more about crime prevention. Corrections has recently expanded its goal to include reducing reoffending and improving public safety alongside its ongoing focus on sentence compliance. Both have adopted clear and challenging targets in part because they want to signal they need to change their approach.

On the other hand, the leadership and direction elements were amongst the weakest in the Justice PIF, which suggested that “Refreshing the Ministry’s purpose, vision and strategy is fundamental to successfully addressing the issues raised in this review”. One of the problems Justice had is that it had defaulted to a narrow view of its purpose by assuming that the key elements of judicial quality, like timeliness, were largely beyond the Ministry’s influence (especially when acting in partnership with others).

Effectiveness is also stronger where agencies have business and operating models that are well aligned with their purpose and goals. Even inside Corrections the operating model for the Community Probation Service is better aligned with the reduced reoffending goal than the Prison's operating model, and rehabilitation better developed than reintegration (where Corrections needs to enlist a wider set of external providers and everyone has a weaker understanding of 'what works'. This is an element of performance that is underdeveloped in the current PIF Agency Model.

Looking at individual areas of core business, the strongest performance tends to be from operational agencies in operational areas, like emergency response, and the weakest performance from ministries in the policy advice, sector leadership, including sector performance, and Crown entity monitoring areas of their core business, although there are exceptions, for example, Justice is well placed on sector leadership.

Core Business Efficiency:

Core Business Efficiency is the weakest result area, with only half of the core business areas rated Strong or Well placed on efficiency. The large number of Unable to Rate ratings in the earlier reviews was a response to a lack of evidence on efficiency; something that is since reflected in a Needing development rating at best.

Agencies rate better when they have good measures of relative efficiency, such as relative to public and/or private sector comparators, and can demonstrate they are managing to improve efficiency, eg, understand and manage their unit costs; actively consider outsourcing; have well managed procurement programmes. All of that requires investment in collecting and analysing relevant data.

Typically the more operational core businesses find it easier to demonstrate efficiency and the ministries relatively more difficult. Although this is not as marked for efficiency as it is for effectiveness.

Comment: Essence of great practice

The best performing agencies to date have been Corrections, Police, Inland Revenue, Customs and the Education Review Office (ERO). These are all areas where the role of the Government is reasonably clear. These agencies also typically have a clearly defined purpose and relatively well defined goals that are motivating, unifying and discriminating, ie, in defining direction, setting priorities and enlisting the support of others. Moreover, these agencies do best in those areas where the operating model required to support the results is well defined and where it is clear what needs to be done to achieve the results. Discovering 'what works' may require an investment in research and analysis, as well as a willingness to question existing practice, try new things and review the effectiveness of different approaches.

Results dimension

The importance of clearly defined goals is well illustrated in the case of the District Health Boards where goals are expressed as six numerical health targets. Government has extended this approach with its ten result areas, now expressed as targets, known as the Better Public Services: Results for New Zealanders.

The introduction of the Performance Challenge and Four-Year Excellence Horizon to the PIF has given more emphasis to assessing the core business effectiveness of agencies against the longer-term challenges they need to meet. These often require a deeper understanding of the enduring value the agency can add to New Zealand. For example, that reducing the cost of, and reducing delays to, accessing justice and improving its predictability, while continuing to ensure that decisions are correct according to law, are enduring areas of value that the Ministry of Justice should be looking to help add through its core business, in addition to specific Government Priorities.

Agencies should be able to identify the areas where they can add most value and express the goals for each area in ways that size the gap between the desired current and future states. Identifying areas of significant value add will mean adopting challenging targets, like Corrections' 25% reduction in reoffending, that provide real clarity and motivation to their people – and the people they need to collaborate with to achieve those goals. A clear and challenging goal accepted as legitimate can help unify an agency and a sector and makes it a lot easier to identify priorities. It will also make it easier to align incentives, structures, processes and capacity investments behind the goal.

The other interesting exemplars are those agencies that 'buck the trend'. For example, Justice is well placed on sector leadership and support while most of the other large ministries do not perform well on this element. The Justice sector has come together to better manage the criminal justice pipeline within a fixed collective budget envelope: with three clear sector priorities; a leadership board to facilitate sector decision-making; and supporting ministerial arrangements. This underscores the importance of a clear unifying rationale at the sector level, where the sector benefit is more than simply the sum of the benefits that could be generated by the individual agencies acting independently.

The Strategy and Role dimension

Description

The Strategy and Role dimension includes the organisational management sections relating to:

- a Purpose, Vision and Strategy, which is about an agency clearly articulating a future direction to staff and stakeholders that is consistent with its purpose and adds the most value to New Zealand. Here, 33% of the 21 agencies reviewed rated Strong or Well placed, with only five rated as Strong
- b Structure, Roles and Responsibilities is about designing an operating model that will deliver the strategy efficiently, which then defines structure, roles and responsibilities. Thirty-eight percent of the agencies reviewed scored Strong or Well placed in this element
- c Engagement with Minister(s), which tests the quality of advice and service the agency provides to its Ministers and the wider government. Here, by contrast, 81% of agencies have green ratings (green equals Well placed plus Strong assessment).

Why is this important?

In this cluster of elements we expect to see that agencies have a clear and shared sense of institutional purpose and direction, which is sufficiently distilled and simple to be motivating to staff and partners, unifying, and discriminating, so that priorities are clear. Given the Four-year Excellence Horizon for the PIF Review, a strong agency will also be considering and planning for possible changes in its strategy and role to better meet the medium-term challenges it faces.

Having a clear sense of agency Purpose, Vision and Strategy helps to:

- a Simplify a complex operating environment and competing demands around a compelling organising idea
- b Define a desirable future state and thus the definition of what success will look like
- c Motivate existing staff and attract the right people to the agency
- d Unify and coordinate the agency; its various business units, services and activities
- e Prioritise the key initiatives and activities that will make the most difference to securing the defined outcomes and provide permission to trade off and de-prioritise others
- f Make the articulation of intervention logic easier at agency, sector and system levels.

Strategy and Role dimension

Getting the Purpose, Vision and Strategy element right is, therefore, important in enabling agencies to get the other elements of organisational capability right. Indeed, agencies that score well or badly on this element also tend to score well or badly on those elements critical to building a strong institution (see Appendix A for more detail). For example, 17 of the 21 agencies examined share a common rating either Well placed/Strong or Needing development/Weak in both this element and the Leadership and Governance element, with a similarly strong match with elements like Leadership and Workforce Development; Values, Behaviour and Culture; and Structure, Roles and Responsibilities.

Moreover, the exceptions do not detract from this overall conclusion: while a popular or forceful leader can score well on leadership without a clear purpose, this is not a source of enduring institutional strength.

Structure, Roles and Responsibilities should be derived from an operating model that is designed to deliver the strategy efficiently. Organisational structure, systems and processes should be a matter of conscious design as opposed to historical accident. Well performing agencies will ensure there is a clear cascade of responsibilities and accountabilities throughout the agency and sector and that these are tightly linked to strategy.

A good relationship with Ministers is important because they make the decisions and are critical in securing the support required to make an enduring difference for New Zealand. Good decisions are based on sound advice grounded in an understanding of the Government's goals and preferences, as well as an understanding of 'what works' and how best to get things done. A good relationship is proactive and helps Ministers refine their goals and preferences in ways that expand their options, identify the right priorities and mitigate risks.

A good relationship is about getting the right things done in the right way. This will be attractive to the agency's people and all the other stakeholders that the agency needs to work with. A good relationship with Ministers is not about seeking permission and waiting to do as you are told.

Headline findings

Purpose, Vision and Strategy:

Agency reviews to date have shown that there is scope for considerable improvement in:

- a The definition of agency purpose (why the agency exists)
- b Defining the desirable future state or vision for the future, sizing the gap between that and the current state, articulating the medium- and longer-term challenges the agency has to meet

- c Most frequently, planning, formulation and communication of organisational strategy, how to get to the desired future state, that is unifying, motivating and discriminating. This lack of meaningful long-term strategy results in weak operating model design, poor prioritisation and flawed investment decisions.

When these elements are weak or missing – and this is one of the weakest elements of organisational capability – then most aspects of organisational management will be problematic in some way.

Structure, Roles and Responsibilities:

Organisational structures are often the result of gradual accretion as opposed to careful consideration of how they need to be designed to support the agency's strategy with many agencies suffering from siloed structures, middle management barriers to change and weak accountability and performance regimes.

Structure is necessary, helps focus and reduces the cost of transacting among individuals in the same structure. However, structure creates boundaries which inevitably create problems that need to be addressed by other means, such as good process. For example, the separation of policy from delivery is inevitable to some degree, given that much implementation is actually undertaken outside of the State sector. Moreover, the problems it creates can be as acute inside an agency as it is between agencies or sectors. This is, therefore, best seen as an issue about the 'Working with Others' dimension and is addressed in that section.

Engagement with the Minister(s):

Relations with Ministers are generally respectful and highly responsive, though agencies sometimes focus on the needs of portfolio Ministers rather than seeing the wider government as a client. Poorer grading from Ministers typically reflects a lack of proactivity and medium-term focus and/or an unwelcome surprise.

Why these findings?

Opportunities to improve the formulation and communication of Purpose, Vision and Strategy derive from a cluster of factors that, taken as a whole, go directly to leadership. These factors include:

- a **Mandate:** Agency chief executives and executive teams have obligations to take the initiative on Purpose, Vision and Strategy, especially when they have a sector leadership role. Taking the initiative is a necessary step if executive teams want to transform what an agency does. For example, Police and Corrections have both redefined their purpose and vision to drive a change in strategy. Agencies that have started to step up to their sector leadership roles can be surprised to find that their sector partners are looking for more leadership and want sector leaders to take a more active leadership roles

- b Ability and willingness to ‘dream’:** The formation of strategy is more art than science and entails the imagination of an ideal or aspirational future state. Agencies that do this well ask themselves: ‘what is the greatest contribution we could make to New Zealand?’ For MED, this was about stepping up quickly to its wider economic development mandate. For Justice, it was about leading the wider justice sector and improving the quality of justice and the operational performance of the courts, with a real focus on the public as customer
- c Successful strategy development needs a visceral appeal to the mission ethic of those staff aligned to the agency’s purpose.** There are many instances where staff are highly motivated by their individual sense of their agency’s purpose but rate the agency poorly on shared vision and common purpose. Unless the agency defines its purpose, role and strategy, others will fill the gap. The risk is that people will join the agency for the wrong reasons and the agency will be captured by the agenda of others and/or that individual staff will follow their own views of what the purpose and vision of the agency should be. Good Purpose, Vision and Strategy will unify and motivate an agency. Some agencies have told us that they can’t define a future state; “it’s too political”, “it’s an artificial construct”, “we’ll always evolve”. But staff and stakeholders need something to navigate by, and most are savvy enough to understand that tactical shifts may be required en route
- d Simplicity, specificity and discriminating power:** Agencies sometimes point to a Statement of Intent, output plan, work programme or, sometimes, to a plethora of business unit or sub sector specific strategic plans as statements of Purpose, Vision and Strategy. In the weaker rated agencies these are often complicated lists of initiatives, written in policy speak and are bland and general. They require staff and stakeholders to interpret organisational direction for themselves and provide little guidance to help prioritise between options and investments, ie, they are not discriminating. Being simple is a lot more intellectually and emotionally difficult than being complicated. In the agencies rated Strong we typically see a simple set of distilled strategic goals that regularly guide frontline decision-making and which are sufficiently specific that people know what is important, and people can’t hide from their accountabilities
- e Boldness:** agencies rated Strong are courageous in the way they formulate and express strategy and vision. They hold themselves to unequivocal targets or outcomes rather than being tentative in tone and targets
- f Stakeholder enrolment:** In the well performing agencies, we see purpose, vision and strategy statements that have been developed on a highly collaborative basis with staff and external stakeholders and which explicitly utilise customer feedback as an input. Sometimes, even where strategy is very sound executives have not captured the hearts and minds of the staff. This was the case at the New Zealand Transport Agency (NZTA) when the PIF Review was completed – but is no longer the case, as evidence in the NZTA PIF Follow-up Review shows. It was common in this agency for others to reflect that “the head and shoulders are moving but the body is not”.

There is a strong positive association between the ratings for Purpose, Vision and Strategy and the ratings for Structure, Roles and Responsibilities. Generally, if an agency has no or weakly defined purpose or strategy, the work has not been done on translating this into the most appropriate operating model, including organisation design. If strategy is clear, then so generally is the cascade of accountabilities and performance targets for business units and individual staff in the agency. At MSD, for example, staff have adopted a mental model of a holding company for the agency, in which staff are unified across service lines by common behaviours and a commitment to 'do the right thing for New Zealanders to get a job'.

Interestingly, there is a generally negative association between Purpose, Vision and Strategy and ministerial engagement. Said more sharply, we have some happy Ministers for agencies with weak strategy. This supports our earlier point that agencies are strong on 'where we are now and what we need to do next to keep our Minister(s) happy', but less confident in future-focused thinking; ie, 'this is the best thing we can do to add value to the future of New Zealand and this is how we get there'.

Officials need to build confidence that the benefits from an agency being more ambitious are worth it, and will be realised because change will be well executed, for Ministers to be willing to support ambitious goals. Similarly, officials need to be confident they can count on ongoing ministerial support provided they deliver. This is all a lot easier when Ministers and Cabinet are clear about their longer-term expectations (especially if these are well specified in the Prime Minister's letter of expectations), are well informed about risks and risk mitigation strategies, and not surprised by developments, and predictable in their responses when difficulties arise.

Comment: Essence of great practice

Those agencies that illustrate sound practice in the three elements grouped in this dimension tend to have:

- a Chief executives with a deep understanding of ministerial preferences, needs and risk appetites and not just those of their own Minister
- b Good alignment between portfolio Minister(s) and the wider government
- c Good system-level views of the most effective points of intervention and leverage to secure results
- d Strong, confident leadership, with a compelling organising idea that is sufficiently aspirational to cut through inertia or competing noise that clearly demonstrates how the agency adds value to New Zealand and which captures the hearts as well as the minds of staff and stakeholders
- e A designed approach to operating model, structure and the cascade of accountabilities

Strategy and Role dimension

- f A communications and change management plan based on the strategy, and developed in conjunction with it, rather than as an afterthought
- g Mechanisms for keeping strategy fresh, inclusive and regularly reviewed.

We have seen good practice in the Purpose, Vision and Strategy element from some of the operational agencies, including Police, Customs, MSD, Corrections and ERO. While it might be tempting to deduce that operational agencies make for simpler strategy development, we note that these agencies have a large impact, have suffered past performance challenges and now face significant workforce and fiscal challenges.

In ERO we have an agency that has collaborated widely with its stakeholders to form a new strategy based on learning from prior practice, though this does not yet align optimally with structure and roles. Key stakeholders reported strong alignment with ERO's vision and strategy and see it reflected in its staff's modes of service delivery. It comes as no surprise that the Government has adopted major parts of ERO's strategy as a key policy plank.

In Police, the change programme has a large number of very complex initiatives. While these initiatives need to be streamlined and prioritised into a single implementation plan, they have been unified by a single compelling idea of preventing crime before it happens, which can be easily linked to crime reduction targets. The targets themselves are unequivocal and include a 13% decrease in recorded crime and a 19% reduction in prosecutions. In addition, the executive team does not underestimate the behavioural shift required. Work is under way to ensure line managers with strong operational credibility, who can articulate the desired future state in practical terms, are properly supported. As such, the senior leaders in Police are investing significant time and effort in taking frontline staff and key stakeholders with them. At this point, their success is reflected in the most recent staff engagement surveys.

Corrections' single compelling organising idea, reducing reoffending by 25% while continuing to ensure sentence compliance, is being used to guide a complex change programme. It is bold, aspirational and has major implications for the entire justice sector. Restructuring is currently under way to realign the operating model and organisational design to the more offender-centric model necessary to deliver the strategy.

The Internal Leadership dimension

Description

The Internal Leadership dimension includes all aspects of leadership and people management and comprises the elements of (with the proportion Strong or Well placed in brackets):

- a Leadership and Governance (43%)
- b Values, Behaviour and Culture (33%)
- c Leadership and Workforce Development (38%)
- d Management of People Performance (29%)
- e Engagement with Staff (38%).

Why is this important?

These elements are important because, once agency Purpose, Vision and Strategy are clear:

- a They are the basic determinants of enduring institutional strength, ie, the ability to execute consistently well over a long period. The public should expect a high level of State sector performance and service delivery. The Government will be more willing to tackle the big and difficult issues the more confident it is in the advice it is getting and in the ability of the public sector to deliver its part of any strategy consistently well
- b They also help determine the value that the agency adds, especially to the people attracted to work for it. Strong institutions not only attract and retain talent; they build that talent and make excellent use of it.

Most people join the public service from a strong sense of mission and an often passionate desire to make a positive difference to the lives of New Zealanders. Many of the nation's brightest graduates and best thinkers are attracted by the idea of public service. This is a powerful idea and the talent it attracts is arguably the most important asset in the public sector. This reservoir of talent and passionate commitment has a huge opportunity value, which needs to be fully utilised and developed.

Headline findings

The ratings across all of the elements in this dimension are remarkably poor.

Leadership by agency executive teams is often seen as lacking, staff engagement is lower than desirable in all but three agencies, internal culture is generally not being actively managed and, while there are some examples of good practice in talent management, overall workforce strategy is lacking and the management of poor performers is generally not happening. Performance management regimes tend to be unaligned to purpose and strategy and viewed as compliance tools rather than mechanisms for implementing strategy.

Officials may be managing today's issues and getting on well with their Ministers and key stakeholders, but by and large, the findings suggest they are not building strong institutions. Neither are they making the most of the talented and committed people attracted to public service.

There is not a particularly strong pattern across agency types, other than the cluster of uniformly poor performance across most, if not all, elements amongst large and small Ministries and the Treasury, with the significant exception of a particularly strong set of ratings for Inland Revenue and MSD, and a mixed performance from MED and Defence.

There is some strong positive matching between the elements grouped under this dimension: agencies that have green or red ratings (red ratings are Needing development plus Weak) in one of these are generally so in most or all (see Appendix A for more detail).¹ Moreover, there is also a strong matching between this group of elements and Purpose, Vision and Strategy.² Our hypothesis is that a clear Purpose, Vision and Strategy are an important prerequisite for a strong performance on the Internal Leadership dimension. Moreover, good leadership and governance is a prerequisite for ratings of Strong staff engagement, and good people management will include good workforce development and help underpin strong culture and values.

There are some outlier agencies. This is the case for MED, where people were engaged with their diverse business units, yet the agency needed to act in a stronger and more unified way to make more of its economic development role and the culture and values needed to be better aligned to this role. Defence is a small ministry with a strong leadership personality and a workforce with a high average age. While a strong leadership score can coexist with poor workforce development, in this agency this has created an impending succession problem that a strong institution would not face.

1 A particularly strong positive matching (76%) exists between Leadership and Governance (which refers to direction setting by the executive team) and Engagement with Staff. There is also a strong positive match (76%) between Values, Behaviour and Culture and the Management of People Performance, and between Leadership and Workforce Development and the Management of People Performance (71%).

2 A particularly strong matching exists between Purpose, Vision and Strategy and both Leadership and Governance, Leadership and Workforce Development and Values, Behaviour and Culture. An outlier is Corrections, where vision and strategy are 'green' but staff engagement is 'red'; probably owing to a lag effect from a very recently developed strategy that has not yet gained traction with many frontline officers.

Management of people performance, particularly the management of poor performers, shows only one Strong rating across all agencies. Better performance needs to be more common. Even talented people have backhands that need work, can be mismatched to a job and require good management and development to do their jobs well and progress. This is an area where managers appear consistently weak in practice, though not in theory, as a number of performance management systems are sound but are not being translated into courageous coaching or performance conversations.

Why these findings?

As argued in earlier sections, leaders across the system appear to be effective in delivering on Government Priorities and managing key stakeholder relationships but less effective, and less confident, at building institutional strength and resilience.

A strong public service with strong public agencies is a public good. Ministers recognise the value, although will inevitably be more focused on ensuring that Government Priorities are delivered and will 'work around' weak agencies if required or, worse, modify their ambitions. Indeed, one of the great virtues of an independent public service is that the statutorily independent employer has the ability to require agency chief executives to invest in capability to build strong institutions, and make them accountable.

This is as much about building a strong public service as it is about building individual agencies. The Better Public Services Advisory Group rightly pointed to the need for a stronger 'corporate centre' to strengthen system leadership in part to help 'future proof the system'.

When leaders are strongly focused on building an enduring institution that will attract and retain talent, their tolerance of weaker performers will be low because of the risks to brand and retention of talent. There is then a much stronger premium on ensuring weaker performers are developed, shifted into more suitable roles or managed out. We wonder if the current weakness here is because too many managers view performance management as not nice and as punishing staff; rather than seeing it as something that helps individuals to develop and move forward in their careers. Managing poor performance also has the benefit of motivating other staff who no longer feel the agency makes them carry poor performers.

Requiring leaders to build strong institutions is also likely to require some investment in their ability to deliver on this goal. While strong policy or specialist professional backgrounds are important in chief executives who are also government's chief policy advisors, they are not enough. Chief executives need to know what it takes to build a strong institution and be able to put that in place. Strong management skills, people management skills, with experience of good organisational practice are key elements. It is not enough for a chief executive to be chief policy analyst or chief organisational manager; in the State sector they must do both well and with confidence.

While building strong institutions will initially require focused attention, it is likely to become

Internal Leadership dimension

a self-fulfilling virtuous circle. The more Ministers can rely on quality advice and in the ability of the public service to deliver, the fewer 'work arounds' and the more comfortable they will be to take on the harder issues and support the service in making transformational change. The more the public service is seen to be high performing and making a real difference to New Zealand, the more attractive a period of public service is to the most talented people. This supports higher expectations, a more rewarding experience and the value of public sector experience in a person's career development.

The more we get this right, the less we need rely on talented and committed people making a difference despite the agencies they work in and the more agencies will develop, motivate and utilise this talent to make a difference for New Zealand.

Comment: Essence of great practice

Strong institutions are 'build to last', typically endure at the top of their fields and are widely admired and recognised as defining excellence in that endeavour. The Treasury enjoyed this reputation in the 1980s and early 1990s. Pharmac probably comes closest today, although Pharmac has not completed a PIF Review. All have a clear sense of purpose, often with a powerful set of unifying ideals – like the tenet of public service, take a long view, have a clear business model that delivers value, and those that persist can adapt effectively to changing circumstances.

We need to define institutional leadership on two dimensions: system wide and agency specific. Building a strong public service that attracts and develops talent and puts it to work for the good of New Zealand is a key responsibility of the new corporate centre and the State Services Commission in particular. Indeed, the ideal of public service is a powerful motivator of the right people, and the public service brand a powerful asset for the agencies within it.

Of the 21 agencies reviewed, none are close enough to the strong institution status Ministers and the public have a right to expect. Inland Revenue, and possibly MSD, come closest, with Customs, Police and Corrections starting to meet some of the early conditions for success.

Te Puni Kōkiri (TPK) showed strong internal culture and staff engagement, but poor workforce development and management of poor performers. MSD showed some strong internal values that drove strong staff engagement. Inland Revenue was a reasonably strong performer across the board, with the exception of leadership relating to its transformation programme. ERO demonstrated strong culture, people and workforce management but had work to do on leadership and governance of change. Customs has a strong and distinctive culture to which staff are deeply loyal.

To make further improvements, we need the corporate centre to see building strong institutions as core to its purpose; to require this of individual public service chief executives; and to support them in this endeavour. More of our public sector leaders need to see people management as being at the very heart of institution building, and performance management as an obligation owed to their staff.

The Working with Others dimension

Description

The Working with Others dimension comprises the following elements:

- a Sector Contribution (in which 33% of agencies scored a Strong or Well placed rating)
- b Collaboration and Partnerships with Stakeholders (57%)
- c Experiences of the Public (52%).

Why is this important?

This dimension is important because very few agencies are able to deliver really important results without enlisting the active support of others:

- a Good policy requires an understanding of what is needed to implement well and how affected parties will react
- b Effective delivery typically requires encouraging private and other public providers to be focused on delivering the outcomes that the Government is looking for and to do that for minimum cost
- c More of the outcomes that matter most require effective coordination amongst different agencies: for example, the Better Public Services Advisory Group recommended that the State Services should be less a collection of individual agencies, in pursuit of their singular objectives, and behave more as a system focused on the results that will make the biggest difference to New Zealanders
- d Working effectively with others requires developing effective partnerships that can be used to advance New Zealand's collective interests.

The New Zealand public sector accountability model devolves accountability down vertical lines to chief executives, with more operational autonomy than in many other jurisdictions. While these lines of accountability can be configured a number of ways, every arrangement creates its own organisational boundaries: for example, between policy and delivery; amongst departments; and with the private sector. Enlisting the support of others is not a structural challenge. Nor does it imply a weakening of executive accountability to deliver agency-specific outcomes. Rather, it requires processes that engage the right people in the right way about the right issues and at the right time.

Agencies also need to work at keeping the current and future public of New Zealand in mind because they do not face the commercial discipline of having to meet customer needs to earn the revenue they need to survive. Agencies also need to resist the temptation to see their role as advancing their interests or those of their staff, such as in conservation or

protection or the interests of a particular sector, such as agriculture, business, education or health or of a sub-population, like age-, ethnic- or gender-specific that is the focus of their ministries' attention. They need to regularly test their effectiveness in meeting the public's expectations of integrity, trust and service quality. The impact of not listening well to customers and citizens is, as the report of the Better Public Service Advisory Group notes, two-fold: "less satisfied New Zealanders, and missed opportunities for providing better or existing services at lower cost".

Great institutions recognise their role as part of a wider system and know who they need to enlist to better meet the current and future interests of those who they must serve well to thrive. Great public institutions will align the interests of their institution with those of New Zealand and partner effectively with others to ensure those interests are well served.

Headline findings

With few exceptions, agencies with strong policy and sector leadership functions tend to struggle with their sector leadership roles. Agencies can get along, without really having to resolve differences of view. Moreover, processes are not well enough developed to ensure that policy development takes sufficient account of operational implications. This can occur even when the policy and operational functions are part of the same agency. For example, the Justice PIF emphasised the need for policy development to engage earlier and more effectively with operational staff inside the Ministry (like Courts), as well as judges and the legal profession.

Even some operational agencies – like Conservation, Trade and Enterprise and Crown Law – have room for improvement in Sector Contribution. While part of this will be owing to a lack of policy leadership from the relevant ministry, inter-agency collaboration is often seen as adding little value, as well as being slow and frustrating to an operational agency with its own sense of mission. This was noted, for example, as frustrating the efforts of the Office of Treaty Settlements in the resolution of Treaty of Waitangi claims. It was also a feature of the Trade and Enterprise PIF where the PIF process identified the need for, and resulted in, a strategic process to clarify, agree and operationalise the intervention logic for its activities with the relevant policy agencies (in this case MED, the Treasury and MFAT). Something that all agencies are encouraged to do. Indeed, it is not unusual for Crown entity monitoring to be seen as compliance that adds no value and has little impact on what the operational agency actually does or the choices it needs to make.

While agencies often have strong operational relationships with stakeholders, these tend to be issues-focused and defensive rather than the result of a proactive and systematic effort to identify and develop real partnerships with those they need to enlist to get results. The desired outcome is often more about risk aversion and keeping out of the media, than about long-run partnerships that are innovative and create value for New Zealand. Relationships with stakeholders can be both cordial and frequent, without being particularly productive for New Zealand.

Some agencies do not have a well developed or broad view of the public as customer and little focus on end users, while others have a very systematic and data-driven approach to receiving feedback from customers and using it to inform service improvements.

Why these findings?

We are surprised how often large ministries do not feel confident in their sector leadership mandates or do not feel under any real pressure to deliver on it. Some anticipate resistance from others only to find that people are looking for them to step up. There is a lack of clarity about the leadership role: exactly what it means, where leadership is most needed and how best to deliver on it.

Sector contribution appears to be very dependent on the operating style of individual chief executives and the existence of shared systems or major initiatives that force interdependency. The justice sector is unified by the justice pipeline and a shared budget constraint. The border sector has achieved closer relationships through the Joint Border Management System project. However, there are few systematic or institutional factors that encourage sector collaboration at official or ministerial level, eg, in the chief executive performance expectations or the budget process.

The Sector Contribution element of the PIF Agency Model is currently under review and will be upgraded in 2013, to include expanded lines of enquiry into talent management on a sectoral basis, role clarity in system and sector, and to reward leadership and followership. This change in ethos will also be a key focus of the Head of the State Services.

The gap between policy and operations is more puzzling, especially given the progress that Inland Revenue has made in this area since adopting the Generic Tax Policy Process and the obviously wider applicability of the principles that underpin it. This problem is not a necessary outcome of the structural separation of policy and operational functions nor of a tighter focus on the line accountabilities of chief executives. For example, the relationship between the Treasury and Inland Revenue in establishing and servicing the Tax Working Group is considered a model example of policy agencies working together.

The Lead Reviewers' narratives on the stakeholder element paint a very mixed picture. Most agencies have some very productive and positive stakeholder relationships centred on key agency issues but also demonstrate blind spots with particular stakeholder groups and lack of a systematic approach to stakeholder and sector engagement that is closely reflective of their strategy. Land Information New Zealand (LINZ) has some strong relationships but struggles to define its stakeholders; Maori Development has close relationships with some stakeholders, while others reported a much less collaborative approach. Police and Customs have excellent relationships, but their quality is often overly dependent on individual relationships. Some agencies relate well to stakeholders at the chief executive level (Education, Ministry of Women's Affairs and Pacific Island Affairs) but this is not cascaded through all levels in the agency. Justice has not yet been able to forge a real partnership with the judiciary or to engage the legal profession in the same way that Inland Revenue

Working with Others dimension

has engaged accountants through the Generic Tax Policy Process. Most agencies still seem to be in the very early stages of learning how to partner effectively with private providers, including non-government agencies (NGOs) and non-profit organisations, with too much focus on contracting for activity rather than for results.

Experiences of the Public is another PIF element that Lead Reviewers have had some difficulty in rating agencies and in identifying the most appropriate evidence for good performance. Many reviews have used UMR, CMT or similar surveys as indicators of public trust and confidence in an agency. The more important issue may be the extent to which the agency has segmented its customers and considered the most effective channels through which to provide services to these segments.

This is another area of the PIF Agency Model where standards will be upgraded. Expanded lines of enquiry are again proposed for introduction in 2013, to capture and incentivise surveys that lead to changed service delivery models, such as digital channels.

Comment: Essence of great practice

Good performers in the Sector Contribution element have been MSD (working with other agencies to provide a more joined up service, such as community link centres), Inland Revenue, Justice, and Customs. There are, however, no strong green ratings in this element for any agency reviewed to date. While the Better Public Services Results for New Zealanders will help clarify expectations for key cross-sector results, we would not expect a substantial or widespread lift in performance until the central agencies more actively apply the budget and performance management process to clarify expectations and encourage sector collaboration more broadly.

MSD and ERO score very well on the collaboration with stakeholders. The former has especially strong relationships with NGOs and business sectors and showed flexible responses to the Christchurch earthquakes. ERO has proactively sought to increase its influence through strategic partnerships and joint work programmes, such as those with iwi and kohanga reo.

However, successful partnering with private providers to deliver better results is not well developed and will require real innovation to build both public contracting capacity and private providers' capacity to respond. The emerging experience at Corrections with privately managed prisons is one of the more advanced innovations in partnering for performance.

Strongly rated agencies on the Experiences of the Public element included LINZ in particular for the Land Online initiative and NZTA (with road users and expert users). Inland Revenue was strongly focused on improving customer experiences by means of survey instruments, with many questions to understand the drivers of public perception and satisfaction and also using customer complaints to improve delivery. Statistics New Zealand has a number of major projects under way to improve the customer experience, including a range of innovative tools, such as the use of social media. Police has a structured service improvement programme called Service First, in its fifth year, which now includes a service charter for the public.

The Improving Delivery dimension

Description

Performance on the Improving Delivery dimension is assessed across three elements (with the proportion of Strong or Well placed in brackets):

- a Regulatory Impact (38% overall but 73% for those actually rated) – how well does the agency’s regulatory work achieve its desired impact?
- b Review (52%) – how well does the agency monitor, measure and review its policies, programmes and services to make sure it is delivering its intended results?
- c Improving Efficiency and Effectiveness (24%) – how robust are the processes to test efficiency and make efficiency improvements, and how well does the agency balance cost and quality in service delivery?

This is a mixture of organisational management and results elements. Regulatory impact is an element of core business and is an important result for the handful of agencies that are heavily involved in developing and administering regulation. The Review and Improving Efficiency and Effectiveness elements speak to an agency’s capacity to learn, innovate and continuously improve.

Why is this important?

Regulation is a key intervention government uses to achieve its goals. Regulation works largely because people are happy to abide by rules they see as legitimate, so the way regulation is developed, administered and enforced is fundamental to regulatory effectiveness.

Part of that legitimacy is an acceptance that regulation adds value for the community in excess of the costs that regulations impose. A certain amount of regulation is essential for the development of efficient markets. However, regulation inevitably imposes costs in terms of compliance and unintended consequences. Knowing when and how to regulate is a big part of effective government.

A well developed ability to review and test the efficiency and effectiveness of what an agency does is an important stimulant to innovation and creates a structured way for an agency to learn from its experiences and identify opportunities for continuous improvement.

Headline findings

While these elements are relatively distinct, there is some association between review and efficiency. Moreover, the experience of Inland Revenue, which scored Strong on every element, illustrates the potential connection amongst them. A systematic, analytical, quantitative and evidenced-based approach to managing these elements of performance was here combined with a desire for continuous improvement.

Performance on Regulatory Impact is reasonably good for those agencies that were rated. Review is more mixed and efficiency is the lowest rated of all performance elements in the PIF.

Why these findings?

Regulatory Impact:

The score here is artificially low because only half of the agencies assessed have been rated on this element (largely because at the time of writing this report it is not that relevant for the others and many of the big regulatory agencies have yet to be assessed, such as the Ministry for Primary Industries, Department of Labour, Department of Internal Affairs, Ministry of Transport and Ministry for the Environment). This makes it difficult to draw robust conclusions.

Looking at the 11 agencies that have been rated, eight are either Strong or Well placed: ie, 73%. This is better than the average for the other elements of core business, which only had 57% of assessments in this category.

All of the larger regulatory agencies in the group of 11 were well placed. MED had the relevant functions as core business and was Well placed on achieving a more efficient regulatory environment and Needing development on legislative and regulatory policy and performance.

On this basis, we conclude that performance is reasonably good where it matters most. However, this is not widespread.

Review:

Review is an area where there is some association with Structure, Roles and Responsibilities, Efficiency and Management of People Performance, these are all elements where a systematic, analytical, quantitative and evidenced-based approach is also likely to be useful. Moreover, it is an area that should be an important part of building strong learning institutions, so is likely to suffer from the systemic problems we have noted for the other aspects of institutional strength.

Improving Efficiency and Effectiveness:

Improving Efficiency and Effectiveness is the weakest area of performance of all the elements in the entire framework and is likely to reflect a number of factors. Before the impact of the global financial crisis, the public sector did not seem to be under much financial pressure at all. Even if it was, however, strong performance requires a deep understanding of the business and operating models that support that business. Improving efficiency also requires good performance measures and a culture of continuous improvement that is able to learn from experience. These all seem to be weakly developed capabilities across the State Services, in part because of weak utilisation and leveraging of the finance, information management and asset management functions. These key support functions are typically seen as transactional and need to be seen instead as real business partners.

Comment: Essence of great practice*Regulatory Impact:*

Good practice on regulatory impact needs to go beyond simply revoking regulations and repealing out of date or ineffective legislation. Regulatory objectives need to be clear and the intervention logic that supports these must be carefully developed and well communicated.

The MED PIF highlighted the agency's work on addressing regulatory barriers to export growth as an example of good practice because it had identified a priority area (export growth); engaged with business to identify specific regulatory barriers; and initiated a process of addressing the issues raised, including regulatory barriers in the wider food processing and service export areas.

Inland Revenue was more systematically assessed as Strong in this area because it has a strong end-to-end approach, from policy formulation to managing compliance. It had clearly identified the factors that make a good tax system; provided high quality advice and legislation, including applying the Generic Tax Policy Process that engages practitioners early in the policy development process; developed considerable expertise in rule making "based on a sound understanding of taxpayer behaviour" and applied its highly regarded compliance model. Agencies that have not scored as highly lack the sort of disciplined approach to seeking early practitioner input and in being able to predict the likely response of the regulated to regulatory initiatives.

The Treasury has recently taken a systematic approach across the whole regulatory landscape, identified a number of regulatory 'good practice principles' and assessed the more important areas of regulation against these principles. This provides it with the equivalent of a transparent, benefits-based framework for identifying priorities for action, some of which are starting to be addressed.

Improving Delivery dimension

Review:

Inland Revenue, MED and Statistics New Zealand were assessed as Strong on Review. The key elements of good practice highlighted by these assessments are that a culture of review is embedded so success indicators are well developed (and developed 'at birth' for new activity); regular review is expected and undertaken on the basis of clear priorities; strong evaluation capacity is developed (typically by a dedicated review group); and appropriate action taken on the basis of reviews undertaken (often assessed by Follow-up Reviews). Perhaps the greatest weaknesses occur at the beginning and end of this process, ie, good success measures are not developed in advance and follow-up action is not taken.

Improving Efficiency and Effectiveness:

Inland Revenue was the only agency assessed as Strong on Improving Efficiency and Effectiveness. The key elements of good practice highlighted by this assessment and parts of other assessments are:

- a A value for money framework with good measures of effectiveness and efficiency which show how the components of value for money fit together
- b A clear focus on what the agency is trying to achieve and the development of an operating model, and ongoing business process improvements, that support that goal (including benchmarking business process)
- c A culture of review and continuous improvement, including in business processes
- d Useful, timely and quantitative performance information that is closely linked to the clearly specified outcomes the agency is trying to achieve.

This should be evidenced by ongoing productivity improvements. For example, an ability to take on a substantially higher volume of work without a proportionate increase in funding, as Inland Revenue and the Community Probation Service have been able to do.

The Finance and Resources dimension

Description

The Finance and Resources dimension clusters the elements that relate to the financial management of an agency and its key assets, including IT. Here, 81% of agencies had Strong or Well placed ratings for Financial Management, 67% for Asset Management (which includes management of Crown as well as agency assets), 38% for Risk Management and 24% for Information Management (which includes IT more broadly).

These ratings are flattering, as the Lead Reviewer community recognised the thresholds had been set too low in the initial tranches of review. The previous standard was heavily weighted toward compliance and transactional capability, rather than to the way these functions were being used to support superior agency and sector performance. The central agencies have now agreed to set higher standards, in conjunction with agency chief financial officers (CFOs) and the PIF Advisory Group.

Why is this important?

These functions are important because they should provide the information, intelligence and analysis that forms the basis for decision-making that underpins strong organisational effectiveness and efficiency. Superior performance requires that the right information is available to the right people at the right time and that this information is properly analysed and used. Financial and risk management are critical components and should help management understand and improve operational performance, as well as informing strategy formulation, prioritisation and investment decisions. Good risk management is also critical in maintaining confidence in the agency.

A significant proportion of national assets are owned by the Crown and agencies should be looking to ensure that Ministers are well advised on which assets the Crown really needs to own and where it needs to invest, as well as making the best procurement decisions and ensuring that assets are maintained to the right standard and are optimally utilised.

Headline findings

The key insight here is that these functions are often regarded as non-strategic, transactional and compliance-focused back-office cost centres that do not regularly inform executive decision-making. They tend to report to agency managements through a corporate services executive (tier two CFOs are the norm only in large agencies) and not to be strongly linked to strategy formulation or decision-making. Indeed, ratings for these elements are not clearly matched with the other elements of PIF (see Appendix A).

Finance and Resources dimension

The elements in the Finance and Resources group are weakly matched with one another with the unsurprising exception of Financial Management and Asset Management, in which 13 agencies have green ratings for both. There is a marked disconnect between Financial Management and IT. Ratings for Asset and Information Management are not positively matched, with only three agencies having consistently green or red ratings for both these elements. Perhaps, unsurprisingly, given the low across-the-board ratings on efficiency, these elements are also not positively matched with efficiency.

The current state here appears to be one of a disconnected and disempowered back office, with some notable exceptions, such as Customs and LINZ.

Why these findings?

We think these findings can be explained by the tendency of most agencies to focus on issues management at the expense of institution building and core business. These elements are the areas that provide the information and analysis that make a good institution resilient, intelligent and durable. There is a lack of demand from senior managers for the sort of information and analysis they need to improve efficiency and, unsurprisingly, this is associated with a weak supply response. Central agencies have recognised the need for the corporate centre to play a bigger part on both sides of this equation: for example, setting higher expectations for executives over longer time horizons, such as four- year budget plans, and strengthening functional leadership across these areas.

We also wonder if the common organisational design practice of having these functions, and the HR function, report to a corporate services manager, who may not have technical specialisations in any of these functions, may contribute to their seeming lack of visibility at the most senior management level. Agencies need to actively reflect on the optimal executive team structure and executive meeting protocols that best fit their particular strategic priorities and implementation challenges.

With respect to financial management, there often appears to be a lack of value placed by senior executives on strategic financial analysis that informs options and decision-making. This may combine in some agencies with lack of financial literacy amongst the senior team. This seems to be particularly challenging with regard to the use of financial management to guide service delivery model improvement and to ensure executive understanding of cost drivers and pressures by service type or customer group. Even in the more transactional aspects of management reporting and variance management, these can be activities devolved to the finance team as commentators, rather than actively discussed at the top table with that team.

Information Management is one of the lowest rated areas, which is concerning given the potential for this area to add value to what are typically information-heavy businesses. This is also typically an area of very significant spend and operational risk exposure. Here, the Lead Reviewers' commentaries often note a disconnect between business needs and the IT programme, a lack of coordination with relevant other agencies, eg, Justice and Defence, and information management systems that are fragmented or not consistently adopted and used by staff, eg, New Zealand Trade and Enterprise (NZTE) and Police. Specific issues have been raised in agencies with large IT transformation programmes (Inland Revenue and Statistics New Zealand).

We wonder if at times, executives and chief executives have a fear of IT, which means they do not ask the right questions to ensure business alignment, do not penetrate the sometimes concealing behaviours of IT staff and vendors nor exercise governance controls to the extent they might in another technical area where they feel more comfortable, such as policy. This anxiety is likely to be reinforced by an ongoing history of large and expensive IT failures by governments worldwide. One of the unfortunate results of this wariness has been long-term underinvestment in IT across the State sector, which further exacerbates risk and risk aversion in regard to large projects.

Lead Reviewer narratives on IT also reflect possible overemphasis by agencies on IT functionality and underemphasis on IT usability as an enabler of frontline service delivery. This again reflects our central point about the need for overarching strategy to guide investment decisions. The agency should be asking: 'what is our strategy and purpose?', then 'if that strategy, what operating model is best to give effect to it?' and then, if this operating model, what are the key enablers of service delivery?' Lead Reviewers, across the board, often comment on the inability of agencies to discern this obvious and logical cascade.

The Information Management element of the PIF Agency Model will be upgraded in 2013, both to reflect the new approach to functional leadership by the Government Chief Information Officer and to probe digital service delivery, supply chain collaboration and all-of-government investment decisions.

On Asset Management, reviewers have to date interpreted the element too narrowly to focus on (the often modest) agency assets, rather than on Crown assets, which are sometimes dealt with under core business. The recent upgrade requires Lead Reviewers to examine the extent to which an agency has assessed its asset maturity level, the use of the Treasury's approved business case methodology for new capital proposals and agency effectiveness in whole-of-life assets management at least cost and greatest value. It will also require consideration of all asset classes, including intellectual property and other intangibles.

Because of the narrowness of interpretation to date, it is difficult to extrapolate from the headline findings, other than to say that some agencies, including some with extensive property portfolios, such as Customs, Corrections, Police and Justice, appear to manage these with confidence and high levels of executive scrutiny, others have unsophisticated capital planning that operates at independently from the executive, and others are on an improvement pathway.

Finance and Resources dimension

Well performing agencies manage risk, while others tend to avoid it. Risk management is too often static, compliance-focused, defensive and undertaken at too low a level in the agency to inform executive decision-making. Agencies often point to an Audit New Zealand rating of Good as evidence of sufficient quality in this area.

Again, senior leaders have an opportunity to better harness the value that a dynamic and strategic risk management framework can add to strategy implementation. Some will need to move from seeing risk as 'keeping out of the papers' to seeing risk management as enabling strategy implementation and managing and mitigating barriers to effective implementation. Few appear to see the value that active engagement with stakeholders over risk identification and management can bring to their agencies.

The Risk Management element of the PIF Agency Model is to be upgraded in 2013, when the lines of enquiry will be expanded to reflect more strategic risk issues, such as cyber-security, as well as deliver confidence

Comment: Essence of great practice

Agencies that were rated strongly on financial management would not now be rated so under the new thresholds.

Information Management and IT, under the new thresholds, would also give rise to few exemplar agencies, although Customs and LINZ would probably remain as Well placed.

The only Strong ratings for Asset Management were Customs and TPK. Customs was also assessed as a strong performer in 2011 in a report commissioned by the Treasury.

Risk Management at MSD was assessed as Strong, with a mature risk management framework in place and an active and independently chaired risk and assurance committee. Even here, however, risk tended to be managed on a 'no surprises ever' principle as opposed to a more balanced and holistic approach.

Lead Reviewers want to see strategic and operational risk management linked to agency strategy, kept live and dynamic by regular executive debate that informs decision-making at the top table. ERO, Customs, Corrections and Inland Revenue all have a strong focus on risk management and show signs of moving toward this broader view of risk.

Conclusion

The integrity and performance of our public institutions – and of the individuals attracted to public service – is the cornerstone of good government. While our public institutions hold themselves to high standards of integrity, performance needs to be improved. The lessons we can draw from the completed reviews are starting to paint a picture of what needs to be done to ensure that superior performance will be both common and enduring. That will require much greater attention on building strong public institutions by getting right each of the six big performance dimensions identified in the executive summary of this Report.

As Lead Reviewers, it is relatively rare for us to meet with senior teams that are really focused on these issues. While responding to their Minister and managing issues and events must be done, they occupy far more management bandwidth than they should. It is as if officials have adapted to an environment where they must seek permission, respond to events and stay out of the media, rather than help set the agenda, deliver better services and manage results that will significantly improve New Zealand's prospects. Thankfully, we are starting to see some signs of change.

While success will require a very different focus from individual agencies, the task cannot be left to them alone. Success will also require a much more unified and effective corporate centre capable of building the public sector as a strong and cohesive 'institution' in its own right: one that is driven by the spirit of service and the determination to make a real difference for New Zealand. The Better Public Services Advisory Group found that the public service was too fragmented to deliver effectively across agencies and portfolios and recommended a much stronger and cohesive corporate centre. Our findings suggest that a more cohesive and effective corporate centre is also critical if we are to build strong and enduring public institutions.

We can embrace this new challenge with confidence in part because we start in good shape and have benefited from previous reforms and in part because all players understand how important a high performing public service is to New Zealand's future. We already have many of the key ingredients in place: a robust unicameral political system, unhampered by multiple layers of bureaucracy, lack of corruption, an attractive recruitment brand for top talent, high levels of transparency and a track record of leadership in public sector reform.

To these, we believe the PIF Reviews are telling us we must add enhanced clarity of institutional vision, purpose and strategy and much greater confidence in leading a compelling medium to long-term ambition for agencies, sectors and the system. The occasional failure along the way is acceptable and to be expected, whereas a lack of ambition and the courage to try should not be accepted.

Appendix A: Numerical annex

Introduction

This annex looks at what we might be able to infer from a simple numerical assessment of the 21 PIF Reviews completed to date.

These data have to be used cautiously. They are based on a limited sample and wash out a lot of information by simplifying and aggregating. This process involves assumptions that are not universally applicable: eg, that those observations can be amalgamated across organisations and time. While inferences from this process are useful, it is often the outliers that tell us the most.

These considerations have led the authors to be very cautious in the use of these numerical results and not to rely too heavily on them. Indeed, our primary concern was to ensure that the conclusions we were drawing were consistent with what a numerical analysis of this nature might suggest.

We have attached a set of data in this annex so that the reader can form their own view of what the data might be able to tell us on its own.

The Relationship between Organisational Capability and Results

We would expect that agencies that were assessed as more capable would be more likely to also be assessed as having delivered better results.

A crude way to examine this relationship is to plot the combined score for results and capability for each organisation. In this case, the colour rating scale was translated into a numerical scale for each element of result or capability. These could then be added and an average score for both results and capability calculated for each organisation. Each organisation can then be represented by a unique number pair (result: capability) and plotted on a graph. The graph below shows the result for all 21 organisations, along with a 'best fit' line that illustrates what the data suggests is the expected relationship between capability and results.

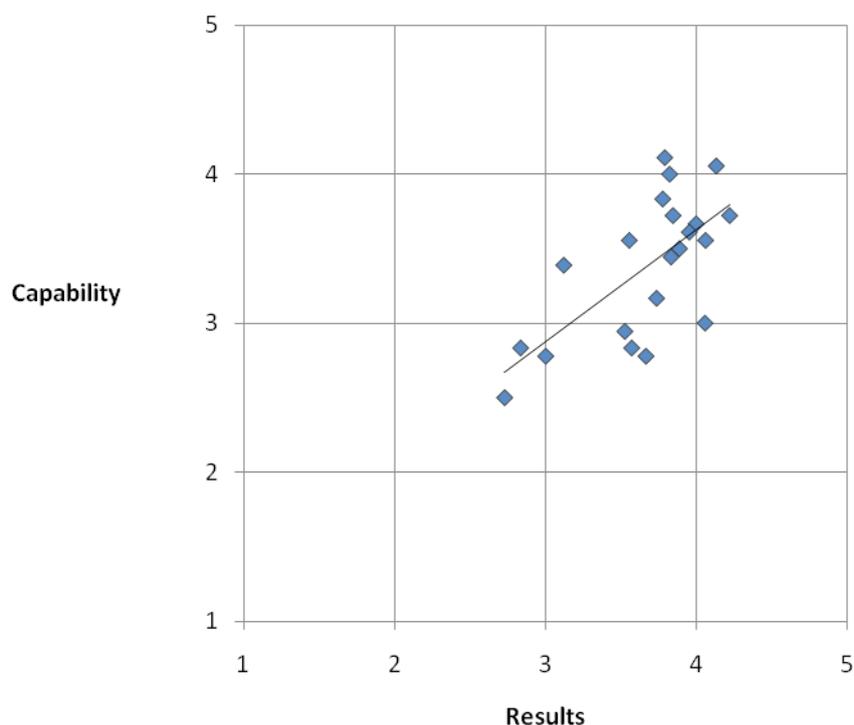
There are a number of assumptions that underlie this approach. It assumes that the value of a rating is the same across agencies, across dimensions and across time and that a colour has the same value across on all dimensions of both results and capability and that these numbers are additive across these dimensions.

While better capability tends to be associated with stronger results, there is a lot of variability amongst agencies. Some agencies produce better results than might be expected, given their organisational capability, while others produce worse results.

If the assessments are correct and the assumptions above are valid, then this suggests other factors can influence how well organisational capability is translated into results. For example, the review of Foreign Affairs and Trade suggested that the organisation attracted talented people who were committed to advancing New Zealand’s interests offshore and, where these were coincident with government’s views of those interests, these people tended to produce good results despite the organisation.

It is also likely that the relationship between capability and results is obscured by the way the two are measured here. Not all aspects of capability are likely to be equally important in determining all aspects of results. While the analysis assumes this equality in both dimensions, we would expect some elements of capacity to have a greater impact on core business effectiveness than they would on efficiency, and some elements to be more important in meeting Government Priorities than they are in the delivery of Core Business.

Average rating: Capability and results



Matching different elements of Organisational Capability

We also wanted to see if our observations about the importance of different elements of organisation capability would be consistent with a simple numerical analysis.

In this case, we simply looked at the number of times a pair of elements – like Purpose, Vision and Strategy and Leadership and Governance – both scored ‘red’ or ‘green’ in each of 21 PIF Reviews. In this case, a ‘red’ was a combination of the Weak and Needing development assessment and a ‘green’ was a combination of the Well placed and Strong assessment.

Appendices

This approach makes fewer assumptions than the one above. However, it still assumes that we can usefully combine what are often quite big differences between neighbouring colour ratings and that there is sufficient consistency in rating across time and organisations to draw useful conclusions.

For the purposes of this exercise, we focused on pairings that we would expect to see closely associated and therefore occurred more frequently than would be expected if the pairing were random.

In this case, each pairing has four possible outcomes: red/red, red/green, green/red and green/green. In a purely random world, each outcome would be equally likely, so there would be an even chance of a matching pairing (ie, red/red or green/green would be seen in 10 of the 21 reviews).

We wanted to check if the pairings we expected to see were positively matched in significantly more than 10 of the 21 reviews.

In particular, we argue that high performing organisations need to be clear about their purpose, have a clear vision of what they need to achieve and a well developed strategy for achieving that future state. We expected a more than random association between elements in the Strategy and Role dimension and the Internal Leadership dimension. This expectation was borne out. For example, Purpose, Vision and Strategy was positively matched with elements like Leadership and Governance and Leadership and Workforce Development and Values, Behaviour and Culture in more than 71% of the reviews.

On the other hand, there was much less positive matching amongst elements in the Improving Delivery, and Finance and Resources dimensions than we would have expected from well performing organisations. However, it is consistent with our observation that 'support' areas – like finance, information and asset management, and review processes that underpin continuous improvement are not well enough connected to the business and not making the contribution they need to make.

We did not try to complete an exhaustive analysis of these pairings and we would not expect close associations among many of the elements: eg, we would not expect an association between Financial Management and Experiences of the Public and, indeed, this occurs with the same frequency as a random pairing.

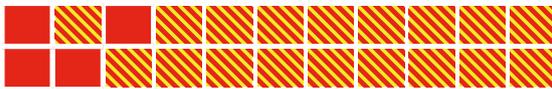
While some of the pairings we might have expected to occur with a random frequency do vary markedly from that benchmark, it is not obvious to us that there is any underlying theoretical rationale for this higher or lower frequency. For example, Regulatory Impact and Structure, Roles and Responsibilities are only matched in 3/21 cases yet there is no reason we could see why it should be the case that a 'red' rating on one is more than likely to produce a 'green' rating on the other.

Agencies ratings for selected combinations of elements

‘Purpose, Vision and Strategy’ combinations (refer pages 16, 19, 22)

Purpose, Vision and Strategy and Leadership and Governance (17 matches)

11 agencies had red/red ratings



6 green/green



4 mixed



Purpose, Vision and Strategy and Leadership and Workforce Development (16 matches)

11 agencies had red/red ratings



5 green/green



5 mixed



Purpose, Vision and Strategy and Values, Behaviour and Culture (15 matches)

11 agencies had red/red ratings



4 green/green



6 mixed



Purpose, Vision and Strategy and Structure, Roles and Responsibilities (14 matches)

10 agencies had red/red ratings



4 green/green



7 mixed



Purpose, Vision and Strategy and Engagement with Staff (12 matches)

9 agencies had red/red ratings



3 green/green



9 mixed



Purpose, Vision and Strategy and Engagement with the Minister(s) (9 matches)

3 agencies had red/red ratings



6 green/green



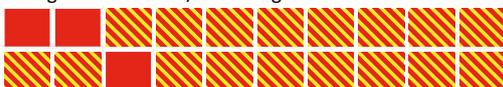
12 mixed



Selected ‘Internal Leadership’ dimension combinations (refer page 22)

Leadership and Governance and Engagement with Staff (16 matches)

10 agencies had red/red ratings



6 green/green



5 mixed



Values, Behaviour and Culture and Management of People Performance (16 matches)

12 agencies had red/red ratings



4 green/green



5 mixed



Leadership and Workforce Development and Management of People Performance (15 matches)

11 agencies had red/red ratings



4 green/green



6 mixed



Appendices

Selected 'Improving Delivery' dimension combinations (refer page 32)

Review and Structure, Roles and Responsibility (12 matches)

7 agencies had red/red ratings



5 green/green



9 mixed



Review and Improving Efficiency and Effectiveness (11 matches)

8 agencies had red/red ratings



3 green/green



10 mixed



Review and Management of People Performance (10 matches)

7 agencies had red/red ratings



3 green/green



11 mixed



Selected 'Finance and Resources' dimension combinations (refer page 33, 34)

Asset Management and Financial Management (14 matches)

1 agencies had red/red ratings



13 green/green



7 mixed



Asset Management and Improving Efficiency and Effectiveness (7 matches)

3 agencies had red/red ratings



4 green/green



14 mixed



Information Management and Financial Management (7 matches)

3 agencies had red/red ratings



4 green/green



14 mixed



Asset Management and Information Management (6 matches)

3 agencies had red/red ratings



3 green/green



15 mixed



Appendix B: Six Dimensions of System Performance



Appendix C: Glossary

Agency Model – A framework that delivers a view of an agency’s capability, performance and ability to deliver government priorities, its core business and a range of organisational management elements.

Cluster Model – A framework that delivers a view of a sector’s (and cluster’s or sub-system’s) capability, performance and ability to deliver government priorities.

Four-year Excellence Horizon – This is a recent innovation. It is a distillation of the critical shift in performance that an agency needs to make to be successful in four years’ time. Its purpose is to give the management and staff of an agency a degree of clarity about the most important issues they need to work on to lift their performance, plus a sense of what it might actually look like if they were to achieve it.

Lead Reviewer – Independent parties who undertake PIF Reviews and PIF Follow-up Reviews for the central agencies. Lead Reviewers are a critical part of the Performance Improvement Framework (or PIF) programme. They are not armchair critics or academic commentators. They are people of mana and credibility who have lead major change in both the public and private sectors and now hold significant governance roles.

PIF – Performance Improvement Framework; commonly used to refer to an actual review, the models themselves as well as the suite of PIF products and services.

PIF Follow-up Review – This is a recent innovation. It occurs 12-18 months after a PIF Review. It ensures an agency has an opportunity to take stock, ensure it is realising the benefit of the most recent review and is well placed to deal with the future.

PIF Review – A review conducted by independent Lead Reviewers of an agency’s capability, performance and ability to deliver on government priorities, its core business and a range of organisational management elements. Using the Agency Model, the review assesses what an agency does well and what issues it needs to work on to be more effective in the future. The agency develops a response to address any matters raised and to indicate what it will do to face the future challenges.

PIF Self-review – Some agencies – especially Crown entities – use the Agency Model as a Self-review tool to measure and improve their own performance. A Self-review is mandatory if an agency wants a PIF Review conducted.

ratings – Ratings (commonly referred to as ‘traffic lights’) are judgements made by the Lead Reviewers against each of the elements in the Agency Model, based on the information gathered in a review. The greener the traffic light, the better positioned the agency is to deal with the future. The more red the traffic light, the more work needs to be done.

Six Dimensions of System Performance – A framework for delivering a view on a system’s capability, performance and ability to deliver Government Priorities.

system findings – These are an aggregate narrative of the ratings from the PIF Reviews conducted to date.

