Chapter 3

Reform Design and Performance in Australia and New Zealand

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Introduction

A defining feature of the last two decades has been the unprecedented public sector reform internationally. Of the two big issues in public management of the last 15 years attracting extensive debate – markets and performance – markets received early critical attention with performance management only coming into its own recently (for example, Radin 2006). The most striking aspect of performance management has been its ever-increasing influence, with the 2000s becoming more clearly the age of performance. Is it possible to envisage contemporary public management without due regard to results and performance measurement?

Two early reforming countries, Australia and New Zealand, have experienced several phases of reform, each of which incorporated elements of performance management as integral to public management before it became internationally fashionable (OECD 1997a). Both countries have had new public management peaks, New Zealand at an early stage, whereas for Australia the intensity came in the middle. Performance management is widely regarded as epitomizing new public management, yet it both pre-dates and persists strongly beyond NPM, and can be found to exist internationally despite NPM. In this chapter, design issues are examined across three reform generations as the focus on performance expands and reformers wrestle with the complexities associated with the performance agenda and the relationships with other system components.[1] The emphasis in the third generation has been on system integration and performance that transcend new public management.[2]

As an international movement, performance management has evolved and incorporated more sophisticated measures (Schick 2001a; Bouckaert and Halligan 2006), yet finely tuned and highly effective systems remain elusive. The standard critiques of performance management argue that this derives from unrealistic, even impossible, expectations that reflect how it is conceived and applied, and the limitations of the underlying rational thinking (Radin 2006). There has been sustained

1 The common terminology in the book is to differentiate between a first and a second generation or a post-NPM generation of reform. In this chapter the first generation is divided into two and therefore the reforms from the late 1990s are named the third generation.

2 There are significant issues of performance management in contractual relations with non-governmental organizations that are beyond the scope of this chapter.

analysis and critique of the two countries' performance management, particularly New Zealand's, from both officials and external observers (Boston and Pallot 1997; SSC 1998, 1999; Gregory 2001; Norman 2002; Norman and Gregory 2003). Here the approach is to examine performance management in its own terms: in other words to compare aspirations and practice. As a pivot of reform, performance management has implications for and impacts on broader dimensions of public administration. The transformative approach provides a means of drawing together a range of interpretative material (Christensen and Lægreid 2001a). The relationships between performance management and system design become potentially more challenging with heightened expectations for management improvement over the longer term within an integrated governance framework.

Analysing Reform Design Across Generations

A binarian approach to patterns of change is quite prevalent and is typically distinguished by 'post' as in post-bureaucratic and post-new public management. The inclination to force change into neat categories facilitates sharper developmental comparisons. It is not that clear how simple categories are important where the reform persists despite the demise of a model as the apparently universal trend to incorporate forms of performance management occurs in countries not otherwise known for commitment to new public management (OECD 2005).

An alternative view of reform in countries is to envisage a continuous sequence of change during which distinctive new elements emerge and are progressively worked through in process shaped by combinations of ideology, technical design, environmental responsiveness and traditional pragmatism. Reform is more realistically viewed as a series of iterations, even the New Zealand model, which burst on the international scene in a developed form conceptually, then coasted for a number of years as several features were reviewed and tested with varying degrees of success.[3]

In the longer term we can discern several generations of reform in a few countries. Generation has two meanings: in terms of time it denotes countries that can be considered first generation new public management reformers (that is, the 1980s) in contrast to latecomers; and it also applies to systems that have sustained reform sufficiently long for several generations to be evident, hence the use in this chapter of the third generation reformer. Generations reflect distinct phases in extended reform programmes in which the overall tenor is significantly modified. There are different ways of characterizing generations, for example, a sequence of phases with a distinctive leitmotiv (for example, management, market and governance for significant phases in Australia) or models such as managerialism, new public management and integrated governance.

3 Cook (2004, fn 5), referring to a study by Cangiano 1996, observes that while ex post reforms 'appear as a well conceived and mutually reinforcing package in terms of sequencing; in practice, however, the end points become clearer as the reforms proceeded so that most of them were a program-in-the-making'.

The chapter tracks performance-related change across three generations and then concentrates on the third generation. The focus on the cultivation of performance management emphasizes the contextual aspects of this lineage of experience. Performance can be defined diffusely in terms of management improvement, more technically by reference to the standard components (efficiency, effectiveness and so on). Talbot (2005) reviews different dimensions of performance as accountability, user choice, customer service, efficiency, results and effectiveness, resource allocation, and creating public value. There are different ways of measuring performance in particular outputs and outcomes. Performance management is examined in terms of intentions, particularly with regard to expectations of improved information, internal use of that information and reporting.

The more comprehensive the reform programme, the greater the complexity, conflicts and tensions between dimensions. The public sector is like any system where 'a set of units or elements is interconnected so that changes in some elements produce changes in other parts of the system' (Jervis 1999, 6). The relationship between a well-developed performance framework and public management generally needs to take into account standard management functions: financial management and budgeting, human resource management as well as internal decision-making, and external reporting and accountability. For performance management, relationships also centre on degrees of integration between individual and organizational dimensions, sector and system-wide requirements, line and central agencies, and engagement with the political executive.

Australia: Performance in Managerialism to Integrated Performance Governance

The Australia experience can be summarized with reference to models of reform. Managerialism (Pollitt 1993; Zifcak 1994) best reflects the first phase in which management became the central concept and reshaping thinking around it dominated. This was succeeded for a time by a phase that came close to the mainstream depiction of new public management (as originally formulated by Hood 1991), in which the market element shone strongly and other features such as disaggregation and privatization were at the forefront. In turn, NPM was displaced although not buried by revisionism in the 2000s, which is represented here by integrated governance (Halligan 2006).

Managerialism and Performance

The initial period of reform displaced traditional administration with a package of reforms based on management from which emerged the performance focus. Over about a decade, a new management philosophy was developed and implemented, replacing the traditional emphasis on inputs and processes with one on results. Unlike New Zealand's theoretically driven approach, the management framework was evolved pragmatically (Halligan and Power 1992).

The main elements of the reform programme focused on the core public service and financial management. The Financial Management Improvement Program (FMIP) dominated the reforms of the 1980s as an initiative designed to produce more efficient use of resources. The Budget Reform White Paper 1984 covered budget decision-making, financial management of programmes and the information base, and used the language of improved performance. The Australian focus on results, outcomes and performance-oriented management dates from this time (Wanna, Kelly and Forster 2000).

The implementation of FMIP occurred through changing the budgetary and regulatory environment and improving management systems (centred on 'managing for results' components of corporate management, programme management, management information and evaluation), and standards and practices. Programme management addressed the vertical organization of a department's activities (that is, a set of programmes) while corporate management covered the horizontal aspects (Holmes 1989). The term programme management and budgeting was used to promote the emphasis on improving departmental corporate management and to assist managers with focusing more clearly on outcomes and results. It was defined as 'preparing the agency's budget on a program basis with a process which focuses on program effectiveness (and efficiency) against defined objectives rather than solely controlling resource inputs' (Keating and Holmes 1990; Campbell and Halligan 1992; TFMI 1993, 62).

Evaluation was seen as tying the loop in the management cycle, pronounced as the 'crucial element' in managing for results, and linking policy development and programme implementation. All programmes had to be reviewed every five years and evaluation plans produced annually for scrutiny by the Department of Finance (Keating and Holmes 1990; Campbell and Halligan 1992).

New Public Management

Another reform stage became apparent in the 1990s. Australia had concentrated on management reform during the 1980s, but increasingly accepted the need for market-oriented reform in the 1990s. By the mid-1990s, the Australian public service was again in transition as the pressures for further reform intensified, the new agenda centring on competition and contestability, contracting out, client focus, core business, and the application of the purchaser/provider principle. The market principles were applied first to the outer public sector and subsequently to the core public service. The new phase was reinforced by the advent of the conservative Coalition government, which pursued a neo-liberal agenda: a deregulated personnel system; a core public service focused on policy, regulation and oversight of service delivery; contracting out and privatization; and contestability of delivery of services with greater use of the private sector (Halligan 2003c).

New financial legislation in 1997 was followed up by a new budget framework in 1999, which involved major changes to financial management and reporting, including budgeting on a full accrual basis for 1999–2000,[4] implementation of

4 Australia adopted accrual budgeting after New Zealand and Iceland.

outputs and outcomes reporting, and extending agency devolution to inter alia budget estimates and financial management. The intention was to improve capacity to deliver on reforms by changing the method of budgeting and resource management, hence the new framework based on outcomes and outputs, and accrual accounting principles.

The medium term impact on central agencies was resounding. The old Public Service Board was reduced to a shadow of its former self (Campbell and Halligan 1992). Finance moved through several stages, eventually adopting a 'strategic' role (Wanna and Bartos 2003), but was so heavily purged under new public management in the second half of the 1990s that there were doubts about whether it would survive organizationally (reintegration with Treasury being an option). The Department of the Prime Minister and Cabinet withdrew from active intervention except where required and no longer provided leadership for the public service.

Towards Integrated Performance Governance

The third phase in the 2000s is distinguished by integrated and performance governance,[5] an emergent model with four components (Halligan 2006): resurrection of the central agency as a major actor with more control over departments; central monitoring of agency implementation and delivery; whole-of-government as the expression of a range of forms of co-ordination; and control of non-departmental bodies by absorbing them or rationalizing corporate governance. A centralizing trend within the federal system is also apparent.

The emergent Australian model has several dimensions, each embodying a relationship. Several themes are recurrent: delivery and implementation, coherence and whole-of-government, and performance and responsiveness to government policy (Halligan 2006). First, they shift the focus to some extent from the vertical towards the horizontal. Instead of emphasizing the individual agency, there is now also a concern with cross-agency programmes and relationships. At the same time there is a reinforcement of and significant extensions to vertical relationships. The result has been the tempering of devolution through strategic steering and central oversight and a rebalancing of the positions of central and line agencies.

Second, the whole-of-government agenda has a centralizing element in so far as central agencies are driving policy directions, either systemically or across several agencies. The result has been the tempering of devolution through strategic steering and management from the centre and a rebalancing of the positions of centre and line agencies. Underlying each dimension of change is a political control dimension: improved financial information on a programme basis for ministers; strategic co-ordination under cabinet; controlling major policy agendas; organizational integration through abolition of bodies; and monitoring implementation of government policy down to the delivery level. The overall result is high potential for policy and programme control and integration using the conventional machinery of cabinet, central agencies and departments.

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5 The author appreciates receiving clarification of several aspects from Lewis Hawke (Australian Department of Finance and Administration).

The intensity of the Australian reassertion of the centre and the ministerial department results from both system shortcomings and environmental uncertainty and threat favouring the stronger centre. There were other complex domestic policy issues that required strategic and integrated government responses involving multiple agencies and levels of government. These were both intractable policy problems and issues experiencing bureaucratic blockages. A combination of internal and external sources of change facilitated the emergence of the new approach.

As for budgeting and estimates, several expected benefits from the 1990s reforms were not forthcoming. A central issue for ministers was the reduction of information on programmes or groups of activities under the outcomes/outputs framework. Their interest in what was being done, in addition to the new emphasis on what was to be achieved, was not satisfied under the revised reporting arrangement. In 2002, the government commissioned a Budget Estimates and Framework Review from the Department of Finance and Administration and Treasury to identify how the framework could be improved in order to meet government needs. This led to an enhanced capacity for the Department of Finance and Administration (DoFA 2004b; Halligan 2006).

New Zealand: Performance in NPM to Integrated Performance Governance

New Zealand shares similarities with Australia in having an NPM phase and an integrated governance phase and for moving through three generations of change. Some observers prefer two points of reference – the initial model (mid 1980s – early 1990s) and an emergent revised model (2000s), which in effect equate 'generation' and 'model', and with only three approaches being identified over 95 years (Boston and Eichbaum 2005; Gregory 2006). But the 1990s has long been recognized as providing a second generation (by an architect of the reforms: Scott 1997), in which there was a preoccupation with both extending and dealing with consequences of the original model in a changing environment.

New Public Management

New Zealand also moved through three generations of change. In the first phase, a new reform model emerged based around principles such as clarity of objectives, managerial freedom, accountability for decisions, performance evaluation and relevant information. The model combined standard management reforms pursued in other OECD countries with distinctive features based on ideas derived from public choice and institutional economics, and which addressed inter alia the questions of agency and transaction costs. The New Zealand model won international admiration as a unique case of public-sector reform because its framework was innovative, sophisticated and coherent (Boston et al. 1996; Kettl 2005).

The core public service was subjected to the application of new principles, the two most important being separation of responsibilities for policy and delivery and identification of specific functions with specialized organizations. The State Sector Act 1988 and Public Finance Act 1989 produced changes that provided for improved autonomy and greater accountability of managers, but also redefined the relationship between ministers and department heads. A range of financial management reforms were introduced with distinctions made between inputs, outputs and outcomes, with the emphasis on outputs.[6]

Also central was the redefinition of the relationship between ministers as members of the political executive and departmental chief executives as public servants appointed on performance agreements, an innovation being the association of outcomes with the former and outputs with the latter. The relationship was seen as being contractually based: the government purchased outputs from departments, while the government was defined as the owner with an interest in the return on its investment. Also significant was the more general reliance on contracting out the delivery of services to private and voluntary sector providers (more generally, see Boston 1997).

The renamed chief executive officers, whose predecessors were permanent officials, held contract appointments based on performance agreements and their performance was evaluated. Under the Public Finance Act, departments acquired responsibility for financial management from the Treasury. CEOs managed inputs to produce outputs that ministers purchased.

Strategy, Performance and Review of Implementation

New Zealand continued to expand, refine and review the reforms, even though a framework was laid down at an early stage. New reforms such as strategic management were referred to as 'second generation' (Scott 1997). Phase two was dominated by strategic focus, implementation and review. New Zealand continued to expand, refine and review the reforms in the 1990s. The strategic capacity of government was a neglected element in the original model, producing a short-term policy focus and inattention to the collective side of government. This capacity was re-engineered to incorporate medium- and long-term planning and the introduction of strategic and key result areas for specifying government priorities and focusing performance. An official review found this approach to be working, but weaknesses in planning and results became apparent (Schick 1996; Boston and Pallot 1997; Scott 2001).

Another innovation reflecting the agenda of this phase was the Fiscal Responsibility Act 1994, which sought to make budget accounting more transparent. Reported benefits included the credibility of the fiscal policy process, the focusing of politicians on efficiency and cost-over-run questions, and pressure on Treasury to improve its performance because the legislation specified transparency and accountability.

The New Zealand model was subjected to an official external evaluation, which examined the main components and pronounced it to be sound and successful, but criticized some of the cherished economic principles that accounted for the system's uniqueness. The reforms were seen as more rigorous and comprehensive than those

6 For the rationale for outputs, see Scott 2001, who also examines how New Zealand experimented unsuccessfully with programme budgeting.

in other systems, but were still incomplete and not without weaknesses. While management practice and discourse had been transformed, perennial questions of public administration remained, with outstanding questions including incentives and performance measurement; political and managerial accountability; the domination of the purchase function over ownership; lack of evaluation culture; and the degree of alignment between agency and system needs (Schick 1996; Boston and Eichbaum 2005).

Rebalancing and Renewing Public Management Outcomes

In the third phase, system rebalancing and renewing public management outcomes have been central. Several themes have emerged since 1999 covering capability, outcomes, integration and the role of central agencies within a philosophy supportive of the public sector. New Zealand returned to the limitations of its model in 2001, having failed to implement the Schick report (1996), with the Ministerial Advisory Group's *Review of the Centre* (MAG 2002), which examined the public management system and its responsiveness to ministers and citizens. The report reflected the received wisdom about the model's deficiencies (Boston et al. 1996; Schick 1996; State Services Commission 1998; Scott 2001), concluding that the public management system provided a foundation to work from, but significant shifts in emphasis were needed. Specific issues requiring attention centred on the consequences of fragmentation under an agency system: the need for integrating service delivery, cross-agency co-ordination and improvements to public service culture. There was also overdue recognition of the need to augment central agency responsibilities.

There have been three important results. First, there has been rationalizing and refining of systemic elements to align them with government goals; measures to readdress organizational fragmentation and co-ordination gaps; and the former preference for vertical relationships has been succeeded by an emphasis on 'horizontally-integrated, whole-of-government capacity and capability' (Boston and Eichbaum 2005, 34). Second, legislative change sought to provide the conditions for improved performance covering the financial management arrangements, including the outcomes strategy and the principles of the public service. The State Services Commissioner's powers were expanded with a basis in the Public Finance (State Sector Management) Act to encompass the state sector and with broader responsibilities for developing capability and providing leadership. This action was designed to enhance the effectiveness of the SSC within an expanded role in the state services.

Third, outcomes, a neglected component of performance, were accorded prominence under a redesigning of the corporate planning system in 2001 (and the discarding of results areas). This has taken a distinctive form within an approach termed Managing for Outcomes (MfO), which was introduced to promote outcomes and to improve departmental planning, managing, and reporting, and to produce major improvements in public service performance.

Performance Management in the 2000s

Comparing New Frameworks

At one level, there have been commonalities between Australia and New Zealand with the direction and content of public management reform: the early implementation of a new public management agenda, the focus on outputs and outcomes, and accrual budgeting and transparency (Halligan 1997). Their recent performance agenda are in broad agreement on the significance of outcomes, performance management and improved delivery within more integrated governance frameworks. Both countries have accorded prominence to outcomes during the last decade as a challenging area that has to be properly addressed. Nevertheless, there were distinctive differences in their pathways and handling of performance management and budgeting.

Australia's performance management moved through stages (Halligan 2003c; McKay 2003), and continues to evolve in the 2000s. In the first stage, the elements of performance management were developed within a centralized approach featuring the Department of Finance. The strengths were institutionalized performance management elements and the requirement for formal evaluations. The weaknesses were the reliance on evaluations that were mandatory (and imposed top–down by a central agency) and the quality of programme objectives and performance information. There were questions also about what programme budgeting represented (Wanna, Kelly and Forster 2000, 175–7), because although a programme framework was used as a flexible instrument for managing and reporting on programmes, this did not lead to budgeting by programmes with a direct link to appropriations.

The second stage was based on the outcomes/output framework, devolution to agencies, principles instead of formal requirements, and an emphasis on performance information. The strengths were systemic review by central agencies, the strong ownership for departments and the reliance on managing through explicit results achieved. The weaknesses discussed later included insufficient information for parliamentary needs and for sound management, inconsistent departmental support for good evaluation, and the subjectivity of performance assessment. These limitations have produced continuing reassessment of some aspects of current performance management practices.

The budget framework introduced in 1999 changed financial management and reporting through budgeting on a full accrual basis, implementation of outputs and outcomes reporting; and extended agency devolution to inter alia budget estimates and financial management. Departments and agencies were now expected to identify their outcomes and outputs and be held accountable for them. Agency heads were clearly assigned responsibility and accountability for performance. Agencies were required to identify explicit outcomes, outputs and performance measures (covering among other things efficiency and effectiveness).[7] Reporting now occurred through budget plans (portfolio budget statements) and financial year results (annual reports).

7 For Australia, outcomes represent what the government wants to achieve; and outputs and administered items represent how this is achieved: http://www.finance.gov.au/budgetgroup/commonwealth_budget_-_overview/the_outcomes___outputs_framewo.html

Major benefits of the new framework were to be an improved information base, better incentives to be efficient, greater precision about public value and, for the first time, the linking of outputs to outcomes.

However, the limitations of the framework in practice – the need for information on implementation and operations as well as results – produced reincorporation of departmental programmes, a renewed emphasis on cash accounting, the Cabinet Implementation Unit and other changes including improvements to cash management, budgeting and programme reporting and financial information systems. This meant, of course, enhancing the central Department of Finance's role and capacity to oversee financial management and information, and provide the necessary advice for government.

New Zealand performance management has been rather differently cast. A key feature of the original model was the distinction between outputs and outcomes, and their assignment respectively to chief executives and ministers. The focus was on chief executives and their extensive responsibilities for managing departments under contract, the specification of their responsibilities through performance and purchase agreements, and the annual assessment of their performance by the employer, the State Services Commission (Boston et al. 1996; Scott 2001).

New Zealand responded early, but was slow to resolve weaknesses in the areas of accountability, performance measurement and strategic management. There was a need for modifications to allow further development of the model and second-generation reforms. Two limitations were the emphasis of the output orientation on managerial accountability at the expense of public and parliamentary accountability, and gaps in the system's capacity to learn from experience, such as from routine policy evaluations. The link between outputs and desired outcomes was variable under the original model, due partly to how the political executive was engaged: ministers were expected to show the link and to use performance targets. In addition, a system property of the original model was disaggregation to a large number of departments, but most goals were not the responsibility of one minister and department (Boston et al. 1996; Schick 1996; Scott 1997; Kibblewhite and Ussher 2002).

The requirement that government should specify 'broad strategic priorities' under the Fiscal Responsibility Act 1994 has been pursued through different statements including Strategic Result Areas and Priorities and, in the early 2000s, Key Government Goals to Guide Public Sector Policy and Performance. The strategic priorities have been less about goals than 'statements of broad direction' (Kibblewhite and Ussher 2002, 86).

MfO has been implemented since 2002–03, and was extended to 35 departments in 2003–04. Managing for Outcomes addresses long-term strategic thinking through the statement of intent (SOI). The SOI covers the outcomes, impacts and objectives of a department and the outputs (that is, goods and services being supplied), plus plans for managing capability (Economics and Strategy Group 2003; Treasury and SSC 2005; CAG 2006). Managing for Outcomes does not hold chief executives

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Compare New Zealand definitions of outputs as the work undertaken by government employees, while outcomes are the societal effects resulting from this work: http://www.ssc.govt.nz responsible for achieving them. This was a departure from the original framework in which performance was regarded as a deliverable because costs could be specified and evaluated (Scott 2001; Baehler 2003).

The State Services Commission has been responsible for one cornerstone of performance management, the performance agreements of chief executives. The State Services Commissioner appoints, employs and reviews the performance of chief executives. The performance review covers chief executives' achievement of results and investment in organizational capability. The SSC refocused this performance management responsibility in recent years from a retrospective compliance emphasis to a 'proactive approach focused on management that achieves results' (SSC 2006). The centrality and strength of the Commissioner's role is that the performance agreement has been depicted as the 'main vehicle of performance management, rather than performance budgeting' (Shand and Norman 2005, 22).

Performance as End and Means

Performance for New Zealand both stands for a broad agenda and a specific means of accomplishing improved services. At the first level, the concern is with better performing state services, with the overall performance of the state service system and with long-term performance. The priority after 2000 was to achieve better system performance while maintaining high probity standards and cost efficiency. To better position the system, legislation, outcomes and the relationship to outputs, and other language such as scorecard are used. The State of the Development Goals has been introduced in 2006 to provide a platform for understanding performance across the state services. It is intended to project the future state services based on specific goals and to use indicators for measuring and monitoring progress (Wintringham 2003; Prebble 2005, 2006; Whitehead 2006).

The role of performance is also central in Australia. Overall the performance management ethos presides. 'The next challenge is to ensure that the performance of the APS – as a coherent whole – is lifted; and to ensure that the implementation of delivery is viewed as just as important as the development of policy.' The concept of the 'performing state' (borrowed from Allen Schick) is employed for a system 'that is continuously open to, and reading its environment, and learning and changing in response: a state "inherently in transition"'. To produce and sustain this condition, the public service must 'embrace a culture of collegiality and creativity'. The head of the public service declared the building of this culture to be his main task (Shergold 2004, 6).

Outcomes and Outputs

Outputs and outcomes have featured in the countries' management frameworks for many years. Both countries were talking outcomes in the 1980s, but the paths diverged. New Zealand identified outcomes with ministers, outputs with chief executives, with a performance agreement between them. This was perceived in Australia as institutionalizing the separation of policy and delivery, a perennial shortcoming of public administration. In contrast, Australia wished to bring them together, but ambiguity, even blurring, remained as to responsibilities (Holmes 1989, 33). In the long term neither approach was sustained.

In both countries, the outcomes side has been underdeveloped; either being assigned to politicians or overshadowed by an output focus (New Zealand) or in need of refinement beyond the emphasis on programmes (Australia). The consensus now is that both outputs and outcomes are necessary. There is no support for favouring either outputs or outcomes, according to Australia's Auditor-General, as being more effective for institutionalizing performance culture, and performance management is ineffective unless both are integrated in the performance framework (McPhee 2005).

Under the Australian outcomes and outputs framework, outcomes provide the foundation for performance information, and have been central to performance measurement since the mid-1980s. The programme and results focus laid the foundation for evolving a more exact system. Outputs were recognized in the early days, but were not measured until the outcomes/output framework of 1999. They were introduced to measure service delivery for external stakeholders (McPhee 2005, 3).

A New Zealand centrepiece has been outputs and the chief executive's responsibility for delivering goods and services. The outputs fetish, according to Schick, produced distortions with executives focusing only on outputs, while ministers allowed their purchaser role to override their responsibility for outcomes. As a consequence, outcomes were neglected. The system focused on outcomes conceptually, but had problems with integrating them into public management because of difficulties with specifying and measuring (Schick 2001b; Kibblewhite and Ussher 2002; Cook 2004).

The stronger tools continue to be at the output level. A number of issues remain with shared outcomes, accountability and the tensions between outputs and outcomes. There has yet to be an overall evaluation of managing for outcomes to determine whether the original objectives are being achieved. Generally speaking, the SOI is seen to provide a better quality and range of planning information than its predecessor, the Departmental Forecast Report. Some incremental improvements have occurred in the quality of departmental planning as a result of the introduction of the MfO initiative (CAG 2006).

The majority of SOIs had not shown much improvement (CAG 2006), and there was a need to refine output and outcome indicators; improve the links between outputs and outcomes; and to enhance information on identifying and managing organizational risk. Norman's (2006, 11) work with a focus group of budget specialists indicates that outcomes remain at an incipient stage that are developing slowly, and represent more 'an overlay to the outputs system, rather than a fundamental change'.

New System Capacity for Performance under Integrated Governance

In both countries there has been significant rebalancing of the centre, new horizontal relationships, reform correction (u-turns in some cases) and realignments of different components. The reassertion of the centre is a strong element in both countries, as central agency weaknesses are reversed by giving them greater capacity for leadership and direction. The commitment to integration and whole-of-government is designed to counter the reinforcement given to vertical, functionally constituted departments. The renewed interest in capacity and capability reflects in large part the limits to extensive outsourcing experienced during years of contraction. Renewal has also reflected more positive attitudes towards the public sector as expressed through public service leaders (Boston and Eichbaum 2005; Halligan 2006).

In terms of the characterization of the model, the new integration allows a combination of devolved dimensions with a reactivated centre. The relational basis retains a strong hierarchical dimension underpinned by political authority but with a reliance on performance management and the employment of project management for some purposes.

The elements that emerge are the search for coherence, strengthening of internal capacity and performance improvement. First, organizing for coherence has occurred, although unevenly, within and across portfolios and organizations with whole-of-government agenda. Second, there is a strengthening of internal capacity through the whole-of-government agenda, enhancing central agencies' roles in co-ordination, and improving implementation and capability. While the previous agenda was to shed responsibilities, and the devolution component continues to be anointed as a cornerstone because it had produced improved performance and productivity, now there was a preference to reincorporate, to clarify, to establish better accountability, and to improve performance. In response to the challenges of complexity and through attentiveness to maintaining system attributes, in the new construction horizontal governance ranks equal with vertical relationships and hierarchy (Shergold 2005b).

There has been a reconfirmation of the organizational components of the traditional system: cabinet, central agency and the department. Diminished central agencies – the Australian Public Service Commission and Department of Finance, Administration, and the NZ State Services Commission – have been reconstituted with stronger roles. Prime minister departments have also been enhanced, particularly in Australia.

The overriding trend for over a decade – to devolve responsibilities to agencies – remains a feature of the two systems, but they have been modified through horizontal management, and a more prominent role for central agencies in espousing and enforcing principles, monitoring performance and providing guidance.

Implementation has often been the neglected end of the policy spectrum. Under the market agenda, outsourcing, agents and specialized agencies were favoured for service delivery. Governments have reviewed internal constraints on implementation in response to public perceptions of the performance of delivery agencies. The solution was to extend central control to remove implementation blockages and delays. In Australia, a Cabinet Implementation Unit was established to seek effectiveness in programme delivery by ensuring government policies and services are delivered on a timely and responsive basis. The authority of cabinet is drawn on both as a 'gateway' and a 'checkpoint'. New proposals require appropriate details regarding implementation. Second, adopted policy proposals require formal, detailed implementation plans. On the basis of these plans, progress is reported to the prime minister and cabinet against milestones in 'traffic light' format. The 'traffic light' report to the prime minister and cabinet is regarded as a powerful incentive for organizational learning for public servants. Cultural change is being promoted around a project management approach employing a methodology designed to codify and think through the connections between policy objectives, inputs, outputs and outcomes, to expose underlying assumptions to questioning and to clarify risks and results (DPMC 2004; Shergold 2004; Wanna 2006).

In terms of monitoring performance and values, a counter to the devolved environment is to seek greater public accountability through the legislative requirement of an annual report by the Australian Public Service Commissioner on the state of the public service. The Commission has extended evaluation to include surveying employees and agencies, and to scrutinizing more closely the institutionalization of values in public service organizations as part of the greater focus on evaluation and quality assurance (APSC 2004, 2005).

Unlike the domination of New Zealand's Treasury in the first generation of reform, the State Services Commission began to articulate perspectives on public management towards the end of the second generation – for example, the roles of building expectations and promoting outcome evaluation (SSC 1999). It then acquired broader responsibilities from central agency strengthening (MAG 2002). Co-ordination and leadership appears to be operating jointly with the two central agencies of the State Services Commission and Treasury.

The State Services Commission also has its new systemic focus across the state services. There is a wider role for the State Services Commissioner in enabling whole of government and central agencies to undertake analysis of services. The development goals are reported as focusing on performance goals and monitoring across services. There is a concern with unifying the state services; 'in essence, this is an opportunity to consider how the operation of the whole can be greater than the sum of its parts'. This recent legislation establishes a framework to encourage coherence, to improve overall performance, and to strengthen integration (Prebble 2005, 2006).

Performance and Dimensions of Management

Some of the main challenges of comprehensive reform and ongoing relate to the interconnections between parts, in particular performance management and the overall management framework and with politicians. There is much scope for disconnects and misalignments within the several dimensions.

Engaging Ministers: Performance and Politicians

Performance judgements ultimately involve ministers and there has been considerable investment in seeking improvements to the information provided through performance management.[8]

For New Zealand the link between outputs and desired outcomes was variable under the previous arrangements. This was in part a product of how the political

8 This included options for evaluating policy advice.

executive was engaged: ministers were expected to show the link or to use performance targets. Another system property of the model was disaggregation to a large number of departments, but most goals were not the responsibility of one minister and department (Kibblewhite and Ussher 2002). The debate about efficiency versus results has been played out repeatedly with one argument being that it was incompatible for the public servant to pursue both simultaneously. The blurring of the roles of minister and public servant was also seen to be dysfunctional if the latter addressed results. These types of argument were contested by the State Service Commissioner (Wintringham 2003), the outputs and outcomes formulation being depicted as:

> (…) unhelpful to, or even destructive of, the creative and supportive relationship that should exist between Ministers and the organisations through which they work. Ministers legitimately can look for help in articulating and refining outcomes, for help in identifying the best possible ways of pursuing those outcomes … and for help in assessing what progress has been made in achieving those outcomes (Wintringham 2001).

The cautious move to incorporating a managing for outcome focus – but one that the chief executive is not accountable for – is the New Zealand attempt to resolve this conundrum within its model.

The Australian problems of ministers with missing programme information were discussed earlier. The budget framework introduced in 1999 changed financial management and reporting through budgeting on a full accrual basis, implementation of outputs and outcomes reporting; and extended agency devolution to inter alia budget estimates and financial management.

The combination of a highly centralized budgetary process and highly devolved agencies was problematic, and a number of the expected benefits did not accrue, most importantly ministers experienced difficulties with the lack of information on programmes, which had been dropped under the new framework, the level at which they made decisions. The Department of Finance, however, no longer collected programme data on a systematic basis (Watt 2003). There was also parliamentary criticism of the lack of information about the Commonwealth's position as a result of financial management information systems that were accrual based in contrast to those of traditional cash transactions.

The Department of Finance's Budget Estimates and Framework Review to evaluate system effectiveness and responsiveness and in meeting government needs, reported on the scope for streamlining the financial framework, improving information management systems, and enhancing the quality of financial information provided to the government and its central agency. These measures enhanced Finance's role and capacity to oversight financial management and information, and a greater focus on departmental programmes, a renewed emphasis on cash accounting and an expansion of staff capacity in a shrunken department to provide the necessary advice for government. The reported changes included improvements to budgeting and programme reporting and financial information systems (Watt 2003; DoFA 2004b). Programme information was reintroduced surreptiously (in so far as the details were not public) by 2003.

Purpose of Performance

The handling of multiple functions has been problematic. In the first generation, Australian evaluation proved to be 'the most difficult element of a "managing for results" approach', the problems reflecting 'its multiple, but linked objectives – improving program performance, assisting government decision-making, and as a quid pro quo for the devolution of authority to managers, thus contributing to accountability'. As a result, evaluation was controversial with mixed attitudes from public servants ranging from concern and confusion to resistance to using evaluation as a management tool (Keating and Holmes 1990, 174; ANAO 1991).

Managing for objectives has been seen as too multi-faceted.[9] Observers see SOIs as serving different purposes and some ambiguity about those of MfO. Managing for outcomes is depicted 'as a cycle of continuous improvement, a self-assessment tool, not an accountability mechanism' (Shand and Norman 2005, 16), but the Controller and Auditor General regards the SOI as 'an important accountability document' (CAG 2006, 7.14).

Using Performance Information Internally The quality of financial information has improved as a result of the Australian outcomes/output framework in registering government preferences (intentions and results) and by allowing performance indicators to be explicitly identified (DoFA 2006b). However, performance measurement of outcomes has continued to provide difficulties despite its centrality to the resource management framework (Wanna and Bartos 2003).

In both countries output information is considerably better than that for outcomes. Output performance measures are generally more appropriate and measurement more reliable than its outcome measures (McPhee 2005). In a review of performance reporting in departmental annual reports, the Australian National Audit Office indicates the need for improving information with respect to specification of the performance framework and the quality of measures and the reporting of results (ANAO 2003).

There is a history of problems with using performance information in practice. For New Zealand, a consideration was that the output focus had improved accountability and transparency, but had not assisted with the making of decisions (SSC 1999). In the Australian case, the mandatory evaluation strategy established in 1988 required all programmes to be systematically evaluated over five years by departments under the oversight of the Department of Finance. An increase in the quantity and quality of evaluation activity occurred but it varied among portfolios. Most significantly, most members of the senior executive service were not making much use of evaluation information in their work, focusing on satisfying the evaluation requirements rather than seeking to use it for improving programme outcomes. The system was ultimately judged to produce a mainly process-oriented approach and compulsory evaluation was discontinued in 1997 (Halligan 2003b).

A decade later the Australian Auditor-General reports that performance information is being used by decision-makers for policy development and allocating

9 Project discussion at the State Services Commission, Wellington, December 2005.

resources but the actual 'influence of outcomes and outputs information on decision making was mixed' (McPhee 2005, 3, 4).[10]

Budget Process Performance information is meant to inform the budget process in both countries. For Australia, budget information is now 'more comprehensive, based on external reporting standards, and provides better alignment between appropriation Acts, PB Statements and agency annual reports' (DoFA 2006b, 11).

In both countries most of the annual appropriations do not relate to outcomes. Thus in Australia, this amounts to nine per cent being appropriated by outcomes.[11] New Zealand observers have questioned whether the budget cycle is linked much to performance questions because the budget is largely fixed and performance information is not used much during the process. One overall judgement questions 'the effectiveness of an annual budget round as a means for making assessments about public sector performance' (Shand and Norman 2005, 20–1).

The Australian outcomes policy provides for agencies to use performance information in budget decision-making, but the potential has not been achieved because of the variable influence of this information on decisions and resource allocation during the process. The Finance Department is exploring means for improving the use of performance information by revising the information required for new policy proposals and making greater use of reviews, regarded as an instrument through which performance information can best feed into budget decision-making (for example, through the automatic review of lapsing programmes). Reviews are not registering much impact at present because only a minute proportion of total expenditure is affected (DoFA 2006a).

Accountability The New Zealand obsession has been with managerial accountability, defined in terms of outputs and concerned with efficiency. The output focus placed excessive emphasis on managerial accountability at the expense of public and parliamentary accountability. Parliamentary scrutiny was also ineffectual despite improved reporting requirements. This was to be handled through 'whole-of-government budgeting and reporting, strengthened committee processes, and work on linking SRAs and KRAs' (Boston et al. 1996, 359), but experiments during the subsequent decade had not produced an effective approach.

New Zealand has barely emerged from the initial implementation phase of MfO, but there are expectations of outcome reporting being extended to statements of service performance and audited financial statements and a reduction in the separation of outcome and output reporting in annual reports. There needs to be further refining of indicators for outputs and outcomes, and outcome and output reporting remains separated in departmental annual reports (CAG 2006).

10 One earlier survey reported few agencies collecting data about achieving goals and outcomes, and impacts on individual and group performance (PS/IPAA 2001, 56–7).

11 Departmental outputs (18 per cent) and administered programmes (73 per cent) appropriated outside annual appropriations (that is, by special or annual appropriations) are not appropriated against outcomes, while only nine per cent is (DoFA 2006a, 13).

Australian outputs (both for agencies and administered items) and outcomes are generally appropriately specified in annual reports. Since the introduction of accrual-based budgeting, the quality of performance reporting has improved substantially (DoFA 2006a, 9). Nevertheless, improvements in annual reporting frameworks have been urged to enhance accountability and transparency to stakeholders, particularly Members of Parliament because the presentation and analysis of performance information in annual reports would not allow them to properly understand results. Specific issues have been the need to analyze performance (not produce activity lists); assess performance in terms of a basis for comparison (for example, targets); review trends in financial and non-financial performance; and use evaluations for acquiring performance information on effectiveness (ANAO 2003; DoFA 2006a).

Individual and Organizational Performance

A strategic framework for Australian performance management (MAC 2001) distinguished three features: alignment (of behaviour with principally outcomes and values); credibility (staff confidence, effective workplace relationships, fairness, openness and outcomes reporting); and integration (of performance management with the management structure through lines of responsibility, links between actions and results and capability development).

The alignment between agency goals and organizational priorities and their performance management systems is variable. Industrial relations processes often appeared to be more influential than outcomes and agencies' business needs. In addition, many agencies lacked systems for supporting performance management, and were not assessing the internal impact and use of performance management systems. As a result, performance management was not contributing to effective business outcomes (ANAO 2004).

The credibility of performance management systems as they affect individual public servants has been exposed by several inquiries. In particular, the credibility of agency performance pay systems continues to be problematic with the proportions of employees judging pay systems positively being relatively low and with a decline in ratings (ANAO 2004; APSC 2005).

There was progress with the integration of performance management systems with corporate structures. However, improvements were required in identifying the learning and development needs of staff, including those who manage other staff.

For New Zealand, there has been a poverty of data on the benefits and costs of performance management, and specifically performance pay (Boston 1999). In Australia, the credibility of agency performance pay systems continues to be problematic with the proportions of employees judging aspects positively being relatively low and a decline in ratings of the operation over the last two years surveyed (ANAO 2004; APSC 2005). The ANAO concluded that the significant investment in performance-linked remuneration was delivering 'patchy results and uncertain benefits'.

Performance management in Australia has been officially depicted as a 'work in progress' with major challenges, particularly on the issues of credibility and staff engagement (MAC 2001). The ANAO subsequently concluded that this was still the case with the same issues remaining as major challenges. The credibility of performance management systems remained problematic, with Australian public service (APS) employees believing that practice diverges substantially from the rhetoric (ANAO 2004).

Evaluation and Performance Improvement

In both countries, evaluation has been neglected. There were fundamental differences in how the two countries originally approached evaluation and incorporated it in agency programmes. In Australia, the ‘managing for results’ agenda in the 1980s included evaluating outputs and outcomes against pre-determined objectives. The experiment with a compulsory evaluation system produced a predominantly process focus and was replaced by an approach designed by the Department of Finance to make evaluation an integral part of a broader public service performance management framework. Evaluating was meant to be a routine activity undertaken on a day-to-day basis. Both countries’ management systems have been based on devolution to agencies and assumed that some form of ‘evaluation activity’ must be performed in order to sustain performance and reporting requirements. However, the use of evaluation activity as a term suggests convenient ambiguity that does not encourage serious evaluation (Halligan 2003b).

Some senior executives rejected ‘evaluation of the impact of their performance management systems’ and in many agencies, ‘important issues of performance management were not examined in evaluations because the basic assumptions were not questioned (PS/IPAA 2001, 56–7). Similarly, agencies’ evaluation of delivery strategies varied from formal review to monitoring, and 30 per cent were unable to provide information (including those reporting no evaluation) (Public Service Commissioner 2000).

The distinctive Australian commitment to mandatory, systematic evaluation that was centrally driven contrasted with New Zealand. For a number of years stark contrasts were drawn between the different attitudes, with the Australian approach being depicted as evaluating everything and ‘overkill’ (SSC 1999, 20), that simply promoted an evaluation industry. However, New Zealand’s obsessive concern with outputs and accountability was regarded as precluding other considerations including evaluation.

The NZ State Services Commission (SSC) observed that a review capacity requires evaluating outcomes, but this was ‘consciously sidelined in the original reforms’ (SSC 1998, 32). The SSC reported considerable evaluation activity, but it tended to focus on processes and efficiency, and be used for internal management, while evaluation against outcomes was regarded as too difficult. More recently, the case for capability building was made because ‘the use of evaluative thinking to inform strategy, policy, service delivery and budget decisions was patchy’ (SSC 1999; Halligan 2003b; SGMOR 2003, 5).

Following critique and reflection on their respective approaches, there was some convergence in the country positions. There is now understanding that review and evaluation is required on a more systematic basis (SGMOR 2003; DoFA 2006a). Australia has developed a new type capacity for reviewing areas (for example, major programmes) in terms of effectiveness and appropriateness. These areas are being chosen on a strategic basis according to current significance (for example, government priority, performance issues) and importance (for example, cross-agency, major delivery programme).

Outstanding Questions about Performance within Integrated Governance

Pendulums still matter (Norman and Gregory 2003). The move to integrated governance signals a shift from fragmentation to more coherence (Chapter 2 in this volume), from agency centred to balancing line and central agencies, and from leaving 'evaluation activity' to agencies to enhancing central agency capacity to monitor and intervene.

In the post-New Public Management era, broader and softer agendas are salient even though elements of New Public Management persist. This is especially the case with performance management. In fact performance management continues to provide a cornerstone of the public management framework of both countries. In this new iteration of performance management there has been growth despite the fate of a reform paradigm such as NPM. There is a continuing high commitment to performance management, but some aspects like contracts and markets are less prominent while others, such as outcomes and evaluation review, have come more into focus.

Moreover, there is a broadening of the coverage of performance management under integrated governance. The whole of government conception in both countries is one element. The intergovernmental reach of performance management is stronger. New Zealand's development goals for the sector have important implications, particularly in combination with the broader jurisdiction and roles of the New Zealand State Services Commissioner.

There are systemic issues with regard to levels of agency engagement with performance management. There is considerable variation among agencies in how they show up on performance management. This reflects in part the nature of agencies with some types more able to demonstrate effective use of performance information (cf Norwegian results: Lægreid, Roness and Rubecksen 2006b), but this also depends on other factors such as agency leadership. New Zealand managers have reported excessive focus on results that could be measured and audited. The output focus favoured 'productions tasks' (for example, in fields of tax and customs) (Norman 2006).

It has been frequently acknowledged that it is hard to change the New Zealand system. According to Schick (2001b, 2) 'there is a conceptual coherence … that is unrivalled elsewhere. Unlike most countries which assemble reforms as if they were putting together lego-blocks, in New Zealand taking away a critical element, such as the output orientation, would strip the system of its magnificent conceptual architecture'. Similarly, the former State Services Commissioner saw the system as being 'hard-wired for single agency production. Our accountability arrangements – founded in statute and elaborated through budgetary processes and accountability documents – have channelled our efforts into annual, efficient production'

(Wintringham 2003). This thinking has implications for New Zealand's capacity to significantly refine its framework. An evaluation of the New Zealand Statements of Intent, the central agenda for the new age, indicated a considerable level of underdevelopment with many less than moderately developed.[12] The quality of SOIs continued to be variable across the public service in 2005–06, and in terms of overall quality there was only incremental change since the previous year (CAG 2006).

For Australia, significant variation exists with the quality of and information used in annual report. There is also variability in the alignment between agency goals and organizational priorities and their performance management systems. The inadequate systems for supporting performance management and the disinclination to evaluate them indicate that well-developed performance management capacity is lacking in many agencies.

Conclusion

The fundamental tenor of the reform era has been to work through a public management approach. The three generations of reform in Australia and New Zealand have produced major change, replacing the dominant public administration approach, imposing well-developed variants of new public management, and then ushering a process of reintegration that continues to unfold in the 2000s. The stripped down variant of public management that was most prevalent in the 1990s has now been succeeded by a more integrated emphasis (Boston and Eichbaum 2005; Halligan 2006;). For performance management, this has produced an elaboration of the framework and a refinement of the key elements. From something that departments and agencies focused on, it has now become located within a broader institutional framework with more active monitoring by central agencies. Both countries have been highly committed to performance management over two decades during which they have substantially refined their measurement and performance framework and increased their capacity to monitor performance.

Yet practice continues to fall short of aspirations, and significant questions remain about the quality and use of performance information in the budget process, internal decision-making and external reporting and the variable engagement of agencies. There continue to be other issues that warrant being examined more closely through a transformative perspective. The first centres on the relationship between central and line agencies in the context of the complexity arising from comprehensive system change. Sustaining balance always runs the risk of over-elaboration and excessive centralization with empowered central agencies searching for performance coherence, and departments seeking to deliver against performance goals. The full implications, impacts and unintended consequences of reactivated central agencies with enhanced operational mandates remain unclear. There are higher and more demanding expectations under third generation reform (for example, with delivery and implementation). Under the integrated model, greater performance and

12 One SOI was 'developed'; twenty-two were 'moderate' to almost developed; ten were fair to almost moderate; three fell between basic and fair (CAG 2006).

responsiveness is required within a whole of government context with the attendant risks arising from more ambitious applications of performance management. There are significant challenges to accomplishing sophisticated performance management and limits to a heavy reliance on this approach (Bouckaert and Halligan 2006).

Australia and New Zealand have followed different pathways within a performance management framework during these two decades. Their early implementation styles differed in terms of conceptions of the relationship between outputs and outcomes, the responsibilities given to chief executives and the roles of the central personnel agency in handling performance oversight. The exigencies of reform agendas and public management have produced convergence during the last decade, but despite common elements, there continue to be differences in approach and with the treatment of outcomes and outputs. In terms of their reform cycles, Australia has sustained and refined its outcomes emphasis. New Zealand continues to be distinguished by the role of the State Services Commission in reviewing the performance of chief executives. Three generations of performance management have provided extensive experience of potential limitations. The management discipline, efficiencies and accountabilities achieved under these frameworks sustain commitment and the quest for system improvements in managing performance.