

**GOVERNANCE:
A THINK PIECE**

**PREPARED FOR THE
MINISTRY OF AGRICULTURE AND FORESTRY
BY
MCKINLAY DOUGLAS LIMITED**

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INTRODUCTION

The Government is considering an initiative to establish a partnership with the pastoral and food sectors, to step up the performance of these sectors through substantial co-investment in education, research, development and commercialisation. The desired results go far beyond business-as-usual, to create transformational sectors of pivotal importance to the economy.

The Ministry of Agriculture and Forestry ('the Ministry', 'MAF') has commissioned McKinlay Douglas Limited ('MDL') to prepare a high level think piece on issues and options for organisational form of the 'partnership' to best perform its collaborative decision-making functions (regarding vision, strategic priorities, and partners' investments) over 10 to 15 years. In particular advice is sought on how options for the organisational form could satisfy the following seven desiderata:

- Achieve the transformational change the Government is seeking;
- Create true industry partnership and buy-in;
- Ensure collaborative decision-making;
- Allow both industry and Government to focus on areas within their own interests but act in such a way as to be mutually beneficial and reinforcing (including principles around co-funding levels, intellectual property ownership, relationships with other parties, etc);
- Provide medium to long-term investment but with the flexibility to include projects of different timeframes should they meet the criteria, including that of effecting transformation;
- Include a process for agreeing targets, benchmarks and steps necessary to achieve these targets using co-funding;
- Include a process for regular evaluation and reassessment of the strategy; to the extent possible, utilise existing funding infrastructure.

MDL has been advised that the Government's contribution to the proposed initiative will take the form of a one off capital payment of \$700 million into a special-purpose fund. The brief for the fund's governance body will be to invest the capital, and any retained income, and disburse it as required by the governance body of the organisational form the subject of this think piece. As a working assumption, this think piece proceeds on the basis that the right to require disbursement will be determined by a formula or process key elements of which will include:

- An expectation that the whole of the fund, both capital and earnings, will be disbursed over a 10-15 year period.
- The cumulative amount which may be disbursed through the lifetime of the fund will be capped to ensure a broadly sustainable level of activity once the initiative is fully operational (which may take several years to achieve).

It is expected that " a partnership of this magnitude and type will be a new way of working for the sectors and government. The proposed partnership would agree to a vision that is clearly not business as usual, that has serious environmental intent and drives transformational change in terms of both productivity improvement and sustainable performance. It would have a role in

setting the broad investment profile and criteria for funding allocation and determining the initiatives that need to be progressed to fulfil the vision."

MDL assumes an expectation that the governance arrangements for the new organisational reform will reflect the principle that this is a new way of working, including the vision that this is clearly not business as usual. It follows from this that the governance arrangements should be designed at least as much in recognition of the novelty of the role, as with reference to conventional New Zealand public sector management practice.

CONTEXT AND APPROACH

Context

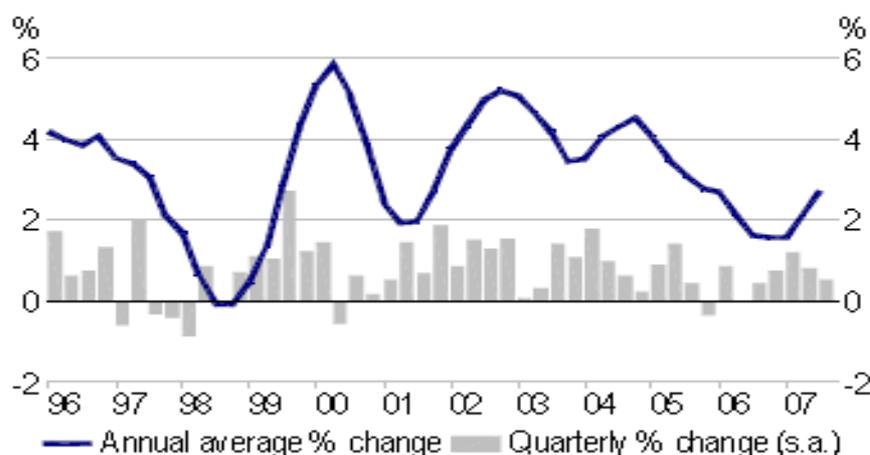
The emphasis on economic transformation as a core part of government policy has been a consistent theme of policy for some years. In 2002 the government released the *Growth and Innovation Framework* as a statement of its policy for transforming the New Zealand economy. In a section entitled *Transformation is Needed* it stated:

Innovative activity is becoming the key driver of growth. Countries that create and adopt new technologies and which generate innovation grow faster than those that do not. Knowledge has become a key factor of production, rather than capital and labour. Although the specifics of economic development will vary across countries, the basic principle of the importance of knowledge and innovation are consistently important.

The transformation of the New Zealand economy will require the application of knowledge and innovation across the economy.

In the years since publication of the *Growth and Innovation Framework* New Zealand has enjoyed modest but not transformational economic growth. Changes in real GDP since 2002 are shown in the following table:

Figure 1 – Real GDP



Source: New Zealand Treasury: monthly economic indicators.

New Zealand currently has the fifth lowest unemployment rate in the world at 3.4% and record high labour force participation at 68.8%. Labour productivity presents a less positive picture. OECD estimates of labour productivity levels for GDP per hour worked, based on 2006 data, on an index where the USA = 100 and the OECD average = 75 places New Zealand at 56.

Other changes include a re-evaluation of the importance of New Zealand's primary sector. Changes in commodity prices, especially for dairy products, but for a wide range of other food products as well, suggest a long-term secular shift in the importance of the primary sector. Substantial growth in real incomes in leading Asian economies including China and India, an emphasis on biofuels, and a growing recognition of the potential for "functional foods" are among factors now seen as shifting the relative potential of the primary sector as a major driver of New Zealand's economic growth.

As well, New Zealand has had a further six years of developing the capability of its research and development institutions. This has included the development of the Performance Based Research Fund within the tertiary sector, a new model for funding tertiary education, revised arrangements for research funding with an emphasis on longer term investment, and a growing practice of collaboration among users for example through research consortia.

Government has determined that, despite the progress over the past six years, there is a need to do more and to lift New Zealand's game further. The Minister of Economic Development, in announcing the newest phase of the government's economic transformation strategy, stated that a sharper focus was essential for three reasons:

- to improve our growth rate and productivity levels;
- to be well-placed to capture commercial opportunities around the growing world-wide interest in environmental sustainability; and
- to position New Zealand to take advantage of an increasingly integrated global economy.

Approach

This think piece begins by considering each of the seven desiderata set out in the Ministry's brief. It then develops principles for designing the organisational form for the proposed partnership and presents concluding comments.

THE SEVEN DESIDERATA

Introduction

Designing the governance arrangements for a new organisational form is often described in terms such as "form follows function" or "fitness for purpose". The common theme is the importance of selecting both an organisational form, and the detailed design for that form, which matches the role the new organisation is intended to perform. The design process is very much one of understanding the environment in which the organisation will operate, the constraints it will face, the performance expected from it, the stakeholder interests it will need to manage, the accountabilities will face and much more.

Often the difference between the optimal performance which the sponsors of the new organisation hope for, and the performance the new organisation actually delivers, is a function of how well the selection and design phase is undertaken. It is a task which requires a very clear understanding of the long-term trajectory the organisation is expected to follow, and the importance of resisting compromises in the design phase to satisfy individual stakeholder interests if there is a risk those could have an adverse impact even although (sometimes especially because) it may take several years for that impact to take effect. This is particularly important in the design of public sector or mixed private/public sector organisations where the designer may be required to meld together commercial and political considerations which may not readily harmonise. An obvious example is the contrast between the commercial and the political criteria commonly applied to the selection of board appointees. The commercial approach may begin and end with the issue of "fit for purpose" - that appointees have a mix of personal qualities, qualifications and experience which best meet the organisation's needs. The political approach may see this as just one of the considerations which should apply, with issues of representativeness including gender balance given equal weight.

Each of the stated desiderata is considered in terms of what they imply for designing an organisational form best capable of delivering the performance which the government's initiative contemplates. The seven desiderata are now considered in turn.

Achieve the transformational change the government is seeking

It is important to have clarity on the nature of the transformational change. The background material speaks in terms such as "this is definitely not business as usual", this "will be a new way of working for the sectors and government", and "economic transformation is fundamentally concerned with migrating a country's product and export mix of goods and services towards those that provide higher value and returns - typically products which differentiate on the basis of innovation and integrity rather than price." The material also notes that "officials are currently working on further advice about how to recognize a transformational proposal in the context of the pastoral and food industries".

There is an inherent difficulty about defining the outcomes from transformational change. Almost by definition, if you had a clear understanding of what the outcomes would look like, then you would also know how to get there, implying that the necessary skills, relationships and resources were already present so that the change, far from being transformational, was simply an application of existing capabilities and understandings.

However, some useful guidance can be found from other sources. First, an example which provides an understanding of a private sector perspective on transformation. The English strategic consultancy Logica, in what it describes as a White Paper on *Optimising Post-Acquisition Business Transformation* (<http://www.logica.com/optimising+post-acquisition+business+transformation/400005556>) sets out the following criteria for managing transformation:

- Have a clear high-level vision that links local strategy, objectives and outputs to global strategy and make this clear to the employees of the acquired company from the beginning.
- Analyse and re-analyse the realities 'on-the-ground', as things are never what they seem, and adjust the details of your plan accordingly over the course of the transition.
- Have a dedicated change team with a range of experience and skills to ensure all eventualities can be handled.
- Conduct change holistically, ensuring an integrated approach at strategic, operational, technical and financial levels.
- Use local resources as much as possible in order to minimise resistance to change and train up local management to 'wear the corporate t-shirt' in the process.
- Be decisive when necessary to ensure that the milestones are accomplished.
- Communicate, communicate, communicate, including both the overall plan and changes in the plan, as well as highlighting successes and any quick wins.

A number of themes emerge which are important for the current project. They include the emphasis on strategy, the calibre of the people leading the process, taking an holistic approach, managing in conditions of uncertainty and communicating clearly and effectively. The emphasis on strategy, including global linkages, is clearly important, and recognized by this project's background material. Equally if not more important are the implications of managing in conditions of uncertainty. This requires a high level of discretion, with a minimum of external "second-guessing" of key decisions.

At the heart of the transformation process is innovation; a recognition which has been a theme of the government's policy at least since the development of the growth and innovation framework. An understanding of what is meant by innovation is clearly crucial. Professor Tom Ling in a 2002 paper for the UK National Audit Office observes that:

Peter Drucker defines innovation as 'change that creates a new dimension of performance' (Hesselbein, Goldsmith and Somerville, 2002, p. 1). More prosaically, Rogers suggests that it is about 'getting ideas adopted' (Rogers, 1995, p.1). Common to all implicit or explicit definitions is the

claim that it is not only about the creation of new ideas but it also involves putting these ideas into practice in a way which adds value (however defined). The study of innovation is therefore the study of how new ideas are generated, how these lead to changes in organizational or individual practices which add value, and how successful practices are diffused.

If how successful practices are diffused is at the heart of innovation, then a central issue is the attitudes which different societies have towards the preconditions for successful innovation. In a comparative study of innovative capabilities in Anglo-American countries, Dunphy and Herbig (1994) argue that the major differences between the performance of the US versus Europe, Canada, and Australia, rest in:

- Their societal structure, including the well-developed relationships between business, government, education, and private investors with access to capital;
- Their society's rewards for performance;
- Attitudes toward innovation;
- Cultural acceptance of research and its commercial exploitation; and
- The structural details with which they stimulate and support the commercialisation of scientific research.

Griffith (2007) considers the relatively poor productivity performance of the UK and the European Union as compared with the US, providing a complementary perspective to that of Dunphy and Herbig. First she observes that:

A consensus has emerged in the literature that faster growth in the US can be traced largely to those sectors that use new technologies, rather than those that produce them.

Next she raises the question why, postulating that the answers are yet to be found:

A wide range of statistics seem to point pretty clearly to the idea that ICT adoption is an important explanation for the productivity gap. Why then have investment rates in the UK declined recently? It seems that some firms within the UK are able to exploit these new technologies to their productivity advantage. What is stopping the others? The main rigidities emphasised in the literature have been in labour markets, and while these may be important in many continental countries, it is unlikely that they are important for the UK given the widespread reforms over the 1980s and 1990s to UK labour markets. What other mechanisms are holding UK firms back? Another one that has been emphasised in the literature is skills, but which skills? Attention has focused on poor management skills – for example, Bloom, Sadun and Van Reenen (2006) showed that US firms operating in the UK are better able to exploit ICT than are UK-owned firms – but others may be relevant. Clearly, many questions remain to be answered.

Driving transformational change, then, is going to require an understanding of what inhibits diffusion coupled with an ability to overcome those barriers. If the barrier is poor management skills, then this initiative will need the means, and the competencies, to ensure that the quality of management is enhanced. If the barriers lie elsewhere, then equally, those will need to be addressed. What is clear is that the governance of the new organisational form will need both the "space" and the mix of capabilities to tackle some deep-seated and difficult problems. This implies both a long-time frame, and a mandate to work across a

very wide range with the minimum degree of "second-guessing" from influential stakeholders.

Creating a true industry partnership - ensuring collaborative decision-making

These two desiderata are taken together on the basis that both are concerned with creating the optimal means for effective working together between the government and other stakeholders.

There has been a growing emphasis on 'partnership' and 'partnership working' within public sector management in recent years. The practice has been particularly common in England as a means of implementing major central government initiatives with a local or regional focus such as neighbourhood regeneration, local strategic partnerships, and other means of implementing 'joined up' delivery across the social services. Although this is a somewhat different policy context from economic transformation, the issues in terms of effective collaborative working across central government agencies, and with other stakeholders are much the same.

The rhetoric of partnership, and the growing use of 'partnership working', have both come under increasing criticism. First, the term 'partnership' carries with it a strong understanding of mutuality in commitment and mutuality in decision-making, amongst other things implying that no one partner is "first among equals". The reality has been quite different. Davies (2003) observes that in England:

The government has implemented urban policy incentives to encourage partnerships. At the same time, it controls local purse strings and seeks to ensure that these partnerships fulfill central objectives. Such an approach encourages collaborative tokenism because partnerships have little power. Business elites recognize this and abstain from the process.

Next, creating effective partnership governance when some parties are appointed as individuals, albeit by virtue of relevant experience, schools, networks etc, and others are appointed as the holders of official positions within a government bureaucracy appears fraught with difficulty. Amongst common experiences have been that the bureaucrat members of governance body may not be given the discretion required to take decisions without reference back, may often be represented by alternates because of the pressures on their time, and may only hold office for part of their appointed time as they move on from the designated position by virtue of which they are part of the governance body.

As effective governance depends on building up trust and understanding amongst the members of the governance body, and on individual members having the mandate to make decisions on matters before the governance body, imbalance between the mandate and commitment of bureaucratic and other members can be a major negative.

A further criticism of 'partnership working' is that the term partnership is often used as a substitute for being specific about the way the intended relationship should work. In a recent critical review of partnership practice in England focused primarily on partnerships between central government on the one hand and local government, the voluntary and community sector and business on the other, Diamond (2006) concludes that:

The shift in the UK over the past 20 years to new organisational forms of public service delivery have been re-badged as "partnership working". The limitations of such an approach and the weaknesses inherent in this model are well known. In particular the label itself is now redundant. We should try to avoid it. More significantly we should be examining and testing in a more focused way the experiences and practice of those engaged in collaborative work. The rush to partnership has created significantly new organisational structures and modes of delivery. We are now at a stage when we need to move beyond this and to explore whether alternative models "capture" what is happening.

The term 'partnership' seems already to be well embedded in the development of this initiative. It is probably not feasible to draw back from that and seek to apply some other term. What is feasible though is to ensure that the arrangements for the design and structuring of this initiative avoid the pitfalls all too common in the practice of 'partnership working' (pitfalls which have also been commented on in relation to the New Zealand practice of partnership working - see Review of the Centre Integrated Service Delivery: Regional Co-ordination - Final WorkStream Report: State Services Commission and the Ministry of Social Development, July 2003).

Instead, what is required is to ensure that the mandate for and design of the organisational form itself facilitates collaborative working. This will require clarity on the nature of the expected relationships between the government and other stakeholders, and on the incentives which different stakeholders will have to underpin collaborative working.

At this stage of development of the policy, it may be difficult to specify exactly how this should be done until one matter in particular is clarified. This is whether the proposed organisational form is itself the "partnership" or 'collaborative' working mechanism, or whether the partnership or collaborative arrangements will sit outside the organisational form, leaving it to focus on its specific role of investing the funding stream available to it so as to best promote transformational change for the food and pastoral sectors.

The need for clarity can be seen from the Cabinet paper's statement of the four main principles that should underlie the partnership's development of strategic priorities. The first principle is stated as "priorities will be jointly developed by government and industry - *this is the cornerstone of progressing as a true partnership*". Apparently undecided is whether this is government and industry sitting outside the new organisational form but developing priorities intended to inform its own development of its long-term strategy, or whether government and industry are sitting around the governance table developing a long-term strategy as themselves making up the governance body.

Allow both industry and government to focus on areas within their own interests but act in such a way as to be mutually beneficial and reinforcing

This seems primarily a matter of the nature of the mandate which the new organisational form has for applying the funding available to it for the purpose of promoting transformational change. This should include a requirement that one of its priorities is to encourage greater collaboration between government and industry in a way which recognizes the comparative strengths of each - government in the provision/production of public goods, and appropriate regulatory environment etc, and industry in adding long-term value to the pastoral and food sectors.

Issues such as co-funding levels, IP ownership and relationship with other parties should be the responsibility of the new organisational form within general criteria set by government in the establishment of the new fund. These could include:

- As signalled by the Cabinet paper, an "aim for overall investment to be matched 1:1 between the public and private sectors" thus providing discretion in individual cases.
- A statement on the government's expectations for the ownership of intellectual property. This is a complex area (see the useful discussion in appendix B of Rand-Qatar Policy Institute (2008)). The decisions taken will be key incentive signals both for industry partners, and for research and other personnel involved in individual projects. Rather than prescribing specific rules, the government may prefer a general statement that the governance body will manage the regime for intellectual property rights in accordance with best current practice so as to optimise the benefit for New Zealand.

Provide medium to long-term investment but with the flexibility to include projects of different timeframes

This is very much a function of the mandate which the governance body has. The presumption is that the governance body will be making its co-funding decisions within the framework of a long-term strategic plan or framework for transformation of the pastoral and food sectors. Some projects may be relatively short-term in nature but others will need to be medium to long-term if the transformation objective is to be achieved.

This means that the governance body's mandate must itself have a multi-year focus. Although there will be a case for some short-term performance indicators (for example development of appropriate systems, strategic plan etc), the major performance indicators will need to be multi-year with a clear understanding that the governance body is in place for the long-term and will not be subject to short-term sanctions for non-performance. This will help ensure that both the governance body, the people whom it engages to develop and deliver its programmes, and its industry and government partners are all able to make their own decisions with confidence in the long-term stability of the entity.

It should be understood that this is not so much a matter of how different structural options facilitate or otherwise medium to long-term investment, as a matter of the "degrees of freedom" in the mandate the governance body has from government. To put it another way, it is government which needs to facilitate the provision of medium to long-term investment by ensuring that the mandate it gives the body is appropriately specified so that the design of the structure itself can proceed in the certain knowledge it is to have the power to undertake medium to long-term investment. Critically, this will include ensuring that both the arrangements for the appointment and remuneration of members of the governing body, and for the evaluation and reassessment of its performance and strategy, underpin the degree of discretion needed for effective long-term investment in an environment of uncertainty.

Include a process of agreeing targets, benchmarks and the steps necessary to achieve these targets using co-funding

The first question that this desideratum raises is whether this is to be a process which the governance body ensures is applied to individual co-funding projects

(and for that matter any projects which may not be co-funded), or to its overall role and function. The concept of agreeing in advance targets and benchmarks for the transformation of the pastoral and food sectors does have some methodological and conceptual difficulties with it. Transformation is not a "painting by numbers" undertaking. Instead, it is somewhat closer to the serendipitous consequence of the alignment of favourable circumstances, leadership, resources, opportunities and other factors which are extremely difficult to specify in advance.

Following an intervention logic process, the governance body could certainly be asked to spell out the rationale for the activities it proposes to undertake, the milestones it would expect to observe, and generally how it would undertake "course correction" where it considered that necessary. It will be important to avoid any suggestion that the process of targets, benchmarks etc will be used to facilitate a degree of micro-management of the performance of the governance body.

Here, there is a parallel with a current debate within the European Research Area on the issue of why European research has been falling behind the US. Bonaccorsi (2007) draws a series of distinctions between so-called slow growth old established sciences, in which Europe appears to specialise, and rapid growth new sciences. One extremely important point he makes is:

Second, this growth is characterised by growing diversity. Discoveries do not follow, as in classical physics or modern high-energy physics, a convergent pattern, in the sense that most scientists agree on suitable research directions. Quite the contrary, there are several research programmes for each new field, each claiming validity, that share common hypotheses rooted in an accepted paradigm, but then diverge, even strongly, on specific sub-hypotheses and on specific directions of search.

In essence, what he is saying is that investment decisions in the new sciences cannot be based on a scientific consensus as to the most promising direction for further research - there is no consensus but a series of contending views. A different approach is required. His argument is that investment should follow performance - support should be given to those scientists, and those institutions, whose track records show the highest propensity to produce good science. His chosen metric is citations in peer-reviewed literature, focusing on the so-called "upper-tail" - citations in the most prestigious journals.

The same issue will confront government in mandating the proposed governance body. It is extremely unlikely that any degree of consensus can be achieved across government, industry and leading research and education institutions on the particular measures which need to be taken to achieve the desired transformation of the food and pastoral sectors. This leaves the option of appointing "the best people" and giving them the "space" they need to develop and implement a transformation strategy. It is an approach which may appear inconsistent with current understandings of accountability for the expenditure of public monies but its adoption may be a condition precedent to achieving success in a highly uncertain and unpredictable environment.

The situation may be different at the level of the individual project, depending on the nature of the project itself. Certainly, there is a case that individuals or organisations seeking funding from the new body should be able to spell out what they expect to achieve, broadly over what time frame, and how that achievement would be recognized. There is some evidence that, on a project by project basis, in areas such as commercialisation of scientific discovery, that an appropriate

focus on business planning and structure can be beneficial. Smith and Pech (2006) provide an overview of the State of Victoria's Science, Technology and Innovation Initiative which was established to facilitate and commercialise scientific innovations. They find merit in putting structure in place but within a culture of flexibility focused on outcomes observing that "One of the major findings of the STI Initiative concerns the development of governance structures for each project. Rather than introducing rigidity and decision speed-bumps, the introduction of well-designed governance structures provides rapid and useful feedback and favourable control measures." They also concluded that "Structure in this case has provided a framework within which each project was able to flourish. Rather than creating rigidity, scientists, reluctant as they may be at the outset, claim they feel a sense of security innovating within the STI structure."

It would be useful for the mandate for the new governance body to include a requirement that it put in place appropriate project governance, monitoring and reporting mechanisms, but recognizing that these will vary considerably depending on the degree of uncertainty inherent in the project itself. For example, commercialising an already extant scientific innovation may be significantly more straightforward than determining the optimal means of ensuring the take-up of new technology by SMEs in the food and pastoral sectors.

Include a process for regular evaluation and reassessment of the strategy

It is simply a matter of good practice that the governance body should ensure its transformation strategy, once adopted, is the subject of regular evaluation and reassessment. Good strategies are not set in concrete to be reviewed annually or on some other cycle. Instead, they should be regarded as continually evolving in response to feedback, new information, ongoing analysis, the match between expectations, milestones and outcomes and so on.

The question of the extent to which the governance body's strategy is subject to external evaluation and reassessment is a separate matter.

The Rand-Qatar Policy Institute (RQPI) report on the design of the Qatar National Research Foundation observes that:

Institutional-level evaluation will be crucial, even in the earliest phases of QNRF. A rigorous evaluation of the fund's performance in meeting its goals and furthering its mission is important not only for planning future growth, as addressed below, but also for solidifying its role in the research community in Qatar and maximizing its impact on research worldwide.

To promote quality and transparency and better serve Qatar, we also recommend formally incorporating outside views, through surveys or third-party reviews.

This comment was based on RQPI's review of current practice within, especially, American foundations. The responsibility for evaluation, and acting on the findings from evaluation, rests with the board of the foundation.

The case for regular evaluation and reassessment is incontestable. The crucial question is who holds the responsibility for determining what consequences should flow. At one extreme evaluations would be confidential to the governance body and simply used by it as a means of determining the extent to which any changes were required. At the other extreme evaluations would be public, wholly or partly undertaken by external parties, and with the responsibility for

determining consequences resting with ministers or other external decision-makers. As a midpoint, evaluations would be the responsibility of the governance body, incorporate outside views and be publicly available (and perhaps tabled in the house?). Decisions on what steps should be taken as a consequence of the findings from evaluation would be the responsibility of the governance body.

At issue is the extent to which the governance body has the discretion to develop and implement the proposed transformation strategy. To be effective in its role, the governance body will need to know that it does have the mandate not just to develop a transformation strategy (through a process which will obviously involve a high degree of consultation with stakeholders including government, research and educational institutions and the private sector), but also to implement the strategy in relative freedom from attempts by one or more stakeholders, including government, to apply short term "course correction". This follows from the fact that any transformation strategy will inherently be operating in an environment of relative uncertainty and in which the impact of implementation initiatives may take some considerable time to become apparent.

Current New Zealand practice for the oversight of crown related entities, including SOEs, including both the appointment of members of governance bodies, the terms on which they are appointed, and the oversight of their performance has attracted concern from within the talent pool which the government seeks to tap. In 2006 Dr Richard Norman of Victoria University's Management School reported that research into perceptions of directors of the largest state-owned enterprises found that "directors were concerned about undue political influence on appointments, a lack of involvement by board chairs in appointments, undue weight placed on 'diversity' based appointments, and levels of remuneration." (see Victoria management school newsletter issue 2 2007). There is considerable anecdotal evidence that this concern remains, and extends into the extent to which ministers and others seek to influence the strategic direction of government controlled organisations.

In many respects, it is understandable that the government should seek to intervene, perhaps extensively, in the governance and management of organisations which it owns and/or controls. Generally, governments hold the ultimate accountability for performance. Often the organisations represent an integral part of the delivery of important government strategies.

In this case however, there is an important judgement call to make. If this new entity is established within the conventional framework for government oversight, monitoring and evaluation, then it may face a very real difficulty in recruiting and retaining the calibre of people required at a governance level and, even if it does so, in getting the full commitment needed from them to optimise the chance of success for this initiative. The arrangements for regular evaluation and reassessment of the strategy must be designed to match the mandate, including the degree of discretion, required to attract and retain a governance body of the calibre this initiative requires. This will include recognizing that what has to be put in place is a multi year strategy whose results will necessarily take time to become fully apparent.

To the extent possible, utilise existing funding infrastructure

In one respect, this is what in colloquial terms is often referred to as a "no-brainer". There is no point in trying to reinvent the wheel, especially if there are already well experienced and established processes in place which can be accessed.

However, the matter is not quite as simple as that. The governance body needs to have the discretion to determine how best to implement the initiatives it wishes to put in place. It is at least theoretically possible it may conclude that part of the problem it is seeking to remedy is the way that existing funding mechanisms have worked in practice. It should be free to make that judgement, and act on it, should it wish to do so.

This is another matter which goes to the ultimate accountability of the governance body for delivering on its mandate. Notwithstanding the comments in the previous paragraph, it is good sense that as a matter of principle the new entity should use existing mechanisms where appropriate. From an accountability perspective, though, the new entity must be free to use what it regards as the best processes to achieve the outcomes it seeks. If there were any sense that it was being compelled to use one or more existing mechanisms, at least two consequences would flow:

- Its natural response to any shortcomings in performance would be to blame the funding mechanism and its lack of discretion to choose an alternative.
- The funding mechanism itself would not face the necessary incentives for performance. If the new entity becomes, in effect, a captive client this reduces the incentive for the funding mechanism to ensure that, regardless of how it has previously acted, it makes every endeavour to genuinely understand what is required within this new activity and how best to deliver to meet the new entity's requirements.

PRINCIPLES FOR DESIGNING THE ORGANISATIONAL FORM

In this section we first look briefly at experience in the establishment of comparable organisations. We then look at the principles which should govern the establishment of the organisational form for this initiative. We assume that two separate set of principles will be involved. The first is principles for design of the organisational structure (constitution) itself. The second is the principles governing the mandate which the organisation will be given by government. This may be in the form of a government policy statement. It may be in the form of a preamble to the constitution of the organisation, setting out the government's desired but non-binding guidance for its operation.

Comparable experience

The establishment of the proposed organisational form does have two recent parallels internationally. These are the creation, respectively, of the Science Foundation of Ireland and of the Qatar National Research Fund. Both have placed an emphasis on creating high-calibre boards drawn from leaders of the research and business communities not just domestically but internationally.

The Science Foundation of Ireland is set up as a statutory agency with ministerial accountability, but with a substantial degree of discretion vested in the board. There appears a strong recognition of the importance of creating an environment in which high-calibre individuals are prepared to make a significant commitment. There is though a qualitative difference from the current proposal, which makes ministerial oversight less of a problem. This is that the principal mission of the foundation is to develop research capability within Ireland. Its strategic plan for 2004-2008 expresses this as:

Since research competitiveness depends above all on great research skill and energy, SFI invests primarily in the target fields that ensure Irish institutions are able to retain talented scientists and engineers within the country, attract them from around the world, and develop new scientists and engineers with strong research skills. SFI also helps build new centres and institutes of excellence, and ensures that researchers have the equipment, laboratories and other infrastructure essential to a world-class research environment in the priority areas.

The present proposal with its emphasis on economic transformation has a broader focus, and one which requires a higher degree of discretion in the development of strategy and implementation. To put it another way the "degrees of freedom" required for effective governance are somewhat greater.

There also qualitative differences with the Qatar National Research Fund. Although in one sense it is a national fund, funded by a government, the nature of the government makes the fund and its parent, the Qatar National Foundation, more akin to a private foundation. In terms of structure, rather than being given an independent board as recommended by RQPI, it is instead a unit within the

parent organisation but again, the parent organisation board encompasses a range of highly capable people with a strong element of international experience.

In developing its recommendations for the establishment of the Qatar National Research Fund, RQPI undertook a review of characteristics of well performing grantmaking boards especially in a research environment (the majority of these were actually the boards of major American foundations, but the basic principles apply to other structures undertaking a similar role). Its overview of comparable organisations led it to strongly support the concept of the principle of "active engagement" by the board as basic to structuring the governance arrangements. It had this to say of the research and experience it surveyed:

Further elaborating on the principle of active engagement, the surveyed CEOs saw the most effective boards as "meeting more frequently and spending more time on foundation business outside of scheduled board meetings" and "substantially more involved in assessing the foundation's social impact, contributing subject-specific expertise, and developing the foundation's strategy" (Buchanan, 2004, p. 3). The report concluded, "Boards that are perceived as most effective by their CEOs are highly proactive and deeply engaged in guiding and evaluating the substantive work of the foundation" (Buchanan, 2004, p. 3).

However, the call for active engagement is not a call for micromanagement. The CEP report notes that "the data . . . seem to reflect a broader shift in the expectations of board governance from addressing basic 'operational' aspects, such as approving grant docketts or reviewing investments, toward the more substantive issues of policy, strategy, and social impact" (Buchanan, 2004, p. 13).

Organisational design principles

1. The Irish experience and the Rand-Qatar work support the proposition that the first principle for the design of the new organisational form should be that of creating a context which will attract high performing individuals who will embrace the principle of active engagement. In practice, this carries requirements with it:
 - A preparedness to look widely, including internationally (especially given the international and market focused vision), to recruit the best possible combination of skills, experience and networks.
 - A willingness to "meet the market" in terms of rewarding members of the governance body. This would be a departure from the current practice for remunerating appointees to the boards of Crown related entities but will be a condition precedent to attracting the right mix and calibre of people and securing their full commitment.
2. The provisions in the constitution for the appointment and reappointment of members of the governing body should be explicit that the overriding

principle for appointment is "fitness of purpose" designed around the scale of the task and the international and market focused orientation of the proposed transformation. The one exception is that, given the nature of the government involvement, it is appropriate that one senior public servant should be appointed by virtue of the position which he or she holds. Ideally that would be a senior adviser to the responsible minister. Given the scale of government funding, it seems inevitable that the responsible minister will take the lead role in the appointment process, but there should be an obligation on the Minister to work with representatives of other key stakeholders, perhaps chosen from industry organisations, in seeking a consensus on selecting individuals who best match the stated criteria for membership of the governing body.

3. The reporting, accountability, monitoring and evaluation requirements must support the necessary "degrees of freedom" to give the board of the new organisation in the confidence and certainty that they can develop and implement a transformational strategy which may take some years before its full impact is apparent. It will be important to avoid the perceived risk of short-term "course correction" by external stakeholders if the right calibre of people are to be attracted.
4. The organisation itself should be a separate legal entity with full body corporate status and powers. The exact nature is a matter for the government's legal advisers to determine. If the stated principle on reporting, accountability, monitoring and evaluation is to apply the organisation will need to be exempt from much of the Crown Entities Act.
5. The mandate, and the structural arrangements for the new organisation, should both explicitly recognize it will be taking a multi-year focus. This includes ensuring that it has the necessary "degrees of freedom" to develop and implement a strategy which will take some years to deliver its full results. The Industrial Development (Science Foundation Ireland) Act 2003 provides a loose parallel for what could be included in the constitution on the development of a strategic plan. It provides:

23.—(1) As soon as practicable and after the establishment day, and thereafter within 6 months before each fifth anniversary of the establishment day, the Foundation shall prepare and submit to the Minister a plan (in this section referred to as a "strategic plan") for the ensuing 5 year period.

(2) A strategic plan shall—

- (a) comprise the key objectives, outputs and related strategies, including use of resources, of the Foundation,
- (b) be prepared in a form and manner in accordance with any directions issued from time to time by the Minister, and
- (c) have regard to the need to ensure the most beneficial, effective and efficient use of resources of the Foundation.

(3) The Minister shall, as soon as practicable after a strategic plan has been submitted to him or her under *subsection (1)*, cause a copy of it to be laid before each House of the Oireachtas.

(4) The Foundation shall prepare and submit to the Minister by the end of each year a programme of the activities it proposes to carry out in the following year.

Consistent with the argument on "degrees of freedom" MDL would suggest omitting any requirement that the plan be prepared in accordance with

directions issued by the Minister but provide for it to be made publicly available (subject to any issues of commercial confidentiality) and tabled in the house (recognizing that requirement may need to be elsewhere than in the constitution of the organisation).

6. The structural arrangements themselves should provide for regular evaluation and reassessment of the strategy and performance of the organisation. This should be done so as to be consistent with the "degrees of freedom" required for the development and implementation of a long-term transformational strategy. MDL would favour this being done by the organisation's constitution providing for regular evaluation and reassessment, to include provision for public input (including stakeholders) and for the resultant report or reports to be published (except to the extent that considerations such as commercial confidentiality prevent this). The organisation should also be required to publicly report its response to any recommendations including the actions taken to address them. MDL does not favour any requirement for ministerial direction or intervention being included in either the constitution, or any statutory arrangements for establishing the new organisation in order to emphasise that the governing body does have discretion to act. In the world of reality, this will not prevent government intervention if this is seen as essential. It will simply raise the barrier from what is usually the current case of ministers considering the political costs and benefits of giving a ministerial direction, or dismissing a board, to a new level of ministers needing to legislate or regulate in order to intervene. This would clearly be a departure from current practice, but is recommended because of the importance of giving a strong signal to potential appointees that the principle underpinning the establishment of this organisation is one of selecting the best people, giving them a mandate, and then giving them the freedom to get on and deliver against it.

Principles for mandate design

7. The new structure should have a mandate designed to give it the required discretion and "degrees of freedom".
8. The mandate should also emphasise the importance of collaborative working, whilst leaving it to the new organisation's discretion to determine exactly how it should implement that requirement. Separately, but within the principle of collaborative working, the mandate should avoid the suggestion that the new organisation's major collaborative relationships/investments may in some sense have been predetermined. The Cabinet paper suggests that there are already substantial promises of co-funding support from significant organisations in the food and pastoral sectors. This measure of support is undoubtedly welcome, but the new organisation's board must be free to determine whether or not taking up those expressions of support is the best or an appropriate means of implementing its transformational strategy (obviously there will be something of a presumption in favour of doing so but the point is to ensure that the board has freedom of judgement).
9. The mandate should include, as a statement of principle, that the new organisation will "aim for overall investment to be matched 1:1 between the public and private sectors" but with discretion to vary the funding mix project by project.

10. The mandate should include a requirement that the new organisation put in place appropriate project governance, monitoring and reporting mechanisms with discretion to vary those depending on the needs of the individual case.
11. The new organisation should have the discretion to manage intellectual property rights, drawing on current best international practice, but in the best interests of New Zealand as it sees it.
12. The mandate should state as a principle the desirability of using existing funding and other infrastructure where, in the organisation's view, that was appropriate.
13. The mandate should acknowledge that, although there are significant expressions of support already in place, the governance body retains the discretion to determine whether or not, or to what extent and on what conditions , to take up those offers.

CONCLUDING REMARKS

This paper has been prepared as a think piece. It draws on the personal experience of MDL over some years of considering issues of governance and structure both generally and in respect of New Zealand's research funding and delivery mechanisms.

It reflects a view, developed through that experience, that it is virtually a pre-condition for effective transformational investment that those responsible for making investment decisions have a high degree of autonomy although coupled with transparency in terms of their operations. This is especially the case when the intention is to ensure that those responsible for the governance of the organisation are the best possible people for the job, fully committed to the organisation's success, and believe that they have the necessary "degrees of freedom" to develop both long-term strategy and long-term investment activity in an inherently uncertain environment.

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