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Ownership Matters: A Government Perspective

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The following is the full text of a lead article published in the June 2000 Issue of the NZ College of Management's Development Digest.

In 1996 Professor Allen Schick reported on his study of state sector reform in New Zealand. He found that New Zealand had passed the 'experience' test of managerial revolution with "flying colours". Among other tests he listed, "Chief executives and managers know and accept that they are judged on the performance of their organisations."¹

His "roll call" of New Zealand's pioneering accomplishments in government management is impressive: adopting full cost-based accounting; implementing output budgeting in a purchase model; giving managers discretion in using inputs; introducing incentives for efficient use of capital; and a comprehensive accountability regime.

Since then some important new emphases have taken hold in the thinking and work being done to build the capacity of the state sector to help government achieve its larger strategic agenda.

Of real interest is the attention now being given to government as the 'owner of the enterprise'. The commercial world might with reason find it remarkable that the hundreds of millions of dollars government spends on its core public service has had government predominantly in a short term **purchase** relationship with the agencies it owns, concerned with the production of contracted outputs. Why is it not an **investment** relationship, concerned with the present and future capacity to produce what government wants the public sector to be able to do next year and the year after?

State Services Commissioner Michael Wintringham put it this way in his 1998 Annual Report (page 7): "Ahead of us is the opportunity to enhance those [public service and state sector] organisations so that they are even more capable of serving the country. The issue now is how we make those organisations more capable."

To look for a moment at what an ownership focus might imply:

- first, it permits decisions to be made on a larger scale than is customary for a state sector organisation. It requires the organisation to look beyond questions of quality of service or 'product' towards questions of ability to innovate, effectiveness of external relationships and management and skill succession
- second, owners (should) have a long-term viewpoint and long-term objectives which (should) change their view of creating value and maintaining capability.

These place a distinct set of issues on the management agenda, ones to do with creating value in areas that are central to the interests of a government owner. As a way of seeing what would represent value creation, Professor Schick turned to how shareholders in a company would perceive value: the skills, resources and initiative for the organisation to change as the market for goods and services changes; enhancement of staff morale and skills for motivated and capable workers; strength and vision to look towards the different organisation it may become in the future; and the right investments in physical and human capital to prepare for medium term tasks and beyond. Financial health will not be a sufficient measure of how well the ownership interest is being fulfilled.

Management thus needs to be held effectively accountable for a wider set of performance factors, to do with strategic and organisational capacity. This will include for example expenditures on research and development and training, and taking the perspective of the **whole** organisation.

What are the implications of an ownership focus in government? One obvious result is to highlight the complexity of the public sector manager's task - which is, it must be said, not widely understood even now. It will therefore almost certainly call for very good communication of very good information about the interaction of resource allocation, tasks and performance. Other highly important implications are:

- Investment - as the central concern of ownership, investment is not mere rhetoric. It is the means for bridging the present and future capability of the organisation, not least the 'people' capability.
- Measurement - an ownership approach requires being able to measure capability in its full sense. The tools of measurement need to be developed.
- Assessment of strategic risk - what are the risks to an organisation's ability to maintain and enhance capability in the future?
- Accountability - delivering on the ownership interest adds a whole new dimension to accountability, one which is not only about having the relevant measurement tools, but is also about culture.
- Strategic engagement - the dialogue between managers and Ministers has to occur across the role boundaries, if proper understandings are to take root about the nature of investment and value creation.

Just one example of a management task that becomes 'bigger' when looked at from an ownership interest is the management of external, or stakeholder, relationships. Companies increasingly recognise the strongly negative or positive influence these may have on the net present value of the business, depending on how well they are managed. For government, one risk from poorly managed external relationships is the reduced degrees of freedom to take hard resource allocation decisions.

Another example is the outcome focus associated with government's ownership interest, which points to more co-operative ventures within the public sector than seen with the past emphasis on outputs and demarcated structures. That past

emphasis, ultimately, is not in the best interest of government as owner.

Attention to ownership seems poised to take the public sector into the next generation of management change - requiring, to plagiarise Health Funding Authority chairman Dr Graham Scott from another context, "new alignments, new relationships and rapid evolution of institutional capacities."²

FOOTNOTE

1. "The Spirit of Reform: Managing the New Zealand Public Sector in a Time of Change", p 87. Professor Schick is Professor of Public Affairs at the University of Maryland and Visiting Fellow at the Brookings Institution. His study was commissioned by the State Services Commission and the Treasury.
2. Continuity and change in Public Management: Second Generation Issues in Roles, Responsibilities and Relationships" in "Future Issues in Public Management", proceedings of the 1998 public sector management seminar., page 25.

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