

23 February 2018

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Response to Draft Report: *Measuring and improving state sector productivity*

The Draft Report is an impressive attempt to get at the heart of state sector productivity. There is much the Mission agrees with in the draft and the Commission is congratulated on the quality and reach of the Draft Report.

We offer the following comments.

Organisational Culture and Leadership

There is a leadership paradox within the state sector. By law, one of the key responsibilities of leadership – strategy – lies with the political wing of government. But also by law, the key day to day levers of leadership – particularly the artefacts necessary for setting culture and values – lie in the administrative wing.

While this protects the public service and the taxpayers from the truly interesting choices the electorate and their representatives sometimes make, smoothing out the transitions between governments and maintaining standards for the content of public policy; it hampers both the political and administrative wings from establishing a public service culture that does not revolve around risk mitigation.

It may be that in order for state sector productivity to improve (a decidedly non-risk averse exercise, requiring as it will experimentation and learning by doing) innovations may have to be first conducted at a slight remove from the state sector, only to be incorporated once the innovations have some track record and stability (of performance).

This will still require the development of a reliable process by which “proven innovation” (the public service’s *innovation* paradox) may enter the sector, providing a structural solution that would otherwise be difficult to achieve without completely reimagining the relationship of the state sector to Ministers.

Page 9 for many public services, there is either no price information ... or only limited price data.

This is not only true for state sector services but often also for services purchased by the sector, such as social services. Even where there may be a contracted value, that value is usually set by the dominant purchaser in the market.

The cost of the services purchased (typically 65-75% wages) are also subject to the effects of monopsony, as the crown is also as the direct and indirect purchaser of whole classes of workforce output (e.g. nurses, teachers, social workers) effectively acting as the only arbiter of pay rates.

Page 10 external influences do not apply as strongly to the state sector

Notably, the customers /clients / students / patients / users of state sector or state sector purchased services do not usually have easy recourse to an alternative supplier. In the case of social service clients, even where there are alternative providers in the same market, the clients’ knowledge of those services, their willingness, and their ability to switch, even if they recognise that the service they are receiving of

insufficiently quality, are profoundly limited.

It is simply not possible in social services for the customer to signal to state sector providers their desire or interest in product or service differentiation or iteration. With no feedback from the primary users, the sector innovates – if it does at all – in the absence of any real customer information.

Page 38 incentives for agencies to focus on measured outputs at the expense of unmeasured outputs

Page 123 performance based pay

Page 39 the choice of outputs to measure ... existing data availability

Measurement acts not only as a control device (did we do what we intended, why not) but also as a powerful organisational cultural device, signalling the organisations values (what is important).

Performance based pay can therefore be seen not only as a direct reward for specific individuals, but as constituting a broader statement of organisational priorities.

Noting Drucker's *culture eats strategy for breakfast*¹, and Pink's assertion that the three factors that lead to better performance (at work) are: autonomy, mastery, and purpose², the Mission suggests that the Commission consider that the signalling benefits of measurement are as important to productivity as the control benefits.

That being the case, the confirmation bias generated by using only existing data sources must be addressed. Current sources of data for the state sector have been built to meet the sector's established culture of risk aversion. Third party data collection, largely driven by the state sector, is similarly weak and defensively positioned.

So, while we agree with finding F3.2 that improvements to data collection should be undertaken, the Mission recommends that this be done with a view to also establishing intra-sectoral cultural cues to drive improved productivity.

Page 59 box 5.2 figure

While understanding this is likely too late in the day to be incorporated, after some period of consideration and reflection, the Mission suggests that this graphic might be more reflective of client reality were it plotted on three axes:

- Client capability (skills)
- Client capacity (bandwidth)
- Complexity of client need (degree of difficulty)

While client capacity may have been subsumed into the complexity axis in the graph, the Mission contends that bandwidth is not axiomatically the same as degree of difficulty and suggests that it may be helpful to disaggregate the two.

Page 86 figure 7.1

We note that the figure does not acknowledge the role of organisation culture, and consider that this is an oversight.

We also wonder if in the first bullet point in the central "Productivity" box the words *Using less of what we value* might better be worded *Using less of what is scarce*, as social services tend to value very highly intangible assets such as compassion, kindness, and dignity, and are very likely to assume that these are inherent to high quality productivity.

¹ <https://quoteinvestigator.com/2017/05/23/culture-eats/>

² <https://www.thersa.org/discover/videos/rsa-animate/2010/04/rsa-animate---drive>

Page 107 figure 8.2

If, as is indicated in this figure and confirmed by lived experience, the state sector is generally a hermetically sealed system; self-informing and self-reliant, then this is probably the greatest barrier of all to innovation by the public sector: that it relies upon the closed loop of its own society to deliver new ideas.

We cannot see represented in the graph the cultural barrier that exists within the public service to innovation from outside its own borders and strongly recommend that this be included.

Page 128 NGOs ... contracts allow a wide variety of approaches for delivering those outcomes

Programmes addressing the same client group may be differentiated by state sector investor, but typically contracts are quite restrictive, especially when operating in conjunction with external quality assurance bodies such as ERO (for Ministry of Education) and NZQA (for the Tertiary Education Commission).

It has also become the habit of funders such as MSD and Oranga Tamariki to roll over contract provision, removing the stress for "successful" providers of reapplication and contest. This is a kind of "contracting for a satisfactory minimum" and acts, inadvertently, as a barrier to innovation.

There simply is no reliable pathway for innovative social services product to enter into vote funding support. As Frank Zappa once said *without deviation from the norm, progress is not possible*.

If the state sector is to improve its productivity, it must resolve its innovation paradox.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Laura Black', with a stylized flourish at the end.

Laura Black
Director