



# Working Paper No.18

## Whither Accountability?





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Bruce Anderson and Lynne Dovey  
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## Abstract

This paper looks at issues with future accountability arrangements in the light of changes currently being made to the New Zealand system of public management. It defines the purpose of accountability as closing the performance management loop by the provision of information and consequent rewards and sanctions. The paper argues, among other things, that current accountability arrangements rely very heavily on informal incentives, that the actual effects of current accountability arrangements are uncertain and unclear, and that the appropriations system needs greater flexibility to cope with the full range of government activities. The paper also provides some suggestions for accountability arrangements, including a specifying a set of characteristics for good performance management and accountability under joint work and power-sharing, and some general principles for accountability arrangements.

*This paper was written while the authors were based at the State Services Commission. At time of publication, Bruce Anderson is Chief Executive of the Leadership Development Centre, Wellington; and Lynne Dovey is on secondment from the State Services Commission to the Department of Child, Youth and Family Services in Wellington, where she is serving as National Manager (Programme Implementation Programme) dealing with oversight of the new residential services programme and the cross cutting project on children with high and complex needs.*

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*Derek Gill, Branch Manager  
Strategic Development Branch  
State Services Commission  
Email: [derek.gill@ssc.govt.nz](mailto:derek.gill@ssc.govt.nz)  
Facsimile: +64 4 495 6699*

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## Introduction

This paper is a result of a project on accountability arrangements and summarises a range of issues about the future of accountability that should be looked at now, not least because of pending amendments to the Public Finance Act. It is based on a series of four working papers, which were discussed by a cross-agency working group, an SSC internal review group, and various other central agency staff.<sup>1</sup>

The project on accountability arrangements started off with an acceptance of the fact that current development initiatives such as the Review of the Centre (RoC), Managing for Outcomes (MfO), and E-Government are trying to focus the Public Service on better performance and results for citizens and for society as a whole. Common themes to these initiatives are:

- The need to create a climate within government that is more capable of, and responsive to, innovation and collaboration;
- The fact that “one size does not fit all”;
- Services designed for and with local agencies and communities are likely to be more successful than those which are “imposed” from the centre;
- Information and communication technology has created knowledge-based work which in turn changes our organisations and society; and
- Diversity and complexity are inherent to our public management environment.

A key question in all of this is, “Where does accountability fit?” Our present system of accountability is based on mechanisms built around a Westminster-style Parliament and principal/agency theory, which gives us a vertical and singular model of accountability. It was thus considered that the adequacy of our current accountability mechanisms be re-examined in light of the impending pressures to change the way we conduct government activities and services. These pressures are raising such questions as:

- How might formal accountability arrangements be designed in an outcomes-based management system?
- How might accountability mechanisms be designed for new delivery methods with less linear governance arrangements and with more diffuse or equalised power (for example, partnerships with local government and voluntary groups, and power-sharing with communities)?

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<sup>1</sup> These contributors were as follows: (a) **Cross-agency working group**: Peter Martin (DPMC); Sonia Wansbrough, Anna Cook, Jonathan Ayto (Treasury); Anne Gooch (Te Puni Kokiri); Jim Olson (OAG); Hugh Oliver (SSC); (b) **Internal review group (SSC)**: Ann Neale, Alan Jones, Shane Munn; (c) **Other contributors**: David Smyth, Shenagh Gleisner, Malcolm Inglis, Celia Fullerton-Smith, Derek Gill, Tony Hartevelt (SSC), Ken Warren (Treasury).

The four working papers were: (1) *Accountability: Definitions, Current State and Problem Statement* – explored the current context in New Zealand and internationally, through a literature review, and made a first attempt at a “problem statement”. (2) *What are the implications of Managing for Outcomes (MfO) for our accountability system?* – explored the main design characteristics of MfO, its implications for accountability, and existing and possible accountability arrangements for supporting it. (3) *New delivery mechanisms* – looked at current changes in the delivery of government services, mainly in local government and the regions, and discussed what these might mean for accountability arrangements. (4) *Definitions and elaboration* – went back to basics to address “What is accountability?”, explored accountability under power-sharing, drafted a set of principles, and described the performance assessment system for departmental Chief Executives. The papers remained in draft form at all times and, therefore, may not be treated as authoritative.

This paper is an attempt to come up with a response to these and other questions. It covers, at a summary level, the following areas: (a) the definition of accountability, (b) accountability arrangements under various domains, (c) possible principles for accountability arrangements, and (d) areas for further work. While the paper is mostly about accountability arrangements for the Public Service, it excludes accountability arrangements *within* departments; the accountability of politicians to either national or local electorates; and the specific application of accountability in the Crown sector and local government, although most of what the paper focuses on is relevant to all tiers of government.

### **What is “accountability”?**

There are many views of what “accountability” is, and what it means. At one extreme, some take it as the foundation of government performance management systems, from which all else springs. Much development work on these systems over the last fifteen years have as a major building block the accountability of agents to principals. At the other extreme, to some it refers to reports that need to be prepared and/or read that only gets in the way of their real business. Accountability can also become code for finding someone to blame (which appears to be the case in New Zealand).

We see accountability as a relationship based on the provision of information about performance from those who have it to those who have a right to it, either because they have the power to reward or sanction, or because they have a “right to know”. As a formal device, it includes both agent responsibilities (to inform) and principal responsibilities (to incentivise – to reward or sanction). Its primary purpose is to close the performance management loop.

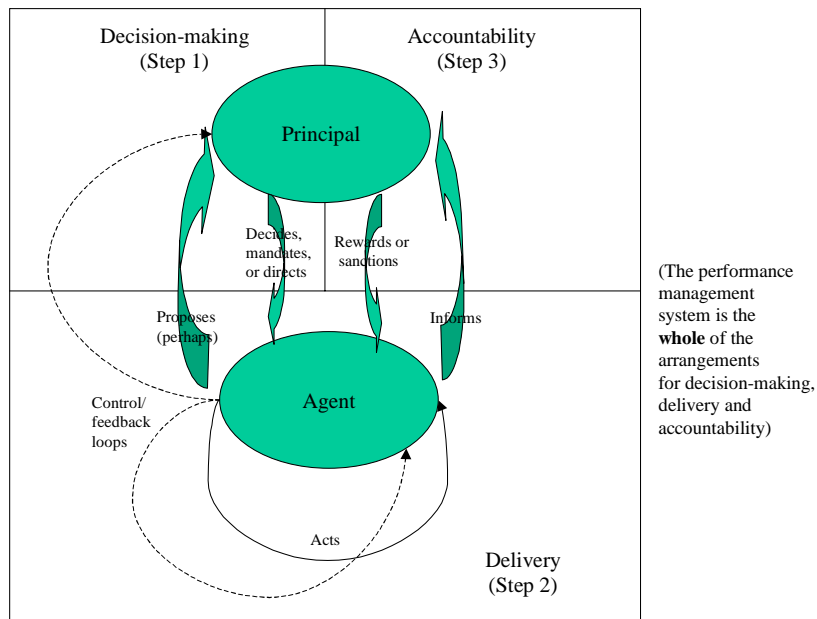
Accountability *is not* decision-making about government activity – information for decision-making purposes may also contribute to accountability, but decision-making is a separate process. It is only part of the overall performance management system,<sup>2</sup> the most critical other parts of which are strategic guidance and conversation, the decision-making circle of planning and authorisation, and control feedback loops.

Figure 1 below sets out the notion of accountability within the context of the overall performance management system, for a simple principal-agent relationship.

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<sup>2</sup> We do not use the term “governance”, but “performance management”, to reflect the overall arrangements to manage performance; thus used, we think the terms are close to synonymous.

Figure 1. Simple Principal-Agent Accountability



Some useful questions to ask about any accountability arrangements are:

- Who will be held to account?
- Who will hold them to account?
- How and when will they be held to account?
- For what will they formally be held to account?
- With what effect (reward or sanction)?

### Do accountability arrangements really matter (Take 1)?

One challenging question on this matter has always been, “What difference does accountability actually make, beyond making people comply with certain reporting requirements?” When we combine the formal and informal aspects of accountability arrangements (for example, by adding Parliamentary, Ministerial and public inquisition, and their moderating effects on behaviour to the formal requirements to report on performance), there is little doubt that accountability has a significant effect on behaviour, but how large it is, relatively and absolutely, and whether its effects are as intended, are both unclear.

To the extent that accountability is a closure, i.e., letting stakeholders know that responsibilities have indeed been properly carried out, this need not worry us too much. To the extent that its function is to incentivise, i.e., to reward or sanction current behaviour with the intent of influencing future behaviour, this is an important question, which we will return to later on in the paper.

### Current accountability arrangements

The reforms of the late 1980s put accountability and control at the heart of our performance management system. For the purposes of this paper, the most significant element in that

redesign of the system was the ex ante specification of outputs (i.e., goods and services), as the basis for Parliamentary appropriation of funds and subsequent reporting.

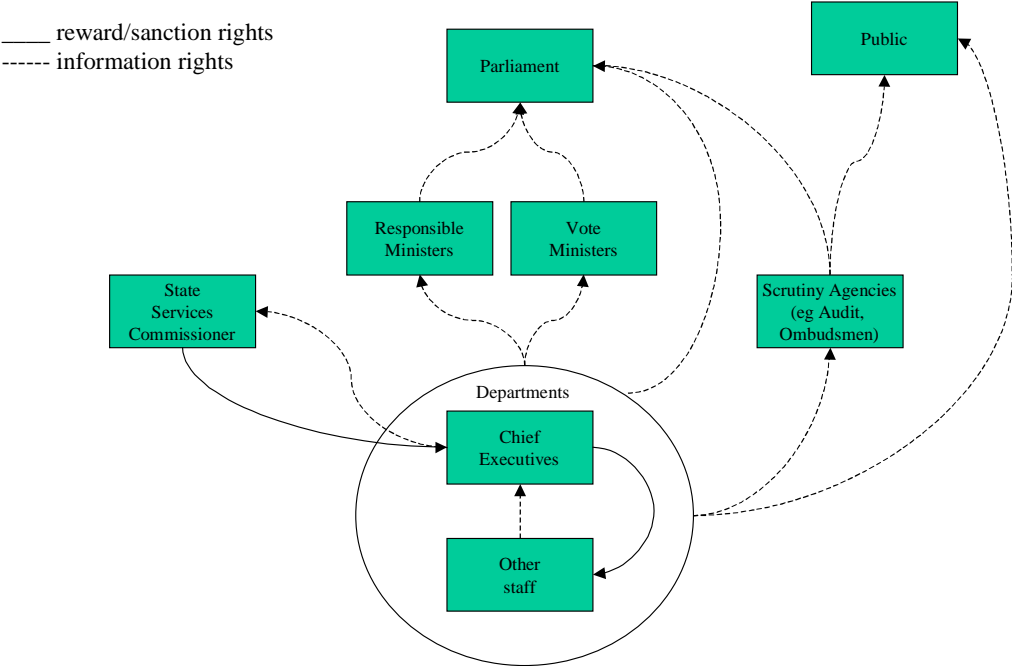
Our system has a range of formal accountability relationships with a range of stakeholders for various aspects of performance. The core elements for the Public Service are:

- the annual requirement to report performance (primarily against output-based appropriations) as a basis for Ministerial, Parliamentary, and public inquisition;
- the annual performance assessment (and consequent performance pay and contract renewal) of Chief Executives by the State Services Commissioner; and
- access and reporting by scrutiny agencies such as the Ombudsmen and the Audit Office, on either a systematic or a demand-driven (inquiry) basis.

Figure 2 below summarises the main reporting relationships underpinning the accountability arrangements that are evident in the New Zealand Public Service. The figure is simplified, mostly in that:

- the dotted lines each represent different sorts of information rights;
- it treats central agencies and other scrutiny mechanisms within government as simply “advisers to Ministers”, and ignores them; and
- external scrutiny agencies may have some decision rights (e.g., the Ombudsmen’s power to direct) but they are not generally related to incentives (i.e. the power to reward or sanction).

Figure 2. The Key Reporting Relationships in the NZPS Accountability Arrangements



The notable features of the NZPS accountability arrangements are that:



- there is a range of accountability relationships, with numerous players, and a high degree of transparency of process (for example, Financial Reviews and Parliamentary Questions and debate);
- there is only one genuine reward/sanction mechanism built into the system for departments, the State Services Commissioner’s power to assess and reward Chief Executive performance; and
- a high degree of reliance is placed on ex ante specification (through the output-based appropriation system) and informal incentives (through reporting and opinion forming).

In summary, it must be said that at the formal level, our system is reasonably strong on closure through information, but weak on incentives.

The process for the appraisal and reward of Chief Executives is managed by the SSC under Section 43 of the State Sector Act. At the formal level, it involves reviewing performance and reporting to the appropriate Minister or Ministers. Performance pay and contract renewal are the main instruments used for formal reward and sanction. Whether the process is effective or not is quite opaque to those outside it.

There are no formal “systemic” incentives for good performance at the departmental level, although they have been considered from time to time. Savings made are automatically returned to the public purse (so the motivation is to spend 100% of funds appropriated); better performance does not mean release of more funding or expansion in responsibilities; and poorer performance can lead to more rather than less money being appropriated.

The introduction of an output-based appropriation and reporting system had a major positive impact on performance and accountability. However, while suitable for a significant proportion of government activities, it does not exhibit the flexibility needed to cope with the whole range and development of those activities. For example:

- the primary peace-time mission of Defence is to maintain a capability, rather than to deliver outputs;
- process-based agencies (e.g., welfare services, Police, and regulators) have continuous difficulty in moulding their performance management systems to an outputs basis;<sup>3</sup>
- the units of appropriation are Votes, always within departments, which makes funding joint work more difficult;<sup>4</sup> and
- spending on strategy, relationships, and human capability is all treated as overhead in a system that is designed to focus on control of spending on outputs.

As for the informal incentives in our system, they are based on the wide availability of information, and of forums for discussion and debate, most particularly in Parliament. We are in a small community, with few degrees of separation. Opinions formed and expressed in the Cabinet, Parliament, and the media directly affect the reputation and position of public servants

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<sup>3</sup> James Q Wilson has developed a tentative typology for government agencies as production, procedural, craft, and coping which may be useful in reconsidering the bases of accountability (*Bureaucracy: What Government Agencies Do and Why They Do It*, New York: Basic Books, 1989, pp. 158-171).

<sup>4</sup> However, Treasury’s current plans for amendments to the Public Finance Act should make this more flexible (see also the later discussion in the paper of accountability for joint work).

– “everybody is continually calibrating everybody – but according to their own notions of what constitutes good performance”.

We do not think the informal system is badly out of alignment with the formal at this time – for example, Ministers have a history of reacting negatively to surprises from controllable events, but are much more accommodating about uncontrollable events. However, there are considerable risks in placing too much reliance on informal incentives – poor quality decisions, loss of transparency, and diminution of trust are potential ill-effects.

### **Accountability arrangements under *Managing for Outcomes***

Current initiatives such as *Managing for Outcomes* and the *Review of the Centre* are aiming to achieve a better balance in the performance management system between accountability and control (which has been predominant) and management and improvement.

Managing for Outcomes (MfO) is attempting to broaden the focus of Public Service management from short-term and output-based to include the longer term/outcomes and the explicit development of capability within the State sector. It is a medium-term, developmental initiative, being done with central agency guidance, but with the expectation that specific solutions will be unique to agencies or related groups of agencies. The visible outputs of the process will be new planning documents (“Statements of Intent”), which should be based on strategic discussions with Ministers and other key stakeholders, and new look Annual Reports. Both will include commentary and indicative measures on outcomes, strategies, risk and capability.

An agency should not be held formally accountable for things over which it has limited or no control. This is particularly important when considering how to design accountability arrangements under *MfO*. Control and formal accountability are time bound – they can be applied to outputs, processes, behaviours, and even some immediate outcomes (most of which can be controlled), but not to most intermediate and final results of our work (which often extend well into the future, as well as being influenced by other events and actors).

At the formal level, accountability needs to be (and is proposed to be) for the processes of managing towards outcomes, rather than the outcomes themselves. At the informal level, it is likely that improved information about outcomes, strategies, and capabilities will influence the views of those with decision and information rights about quality of judgment and performance – it remains unclear how, when, and whether these may or should become part of more formal accountabilities.

*MfO* is a cornerstone for, but is also complemented by, other development initiatives. It is not expected to be the *only* mechanism for establishing and achieving purpose – other, more bottom-up or means-oriented initiatives, such as circuit breaker teams, E-Government service delivery analysis, and Regional Coordination<sup>5</sup> will also do this.

A simple or “one size fits all” accountability model is unlikely to be a best fit for this complex amalgam of purpose-setting mechanisms – just as it looks too limited for the different types of government activity described in the previous section. In the UK National Audit Office’s

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<sup>5</sup> Circuit breaker teams are cross-agency teams working intensively on difficult issues over short periods of time; the E-Government service delivery analysis is based on a comprehensive web-based catalogue of government services; and Regional Coordination is a project looking at issues and good practice in coordination of cross-government activity at regional level.

*Joining Up to Improve Public Services* (2001), Sue Richards suggests that performance management and accountability arrangements under joined-up government should differ depending on whether the issues being addressed are:

- “intractable problems” (aka “wicked issues”), which require a decentralised approach, driven by outcome-based performance targets using tacit knowledge, with community based partnership as the key structure, and local accountability;
- “tame problems” (where solutions may be known, but are unaddressed because of boundary or other issues), which require effective working across boundaries and, while probably centrally driven off research based outcome targets, rely on contractually based service partnerships and joint ministerial responsibilities; or
- “seamless service” (aka “the one stop shop” and often linked to E-Government), which are often centrally driven, based on output targets, and may use complex and expert systems for service delivery.

We expand on the first two of these in the next section, on accountability for joint work.

One significant risk for *MfO* is that the increased subjectivity associated with process and outcomes will blur accountability too much – that the “hard edge” of output-based accountability will be replaced by waffle. A partial counter to this is that it is better to be approximately relevant than exactly irrelevant. We will return to this question in the section “Do accountability arrangements really matter? (Take 2)”

Our comments and possible responses on the key accountability questions under *MfO* are:

- ***Who will be held to account?*** *MfO* puts the burden squarely on Chief Executives to make it happen, so clearly they are the ones who will carry the main accountability burden, as far as *departmental* outcomes are concerned. We discuss *joint* outcomes more in the next section.
- ***Who will hold them to account?*** We could legislate or regulate for formal accountability of Chief Executives and departments to Parliament or Ministers; or we could leave it as part of the Commissioner’s Chief Executive performance review. Our view is that it somehow needs to be locked in formally and for the long term because, if not, under stress the system will revert to a short-term, outputs basis.
- ***How and when will they be held to account?*** The answer to this is partly implicit in, and largely dependent on, the above. The relative importance of *MfO* to the Chief Executives’ other responsibilities should determine the scale of both the accountability and any related rewards or sanctions. The timing of accountability processes is a matter of balance between timely incentives (by rapid rewards or sanctions) and reasonable autonomy of action (i.e., managing the risk of over-control through too frequent reporting).
- ***For what will they formally be held to account?*** In the short to medium term, for the process as described above, and in the “Guidance” documents issued by the *MfO* Steering Group. The longer term is discussed in the section “Accountability arrangements under a learning paradigm” later on in this paper.
- ***With what effects (reward or sanction)?*** *MfO* is a cornerstone initiative in the improvement of public management, so incentives should reflect this. They could be personal to the Chief Executive, or systemic (e.g., through somehow linking additional

funding to progress on intermediate outcomes), or both. Such ideas would need to be carefully developed and piloted – but they are worth trying.

On linking *MfO* with output-based appropriation, our view is that the appropriation provisions of the Public Finance Act need to be made more flexible to allow for Departmental appropriations on bases other than outputs – with at least as much transparency as exists now, and possibly through special, parallel mechanisms – to support experimentation under *MfO*. We are not yet, and may never be, ready to propose an alternative paradigm for the appropriations system – what is needed is flexibility, to make it easier rather than harder to experiment and learn about new ways of expressing purpose, role, and product.

### **Accountability arrangements for joint work and power-sharing**

The Review of the Centre and other new service delivery initiatives are attempting to achieve a range of objectives contributing to better public management. Most of them share a feature that creates significant difficulties for simple accountability, the need to work together better. The need to ‘work together’ is evident, for example:

- in partnership with local government as it explores its new powers in relation to social, cultural, environmental, and economic outcomes; or
- within or across departments, joining the centre more closely with the periphery so that national policy and local service problem solving and delivery are better mutually informed and aligned; or
- between departments, or between departments and other agencies or communities, as they work on areas of mutual interest, in particular shared outcomes or government strategies; or
- in partnership or direct service delivery mode with Maori, where Article 1 issues complicate the nature and operation of any activities.

All of these arrangements involve some sort of power-sharing, where, even in a strong lead agency situation, there is some diminution of the autonomous control (and hence possible accountability) of individual agencies. As an example, one senior manager spoke to us of the “craft” of working at the local level. There were several characteristics that he and others thought were essential for improving outcomes for citizens:

- light-handed leadership, i.e., not to try and make everything very tidy;
- building trust with the community and community groups in order to get local knowledge, both through dialogue and through active participation in initiatives;
- power-sharing, i.e., understanding which organisations (public, voluntary, or private) are best placed to deliver certain types of services; and
- facilitation, dialogue, and influencing before decisions are made.

Working together is hard work, and creates difficult accountability issues. These include, for example, handling new power relationships, the differences between design and practice of performance management systems, and the factorial effect of networks (getting more complex the bigger they are). Other issues that are important for accountability include:

- applying the desirable principle of subsidiarity (making decisions as locally as possible to where the effects of actions will be felt) lengthens accountability chains, and probably means that ex ante design, good process, and influencing are more powerful than ex post accountability in moderating performance; and
- funding on a single entity basis can create issues for the application of funds across entities.

Clearly, in power-sharing, there is at least dual accountability (i.e., back to multiple principals). Different principals may have different information needs, and different superordinate goals (e.g., driven by different legislation). Accountability arrangements need to recognise the legitimacy of these differences although principals may agree to parallel or identical arrangements for both efficiency and equity purposes.

The arrangements also need to be set up with the agreement of all partners. One party (for example, the Crown) cannot dictate the terms of the partnership or collaborative arrangement to another (for example, a Maori community or group) without setting up a power imbalance that will taint any idea of true power sharing.

The vertical accountability of public servants is compromised to the extent that they are in power-sharing arrangements with players outside the Public Service. The sacrifice of power diminishes both control and accountability. Within our current arrangements, the way to deal with this is through accountability at the process or “meta” level, plus through ensuring that commitment to continued participation and ability to exit are an appropriate fit with the delegated authority of each party (i.e., that Public Service commitment is consistent with both the letter and the spirit of the Parliamentary appropriations system).

Our comments and possible responses to the accountability questions under joint work and power-sharing are:

- ***Who will be held to account?*** Burdens are shared when working together, so all with a substantial share will be part of the accountability process.
- ***Who will hold them to account?*** If there are joint governance mechanisms for joint activities (e.g., a committee of Ministers for a shared outcome, or a Select Committee with a suitable span of interest), then there are natural fora for accountability. Where there is not a natural match, it is probable that a lead agency relationship with a lead governance body will be most useful, but it will not be complete. Where there are genuinely two principals (e.g., partnerships outside the Public Service, such as with local government), there will be true dual accountability. The accountability challenge is then to “reduce the space of non-accountability” by clarifying respective responsibilities to the extent possible.
- ***How and when will they be held to account?*** This will depend on the nature of the joint work. If existing vehicles such as intermediate and annual reports are insufficient, then new forms will have to be devised. One useful idea is a designated *reporting agency* (which may or may not be the lead agency), who takes primary responsibility for reporting arrangements; however, this only helps, rather than replaces, reporting to different principals. Reporting requirements will need to explicitly cater for the different needs of different principals and other stakeholders.
- ***For what will they formally be held to account?*** Outside the shared space of joint work or power-sharing, we cannot pre-define anything except meta events. In most

circumstances, there is unlikely to be ex ante definition of outputs or production processes although there is no reason not to account for them ex post. Outcomes at some level, resource commitments, and meta processes (how the agencies will work together) are much more susceptible to ex ante specification, and the latter two also to ex post accountability. A successful outcome is the ultimate indicator – but this may not be part of formal incentives arrangements because of the problem of lack of control.

- ***With what effect (reward and sanction)?*** One of the main difficulties – but one that needs to be addressed – is incentivisation of the process. Part of the setting up process should be identifying what rewards and sanctions might be applied for successful progress or completion, beyond the intrinsic ones of doing the job better (in a production process) or getting to a better way of doing things (in a development process). To the extent efficiencies are found, and these release resources for other activities, intrinsic rewards might be enough but where effectiveness is concerned, something extrinsic is needed.

What would good performance management and accountability arrangements look like under joint work and power-sharing?

Some recent analytical work has tackled the question of accountability for “joined up work” in a relevant way. This includes the National Audit Office’s *Joining Up to Improve Public Services* (2001), the SSC/Treasury’s *Doing Cross-Agency Outcomes Better* (2002), Pathfinder’s *Building Block 9: “Interagency Collaboration for Outcomes”* (2003), and the Circuit Breaker team’s work on funding for stopping family violence. The set of likely characteristics that we extract from these sources, and our own work, are:

- Players have or create a shared understanding (and definition) of the environment, the problem, and the desired outcome;
- The outcome is important to stakeholders with decision rights, and they provide close oversight, attention, and/or support;<sup>6</sup>
- Key enablers are in place: clear statements of roles and responsibilities (including resource commitment, and the existence and placement of veto rights); incentives for progress or completion; rules for the sharing of information; rules for adjusting performance management and accountability arrangements; and rules for behaviour;
- There are appropriate provisions for dealing with stress in the process, in particular mechanisms for dispute resolution, and for exit;
- Leadership of the *process* is vested in a person or group who have the respect of all participants (*content* leadership comes from wherever there is most expertise);
- There are links to the real situation, through the recording or measurement of real states and impacts; and
- Reporting-back arrangements explicitly recognise and cater for the different needs of the different stakeholders, and are complementary to existing arrangements.

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<sup>6</sup> Another way of framing this is that joined-up work should not be done for all activities, but only for those where there is most payoff; see Pathfinder *Building Block 9: “Interagency Collaboration for Outcomes”* (2003).

## Accountability arrangements under a learning paradigm

This section of the paper is more speculative, exploring what accountability might look like under a “learning paradigm”. This is a model of government based on the principles of learning, i.e., that the primary modes of government in a changing world are problem solving (including learning from mistakes), and balancing the need to maintain consistency in service provision with the need to adjust it to changing social and economic circumstances.

Accountability arrangements under a learning paradigm might have the following components and/or attributes:

- Detailed ex ante specification would be limited to areas where there was clear agreement that no change was intended or sought over the reporting period. In other areas, specification would focus mainly on process, and the emphasis of accountability might shift to ongoing explanation of how change was being managed and problems solved, as opposed to ex post detailing of outputs produced.
- There would be clear distinctions drawn between “first learning loops” (for control and correction), and “second learning loops” (for strategic adjustment and system change). Measurement systems would be clearly viewed as primarily for learning, and secondarily for control or accountability. (Bill Ryan describes this as “managing to learn about outcomes”.)
- Unintended consequences would be a central part of the learning system, i.e., monitoring and evaluation activity would focus on all impacts, not just intended ones, and would include regular scanning for external indicators of unintended effects.
- There would be better connections between the centre (upstream and high level policy) and the periphery (downstream and joint work and service delivery), through stronger collaborative mechanisms and shared information bases.
- The emphasis on good governance (as opposed to principal-agent accountability), with an increasing margin of self-governance, as a major instrument of control, would get stronger. For example, there would be increased reliance on a strong ethical base, appointment of senior people with sound judgment and a sense of what matters, and inclusive processes of decision-making.<sup>7</sup>
- Where possible, there would be “self-regulation” built into the system (e.g., where appropriate behaviour and learning automatically increased access, responsibility, or resources (as in some Internet-based systems currently, which use rating systems to automatically provide greater access and powers to those who are judged by other participants to be the most valuable contributors).
- There would be greater use made of a Supplementary Estimates-type process to adjust funding more fluidly. As such, the process would need to be streamlined; for example, funds in possible significant change areas could be ring-fenced, and debate on them delayed.
- Overall, whatever the specific accountability arrangements are, they should encourage learning and adaptability, tolerate mistakes, and be capable of capturing lessons.

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<sup>7</sup> Much of the SSC’s current work on ethics, values, and standards programme, and the senior leadership initiative, are driven by this view of necessary development.

What we are trying to achieve under *MfO* and joint work looks similar to some of this.

## **Do accountability arrangements really matter? (Take 2)**

Having looked at accountability issues under *MfO*, joint work, and a learning paradigm, it is useful to revisit the question posed earlier – do accountability arrangements really matter? We set out below for consideration a set of issues and challenges about accountability.

We believe that the unequivocal answer to the question posed above is “heck, yes”. The issues are set out to encourage careful thought about how we might change accountability arrangements over time, and to provide a test of the proposed principles for accountability and recommendations which follow. We have already noted that there is no measurement of the completion of (formal or informal) reward/sanction loops, and their effects on behaviour. So, we know little about the true effects of incentives.

At the theoretical level, if agents have similar goals to principals (i.e., if they “share their dreams”), there will be alignment regardless of accountability arrangements. To the extent they don’t, or to the extent that the goals of their multiple principals diverge, accountability arrangements do matter.

Major public failures have an effect through the public acting out of the “blame” element of accountability, and/or through the subsequent impact on control and accountability systems. Both the operating contexts (e.g., the reputation of the department) and the way they are handled (e.g., the speed of acceptance of responsibility) may have as much impact as the specifics of the incidents, and in the end all these elements are probably inseparable from each other.

Anecdotally, many public servants currently see accountability as a burdensome compliance exercise, either reporting on things which are not necessarily important to their “real work”, or requiring them to legitimate too many aspects of their activity through reporting. This might be caused by some or all of the following: having to report in ways or on things which are not central to their work; unnecessarily detailed reporting requirements; failure to recognise the legitimacy of political or public inquiry into the details of their business; or fear of challenge. There could well be other possible reasons.

Onora O’Neill, speaking of the UK situation in the BBC Reith lectures (2002), suggests that accountability has become too much a matter of detailed control: “an unending stream of new regulation and regulation, memoranda and instructions, guidance and advice...” (<http://www.bbc.co.uk/radio4/reith2002/4.shtml>). She believes this leads to the growth of mistrust, which suggests they are imposing the wrong sorts of accountability. Her view is that a different kind of accountability is needed, which involves less control and more attention to good governance – the latter involving a measure of self-governance (this idea is reflected in “accountability under a learning paradigm” above).

Linked to this is the cost of detailed control and accountability. There is apparently a large community appetite for detailed control and “accountability as blame” when things go wrong. It is impractical (on cost grounds, let alone any other) to cater for this, and so we risk perpetuating a cycle of public suspicion and distrust. We need to both have and promote “intelligent control and accountability” (i.e., a suitable balance of risk, control, and information, in the context of largely transparent and sensible management processes).



There is also, however, a challenge from the other end of the spectrum: is the inevitable “blurring” of accountability that will accompany a shift to *MfO* and joint work a good thing? And, from a similar angle, how do we know that, if we change accountability arrangements, it will make anything better than it is now? Changing arrangements changes the incentives, and changes those parties who will want to be involved in the process – how well can we predict what effects our changes will have?

We do not have many answers to these questions. Certainly, the evidence around the effectiveness of accountability as an element of control is a lot more qualitative than quantitative, and there may well be merit in doing some research on the effects of each aspect (and the whole) of current and future accountability arrangements. We do, however, have partial answers – some matters of belief, and some evidence-based:

- There is significant merit in informing stakeholders of the use of the resources they have provided, or activities which are of legitimate interest to them – this is a founding principle of a Westminster (or, in New Zealand’s case, post-Westminster) system of government.
- Incentives affect behaviour – money, extension of power or opportunity, and public acknowledgment and reputation, are effective motivators.
- Accountability arrangements are better when they are directly relevant to the business of the agency/unit as it itself understands it, and when they relate to a whole picture of performance and position.
- *Managing for Outcomes* and joint work are aiming to redesign how business is done in the State sector, and so should be supported by accountability arrangements which incentivise progress in the agreed directions.
- We should not be aiming for more “perfect” control and accountability, but for “intelligent accountability”, which understands and promotes the balances between cost, risk, and control.

### **Some possible principles for accountability arrangements**

Our research and discussions have led us to suggest these possible principles for accountability. We make no claim that they are complete – but think they could be a useful starting point for further work.

- ***Where possible, ex ante specification should be used as the basis for accountability.*** Where there is inability to specify in advance, there should either be specification at a different level (e.g., if you cannot specify the output, specify the process by which it will be determined), or a clear responsibility to explain after the fact (e.g., see the principle about “local variation” below).
- ***The arrangements should both support desired behaviours and inhibit undesired ones.*** Desired directions for change, such as greater focus on results, and greater collegiality, should be highlighted on in the accountability arrangements. They should also be designed to encourage learning and adaptability – e.g., variations from plan should be seen as quite normal, even positive (but always requiring explanation).
- ***The arrangements should fit the nature of the organisations and purposes they are designed for.*** Organisations which have different ways of doing business (e.g., in James Wilson’s terminology – production, procedural, craft, and coping – should be held accountable under arrangements which clearly recognise and cater for these differences. Also, where purposes and problems differ, accountability arrangements should differ in

kind (e.g., Richards' distinctions between arrangements for intractable and tame problems, and seamless services).<sup>8</sup>

- ***The arrangements should allow for local variation, and be “fit for significance”.*** There is no such thing as “perfect accountability” – we should hold out to account for the key areas for which we are responsible. Nor will a perfect system be error- or variation-free. There are also tensions in the government system that are largely matters of managers' judgment and ex post explanation, rather than specification and delivery (e.g., balances between autonomous and collective action; between leading new modes and following existing ones; and between management of financial and political risks).
- ***Where complex structures are in place (e.g., multiple principals), performance management and accountability arrangements should focus more on process than on product.*** Key elements would include goal congruence at some level, clarity of relative roles and responsibilities (including resource commitment, incentives, and decision and veto rights), specification of (separate) reporting arrangements, and specification of exit arrangements.
- ***The arrangements should be congruent with other performance management and control tools.*** Values and attitudes are critical regulators of the system, and no information or accountability arrangements can effectively measure or account for this – but they should recognise it. As a corollary to this principle, we are now making our performance management systems more complex, and should be looking for ways to get rid of some elements as new ones are added.
- ***The arrangements should cope with both bureaucratic and political roles.*** Some consider that the unfinished business of the reforms of the 1980s is Ministerial accountability for outcomes. Our view is that the existing and currently proposed vehicles (as designed) are sufficient for this, and one measure of the successful development of *MfO* will be greater engagement with outcomes at both Ministerial and Parliamentary level.
- ***Formal rewards and sanctions should relate as closely as possible to those responsibilities which are clear and most in control of the agents*** (i.e., the firmer the control, the more formal the accountability and the rewards and sanctions). This can of course include accountability for process (as opposed to outputs) – e.g., as a contribution to joint- or team-work.
- ***Informal rewards and sanctions should be as transparent as possible.*** The relative informality of our system of rewards and sanctions is currently balanced by a fair degree of transparency, because of both our small size and our open system of government. We advocate a greater proportion of formal incentives, but see nothing sinister in the current operation of informal ones, which operate as part of a legitimate checks and balances system.
- ***An iterative and learning approach should be taken to the development of accountability arrangements.*** The balance between learning and control, and the needs of various stakeholders, will vary over time as the public management system itself evolves. Accountability arrangements will need to develop in turn to reflect these changes appropriately.

## **Afterword: Ministerial roles, Select Committee capabilities, and E-accountability**

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<sup>8</sup> Sue Richards, *Joining Up to Improve Public Services, Appendix 2*, National Audit Office, United Kingdom, December 2001.

Some may have expected this paper to deal more directly with such matters as Ministerial accountability for outcomes, and the capability of Select Committees to deal with accountability information.

We believe that Ministerial accountability for outcomes has been suitably dealt with in the paper (see section on “principles of accountability arrangements”).

Also, we do not think it is time yet to consider Select Committee capability, because it is a consequent question. Our current focus is on the provision of more relevant information (under *MfO*), and on the formation of more accurate incentives. One consequence of these changes may well be a need for more support for Select Committees; on the other hand, if we are telling better stories, within a more incentivised framework, they may well need less support. The Office of the Clerk and the Office of the Auditor General (OAG) currently provide analytical support to Select Committees; any discussion of the suitable level of support under *MfO* and Review of the Centre is still a little way off.

Finally, a question we did not address directly was accountability in an E-world. The increasing availability of information will dramatically increase the transparency of government behaviour to external scrutiny, and this will be a powerful moderator of behaviour. We have the opportunity, if we manage it right, to have informed accountability to wider audiences, but we also risk an increase in largely uninformed citizen challenge, which will be both expensive to respond to, and damaging to public trust.

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