

PERFORMANCE IMPROVEMENT FRAMEWORK

Follow-up Review of the Ministry for Business, Innovation and Employment (MBIE)

February 2017

STATE SERVICES COMMISSION
Te Komihana O Ngā Tari Kāwanatanga



New Zealand Government

Lead Reviewers' Acknowledgement

We are grateful to the MBIE leadership and staff who participated in this Performance Improvement Framework (PIF) Review. Their input was open and thoughtful and they gave generously of their time. We particularly enjoyed the high quality and challenging conversations with David Smol and his Senior Leadership Team. The review also benefited from the frank and constructive insights of a wide range of MBIE's external partners and stakeholders. We thank officials from the central agencies who provided background information, context and advice. We much appreciated the excellent organisation of the review by the MBIE corporate office and the assistance to us provided by Helen Moody of the State Services Commission.

We undertook most of our review work in October 2016 but the finalisation and publication of this report has been unavoidably delayed by the need for MBIE to focus on advice and support to the Government in the aftermath of the November 2016 earthquake.

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Executive summary

MBIE is an important and complex government agency with a broad scope of activity and a wide range of stakeholders, business partners and customers. Since the 2014 PIF Review MBIE has made a striking improvement in its performance. Authentic leadership, coupled with a diligent and systematic approach to implementation has resulted in a largely empowering and energised culture. Overall MBIE has a very good performance story to tell given the scale of the task to merge four substantial agencies and the progress achieved. There is of course more to do to ensure that good practice is widely and deeply embedded and there is consistent performance within and across the many functions MBIE covers.

Feedback from staff and stakeholders is generally very positive. There are still those (a minority) who are underwhelmed with MBIE's performance, although even they recognise an improvement in the last 12 to 18 months.

MBIE is an instructive example of agency integration paying dividends and, importantly, of how to use scale and scope to enhance public services. It is important that MBIE takes pride in its achievements, but equally MBIE must ensure that it does not declare victory too soon.

The agency will face significant challenges as disruptive digital technology and new operating models reshape the context within which the agency operates. With this in mind it is encouraging to observe MBIE's clear self-awareness of its strengths and its weaknesses as well as its strong desire to push performance to higher levels. This lies behind the focus on the special topics for this PIF Follow-up Review being regulatory systems, the science and innovation system and customer centricity.

MBIE's progress is commendable in developing its regulatory stewardship programme and a regulatory management strategy and in trialling new approaches to design and enforcement of regulation. It will be vital to continue to build further on this progress. The successful regulatory system of the future will be one with clear purposes that delivers increased value over time for customers and New Zealanders and retains its social licence to operate as government, society and the global context change. There is a need for ongoing assessment, challenge, innovation and agility in performance to enhance the credibility of the system by helping to avoid system failures and continuing to attract high national and international ratings.

MBIE's work on the science and innovation system in New Zealand has progressed very significantly since the 2014 PIF Review, with the National Statement of Science Investment providing the necessary clarity for the science system's vision, objectives, roles, responsibilities and funding. There is also clearer governance and stewardship of the innovation system with a comprehensive work programme in place. The various elements of the science and innovation system are at different stages of development and overall there needs to be greater momentum to achieve the Government's high-level targets. This risk is recognised by MBIE and will need to be skilfully managed. Focus and perseverance will be required to implement the strategy and realise the benefits in terms of economic growth and social outcomes for New Zealand.

Customer centricity is the third special topic selected for review because it reflects on how the agency as a whole is operating. Customer centricity is one of MBIE's four priorities for organisational development, with the intention being to better understand the needs of different types of customers and stakeholders. MBIE has implemented a number of new or streamlined services that are delivering better value for customers. As an exemplar the 100% online operating model for the Intellectual Property Office of New Zealand (IPONZ), co-designed with its customers, is recognised as one of the most innovative and advanced in the world. The challenge for MBIE will be to build customer centricity into all parts of its business, particularly in the development of strategic policy advice. MBIE will need to stay very close to its customers and markets and be vigilant in detecting weak, but early, signals that will allow it to not only be adaptive but also provide compelling leadership.

MBIE now needs to build on its current trajectory and harvest its full potential. In doing this the key strategic performance challenges it faces are represented by four paradoxes. It must simultaneously close both the performance and the possibility gaps; extract value from both vertical and the horizontal dimensions; achieve momentum by integrating conceptualisation and implementation and lift its capacity for framing and reframing.

As a large, important and influential part of government, MBIE will be required to overcome the ultimate paradox, which is to be a credible and dependable 'safe pair of hands' while concurrently fostering strategic innovation within the agency. To successfully do this MBIE will need to be skilful in supporting an appropriately enabling authorising environment.

In the old paradigm it was believed that in any complex system, the dynamics of the whole could be understood from the properties of the parts. In the new paradigm the relationship between the parts and the whole is reversed. The properties of the parts can be understood only from the dynamics of the whole. Ultimately there are no parts at all. What we call a part is merely a pattern in an inseparable web of relationships.

Fritjof Capra, Physicist¹

¹ Gerzon, M. (2006). *Leading through conflict: How successful leaders transform differences into opportunities*. Harvard Business Press.

Agency response

The Ministry of Business, Innovation and Employment (MBIE) would like to thank the Reviewers for undertaking the PIF Follow-up Review – for your time, your engagement and your insights. MBIE people who participated found the review process both motivating and constructively challenging. I would also like to thank everyone who participated, including a number of our customers and stakeholders. Their openness and commitment to shared objectives will stand us in good stead as we address, together, the challenges and opportunities that lie ahead.

Recognising progress since MBIE was established

We agree with the Reviewers' overall conclusion. The Ministry has done a good job of delivering on the performance challenge posed in the initial PIF Review and in Ministers' decision in 2012 to create MBIE. This reflects a sustained contribution by all our people over a number of years.

Now is the time to raise our sights to the next horizon – to focus increasingly on future possibilities, without losing sight of those elements of the performance challenge where there is more to do.

A focus on customer-centric and co-design approaches

In recognising the significant progress the Ministry has made in raising performance, the Reviewers have also identified a number of specific areas where further gains can be made. We agree, and are taking steps to continue to raise performance in each of them.

Our people, customers and stakeholders are at the centre of ensuring that we can continue to raise MBIE's performance and improve outcomes across our range of responsibilities. There are three main elements to this. First, ensuring that best practice co-design and customer centricity infuses all our work, building on existing exemplars. Second, making sure that we continue to engage with all our people to further deepen the sense of connection with our shared purpose – to Grow New Zealand for All. And third, listening carefully to all feedback received, including any feedback from those who challenge our approach, to search for insight and respond as appropriate.

The science system; responding to technological change; smarter use of data

Given the range of potential economic, social and environmental benefits that can be achieved through the science system, we agree with the Reviewers that it is essential to fully resource the implementation of each of the main elements of the National Statement of Science Investments.

Technological change will continue to impact on our operating environment. We will develop ways of working that better enable us to respond and move at pace when we need to, particularly in those areas of policy and regulation in areas disrupted by technology.

A priority is to make better use of data and analytics, bringing greater urgency and purposefulness to generate insight. We will build on the good practice that is already present in pockets within the organisation. An increased use of data and analytics will help us to build a stronger set of leading indicators to provide early insight and clarity as to whether we are on track to achieve our goals, and, if not, what to do about it.

From performance to possibilities

The Reviewers have challenged us to think beyond *Building High Performing MBIE*, to put more weight on the identification and pursuit of future possibilities.

We agree that MBIE is well-placed to take the next step, which will help ensure that we stay ambitious and avoid settling into a status quo way of working.

Developments in the economy and wider society mean that expectations of our stakeholders are continually changing – including in terms of how they can participate in the design and delivery of policy and regulation that impacts on them. How MBIE approaches policy and service delivery, and the way we develop as an organisation, also need to continually adapt if we are to maximise our contribution.

To ensure that we continue to play our full part in helping New Zealanders make the most of these changes, and in keeping the Public Service fit for purpose, we will need increasingly to:

- surface and attract divergent thinkers both within the organisation and outside, and create an environment in which they can flourish
- be disciplined in selectively letting go of the past, and in focusing on those areas where MBIE can add most value
- better leverage some of the horizontal intersections across the organisation and beyond to generate new and deeper insight
- increase the resource that is focused on sensing future possibilities and seeing emerging issues early, to enable timely response

Looking to the future

This direction of travel has implications for the way in which we recruit and develop our people, for the diversity of the frameworks we need to be effective, and for the ways in which we work across MBIE and with partners and customers. In the first part of 2017 we will start a conversation within the organisation and with our stakeholders about this future direction and the changes we will need progressively to make to be fit for the future and to play our part to the full in growing New Zealand for all.

What we are aiming to achieve and the possibilities we are seeking to pursue are captured well in our Māori identity – Hikina Whakatutuki – *“lifting to make successful”*.

At the same time as we look to future possibilities we will remain focused on our performance challenge, on our stewardship role, on delivering Ministers’ priorities, and on ongoing service delivery to all our customers.

David Smol
Chief Executive

Context and scope

MBIE is the Government's primary business-facing agency. It is responsible for central government policy advice, regulation and service delivery at the core of micro-economic policy and strategy. Its purpose is to 'Grow New Zealand for all' with an overarching objective to increase real household income in New Zealand by 40% in the 13 year period to 2025.

The agency came into existence in July 2012 from the merger of four significant foundation agencies: Department of Building and Housing, Ministry of Economic Development, Department of Labour and Ministry of Science and Innovation. MBIE has taken on a number of other functions since that time. These include some Canterbury earthquake recovery functions, Standards New Zealand, the Government Property Group and new or extended regulatory functions, such as the New Zealand Space Agency and the Computer Emergency Response Team (CERT)².

As a result of these changes, its scope of activity and range of stakeholders, business partners and customers are very broad. MBIE services 17 Ministerial portfolios through 3 Votes: Business, Science and Innovation; Labour; and Building and Housing. It monitors 27 Crown entities and Schedule 4A companies as well as being responsible for over 40 statutory bodies and advisory boards. Within the State Services it provides cross-system leadership: co-leading with the Treasury the Business Growth Agenda (BGA) and the Economic Chief Executives group³; leading the Better Public Services (BPS) Result 9 and providing functional leadership for government procurement and property. See the Appendix for a list of key functions.

For the year ended 30 June 2016 MBIE's total expenditure was over \$3.9 billion, of which \$619 million was departmental expenditure. In turn, 61% of departmental expenditure was funded from non-Crown sources such as immigration and market services fees. The remaining expenditure (around \$3.3 billion) was in non-departmental areas. The agency employs around 3,600 staff⁴ and has 51 offices in New Zealand and 20 offshore sites (11.2% of staff are based offshore).

The performance challenge for the newly established agency

A PIF Review of MBIE was conducted in January 2014 at which time the creation of the new entity was still a work-in-progress and MBIE had also delivered on a significant work programme.

The 2014 PIF Review acknowledged the 'strong start' achieved and stated: "The creation of MBIE brings together a much broader scope of government activity with a much better chance of developing a clear and unifying approach to how government can help business generate a significant and sustainable lift in performance and ensure the benefits of stronger growth are widely shared. This is MBIE's performance challenge." The Four-year Excellence Horizon set out a number of performance improvement opportunities for MBIE.

² CERT is being set up by MBIE to be operational in the first quarter of 2017.

³ The agencies involved in the Economic Chief Executives Group are: Callaghan Innovation; Department of Prime Minister and Cabinet; Inland Revenue; Ministry for the Environment; Ministry of Business, Innovation and Employment; Ministry of Education; Ministry of Foreign Affairs and Trade; Ministry of Pacific Island Affairs; Ministry of Primary Industries; Ministry of Transport; New Zealand Trade and Enterprise; Statistics New Zealand; Te Puni Kōkiri; Tertiary Education Commission; The Treasury.

⁴ MBIE – A Snapshot March 2016.

In response, MBIE identified four particular focus areas to meet the performance challenge:

- Leadership and engagement
- Refining the operating model and priorities
- Stakeholders and building the MBIE brand
- Completing the transition and becoming more business-like.

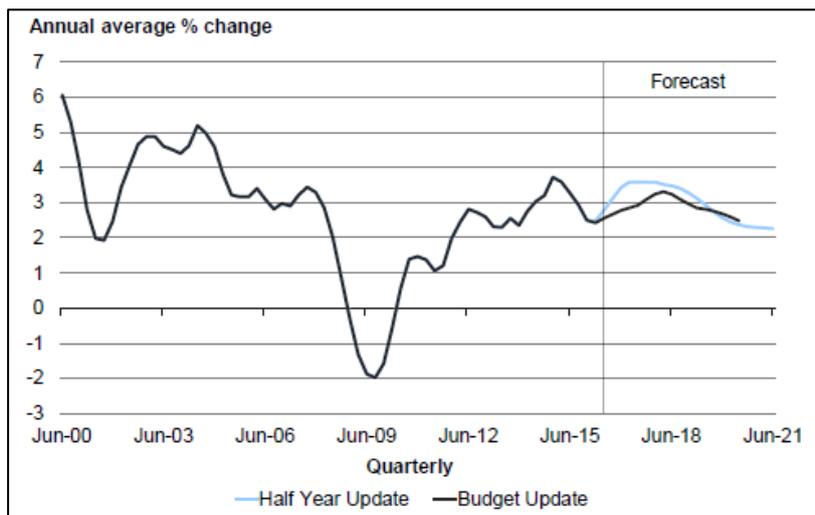
The Chief Executive of MBIE has commissioned this PIF Follow-up Review, which commenced in October 2016. The Lead Reviewers aim to give a high level external view of the agency's progress since the 2014 PIF Review and whether the agency's direction of travel is right and it is on track to deliver its Four-year Excellence Horizon and meet the challenges beyond. The focus of this follow up review is thus primarily forward-looking.

The Chief Executive has asked the Lead Reviewers to review the agency's progress against the Agency Response to the 2014 PIF Review, with particular attention to three areas:

- Regulatory systems
- Science and innovation system
- Customer centricity.

Economic and political context

One of the key priorities of the Government is to build “a more competitive and productive economy for New Zealand” in order to lift living standards for New Zealanders. Having weathered the Global Financial Crisis better than many economies, New Zealand has recorded five years of economic growth. The Treasury forecasts this growth to continue (Budgets 2015 and 2016) as illustrated in this chart⁵ of annual average percentage change in real Gross Domestic Product (GDP).



Source: *Statistics New Zealand, the Treasury*

⁵ Published by the Treasury in the Half Year Economic and Fiscal Update 2016.

Despite the recent strong results, there are many external and internal challenges to sustaining this economic performance and ensuring all New Zealanders benefit. The Government's policies and actions to strengthen New Zealand's businesses and its economy and encourage investment for growth are set out in the BGA, which was fully refreshed during 2015. The BGA focuses on six key inputs to support business growth: export markets, investment, innovation, skills, natural resources and infrastructure. It has also articulated three cross-cutting themes: Māori economic development, regional economic development and regulation.

The next national election will be held in 2017. MBIE's thought leadership, system leadership, and regulatory and operational improvements in the next few months will form the basis for MBIE's advice to the incoming Government.

The performance improvement story so far

It is possible to make an overall assessment about MBIE's performance trajectory over the period since January 2014, while noting that, inevitably, the picture will vary across different parts of MBIE's very broad mandate. This section focuses on a high-level survey of performance over the last two to three years and makes specific comments about individual areas by way of illustration. Detailed comment on regulatory systems, the science and innovation system and customer centricity is reserved for the sections that follow.

The 2014 PIF Review was conducted approximately 18 months after the merger that created MBIE. Hardly surprisingly, the agency was still in the intense period of major change as the effort to bring the four foundation agencies under one mantle was continuing. While the timing might have been somewhat awkward for those involved in leading the change, the 2014 PIF Review generated a range of forward-looking insights that have proven to be a very useful stimulus. MBIE has accepted and made good use of these insights.

MBIE identified four areas to focus on in response to the 2014 PIF Review:

- *Leadership and Engagement:* MBIE recognised the need to strengthen collaborative leadership within the agency and improve engagement in a range of cross-cutting areas to bring about a more unifying culture.
- *Refining the operating model and priorities:* This recognised the need to generate a fit-for-purpose governance model aligned to the new organisation.
- *Stakeholders and building the MBIE brand:* The aim here was to develop MBIE's ability to engage, influence and collaborate to better identify priorities and needs.
- *Completing the transition and becoming more business-like.* The priority was to move beyond the stage in which so many resources were being absorbed into managing the transition, by migrating to 'business as usual.'

The majority of mergers in the private sector fail to produce the promised benefits and some even lead to the complete failure and collapse of the merged organisation. Such effects may be less obvious in the State sector, but are no less real. It is to MBIE's credit that it is now demonstrating success from its merger, though much remains to be done to realise the full benefits. This success is being achieved while managing considerable volume growth (for example in migrant visa applications) and some functional expansion as outlined previously. Overall MBIE has a very good performance story to tell given the scale of the task and the progress achieved.

Strengthening collaborative leadership and engagement across MBIE

The leadership of the agency has clearly strengthened. In general, this has been well received by staff⁶, although it has taken some time to achieve. In 2015 MBIE was restructured into seven key business units to reflect synergies in the agency. The restructure required some changes to Senior Leadership Team (SLT) roles, with consequent changes to its membership. Since the introduction of 'High Performing MBIE', the agency has invested in the development of its senior leaders as well as a broader organisational leadership and engagement programme.

In the last year the SLT has unified as a team, modelling the open, constructive, collaborative organisational culture that is being sought. Six of MBIE's strategic priorities are collaborative priorities, led by two or more of the SLT as joint leads to address cross-cutting issues. The collaborative approach is gradually filtering through the agency, but feedback and observation suggest that the connection to MBIE's purpose, while strong at the more senior levels, becomes progressively more uneven further away from the senior team. Leaders and managerial staff generally describe the culture as 'energising and empowering' and acknowledge the willingness to collaborate, while staff in the very busy, diverse service delivery units have a more mixed view. There is more to do here as embedding cultural change takes a long time and sustained effort. The overall movement in staff engagement scores suggests MBIE is on the right path to achieve a purposefully collaborative, energised, high-performing culture.

Staff are also noticing the SLT's efforts to more deliberately engage with teams across the business although a challenge here will be to ensure this engagement is seen to extend beyond the Stout Street head office.

There are some high-calibre leaders at different levels within the agency. The size of the agency, with some Deputy Chief Executives having mandates larger than Chief Executives elsewhere, presents unique challenges for succession planning. It also underlines the importance of ensuring high-potential, innovative leaders at lower levels are given 'air' to grow and prosper.

A positive feature of the leadership is its ability to 'pivot' when the need arises. For example, 'High Performing MBIE' was a key pivot point and MBIE is clearly focused on harnessing synergies in the business to achieve a sustained lift in performance. Another pivot point was the decision not to continue to pursue the 'One MBIE' objective. Although this objective made sense immediately post the merger in both concept and intent, in practice it was perceived by some teams as weakening the strengths of established market brands brought from pre-merger agencies and causing confusion for customers. By emphasising instead MBIE's purpose of 'Grow New Zealand for all'⁷, the SLT was able to foster a sense of shared purpose drawing on contributions from all parts of the agency.

⁶ This was reflected in comments by internal interviewees and there was a notable improvement in the rating for 'confidence in the senior leadership' in this year's staff engagement survey.

⁷ The Ministry's purpose is to 'Grow New Zealand for all'. 'Grow' relates to the economy: to achieve the standard of living and quality of life New Zealanders aspire to through a stronger performing economy that delivers sustainable growth. 'For all' captures growth for New Zealanders now and in the future. P7 2016 Four Year Plan.

Refining the operating model and priorities

The 2015 restructure enabled more customer-centric operating models for the business units, as detailed in the section on Customer Centricity.

The SLT has evolved its operating model backed up by a quality assurance framework and measurement system. There is now much clearer governance and staff have noticed a greater sense of 'whole of MBIE' leadership. The operating model focuses on 15 strategic priorities in line with MBIE's Business Strategy as well as four organisational development priorities. Priority programmes that need to proceed at pace, such as affordable housing, the Maori economy, regulatory systems and organisational development priorities are reviewed by SLT on a 90-day cycle. An 'in the line' set of programmes, led by the Deputy Chief Executives (and beyond them General Managers and other relevant managers) only come to the SLT where major changes or impacts are envisaged. This devolved approach is working well, but the SLT will need to continue to push the horizon still further out if MBIE is to fully deliver the economic leadership of which it is potentially capable.

Stakeholders and building the MBIE brand

As in other areas a deliberate and structured approach is being taken to building the MBIE brand and strengthening engagement with stakeholders.

One good indicator of a strengthening brand is the capacity to attract new staff and in this regard MBIE's recruitment brand is now very positive. Staff interviewed for this Follow-up Review frequently referred to MBIE's image as a good place to be employed where the work is really interesting and varied.

As part of the PIF Follow-up Review a range of stakeholders were asked about the quality of their engagement with MBIE. Overall, external stakeholders felt that MBIE was making real efforts to improve the quality of its engagement. While the significant majority of the feedback was positive, the nature of the feedback was mixed.

Achieving the right level and scope of engagement with Ministers is inevitably a challenge with such a wide range of portfolios involved. All Ministers are keen to make progress in their own portfolios. The approach in which the many individual relationships are managed at Deputy Chief Executive level, with the Chief Executive maintaining an overview role alongside some specific engagements, is generally a sound approach to engaging with and supporting Ministers. In addition, MBIE aims to add value to its advice to each Minister by ensuring that advice is informed by the various lenses MBIE has on the economy. The Ministers interviewed generally felt MBIE was providing good support to them, though they are keen for MBIE to deliver advice with more pace and to grow the effectiveness of its overall engagement with stakeholders. Some Ministers would prefer to have more time with the senior leaders of MBIE. The continuing challenge for MBIE is to maintain the quality of each engagement and the advice offered.

More generally there was a range of feedback on engagement from key stakeholders. There were some excellent examples quoted of very strong stakeholder relationships and of policy teams experimenting with co-design and early consultation to help develop policy at one end of the spectrum. Where MBIE has focused its engagement and built strong partnerships with Crown entity chairs and chief executives this was acknowledged and will be helpful in securing its outcomes. At the other end of the spectrum we heard examples where the

partnership with Crown entities was not as strong. In some cases where policy was being developed, consultation was considered to be perfunctory, too late in the development cycle and with little impact other than to be able to record that consultation had occurred.

A review of MBIE's approach to Crown entity monitoring was under way as we conducted this PIF Follow-up Review. It will be important for MBIE to take the recommendations of this review seriously if it is to maximise its contribution to overall Crown entity performance.

Some stakeholders felt that the focus on labour and employment had initially been swamped by the business-facing economic priorities. Post-merger this may have initially been true as MBIE needed to build its policy capability, operational/regulatory resources and leadership in this area. It is possible that residual elements of this tendency persist, though the balance would appear to have shifted substantially. This is as a result of recent work on policy areas such as pay equity and the health and safety reforms, as well as on operational areas, for example lifting resources and powers of the Labour Inspectorate and implementing the innovative Employer Agreement Builder.

At the same time, it seems that stakeholder engagement tends to be dominated by issues of the day. If MBIE is to maximise the value it can add it will need enduring, trusted stakeholder relationships across the public and private sectors. MBIE will increasingly need to look at least five to ten years ahead and engage with stakeholders on forward-looking matters.

Completing the transition and becoming more business-like

MBIE will continue to make changes as it refines its operating models as demonstrated by Vision 2020. However, it has largely moved beyond transition into a more settled and ongoing mode of business. The agency's strengthening performance and reputation is evidenced by the willingness of Ministers to add to its stable of responsibilities, such as the set-up of the New Zealand Space Agency and the CERT. There is a need to ensure the accretion of responsibilities does not grow in an uncontrolled manner and at a cost to the delivery of core business. MBIE is well aware of this risk, however, it may be helpful to develop some principles to assist MBIE and Ministers in making choices on adding functions, as well as a process for devolving functions in due course, as appropriate.

The operating models of the two corporate business units (the Finance and Performance Group and the Corporate, Governance and Information Group) with their emphasis on an adaptive partnering model have brought a more business-like approach to the delivery of essential services within the agency. Cost savings from merging the foundation agencies' relevant teams have been achieved.

Significant achievements since the 2014 PIF Review include: implementing Leadership Development Programmes; an intensive effort to lift policy capability and policy quality assessment; developing robust health, safety and security governance and management; merging 10 Votes into 3 Votes and the creation of multi-category appropriations as well as strengthening MBIE's risk management and governance.

One legacy issue remains to be resolved in relation to MBIE's Payroll. The agency is very conscious of this issue, particularly as this is an area in which MBIE should be an exemplar. Significant progress has been made on improving HR, Finance and ICT systems, with room for further development as staff report on-going challenges with these systems and with internal processes. By and large staff have been and are tolerant about this, giving credit for progress already made and because they perceive that the agency has the matters needing attention firmly 'in its sights'. It will be important not to disappoint them.

Results

The real test for performance is whether policy, regulatory and operational outputs advance the outcomes the Government and community seek. Despite some areas being further ahead than others, the overall trajectory is strongly positive with more to be done. A number of examples illustrate this.

Immigration New Zealand (INZ) has coped with a large increase in demand, re-oriented its client interactive systems to make them more accessible and responsive, redefined its view of who those customers are and developed a new Vision for 2020 to take it forward. Challenges ahead will be to ensure the immigration settings are appropriate and to manage the reduced demand and associated reduction in revenue that may occur during future cyclical variations.

A critical component of MBIE's efforts to provide leadership in the economic growth area is its joint lead and coordination role with the Treasury of the Business Growth Agenda. Our assessment is that the relationships and framework in this area are increasingly strong. The BGA is proving to be a useful tool for prioritisation and for helping in the complex test of trading off competing objectives both among Ministers and agencies.

MBIE has developed some key tools to assist its understanding of the microeconomic settings and what really matters for growth, including MBIE's economic growth narrative, the outcomes framework and its business strategy. For the future MBIE should elevate and widen its perspectives and lead thinking and engagement on the implications of technological developments and the data revolution on business and labour. While MBIE is aware of this and is working on it, there is a need to advance this more purposefully. Doing this will be crucial to its success. While strategic thinking is clearly happening in the agency, there is still a sense of some disjointedness. There is also a sense among stakeholders that MBIE could learn as much as it offers through deeper and more focused engagement in the market place.

The agency has developed innovative leadership in the government procurement field with considerable savings obtained. It has also worked hard to reduce the compliance costs of procurement policy. At the same time feedback suggests there is a need to be more responsive to individual agency requirements. Commentary from within and outside the Public Service still refers to the amount of managerial bureaucracy in this area. This may partly be the result of over-cautious interpretation of rules and guidelines by others, but it suggests further refinement and education may be beneficial.

MBIE has delivered the new legislative framework for health and safety⁸ and worked with WorkSafe New Zealand on its strategic and risk-based frameworks (as well as providing a range of corporate services to support Worksafe New Zealand's establishment). While there will be an inevitable process of settling in, there has been an undeniable step change in the level of industry and community awareness of workplace health and safety issues.

As the agency continues to mature post-merger, there is increasing focus on realising value from the whole that is greater than the sum of the parts. An example of this lies within the business intelligence area where early evidence suggests substantial gains will be obtained by the sharing of data on breaches in one area of activity (for example immigration), which may lead to detection of other breaches (for example in labour market standards or business regulation). Joint enforcement activities are now possible based on joined-up information within MBIE and formal information sharing arrangements with other regulatory agencies.

There is immense potential to mine, match and gain insights from the vast data assets MBIE holds and is accumulating daily. This will benefit not only policy development, but also interventions to promote preferred market behaviours as well as the development of leading indicators to better monitor market developments. Some attention is required if the gains from the data revolution are to be maximised as currently MBIE's approach appears somewhat disjointed and could benefit from the injection of more urgency.

In summary MBIE has made considerable advances in performance since the 2014 PIF Review. It has followed a very intentional and thoughtful, system-by-system approach in achieving this, adaptively making adjustments as it has learned from experience. The foundational work is largely complete with some variability, especially in back-office functions. We were impressed with the quality of the MBIE people we interviewed and with whom we came into contact during the on-site diagnostic work and by their evident enthusiasm for MBIE's purpose.

The overall trajectory is strongly positive and there is scope for considerable further performance improvement. It is encouraging to observe MBIE's clear self-awareness of its strengths and its weaknesses as well as its strong desire to push performance to higher levels. This lies behind the focus on the special topics for this PIF Follow-up Review. Detailed comment on regulatory systems, the science and innovation system and customer centricity is contained in the following sections.

⁸ The new Health and Safety at Work Act 2015 came into effect on 4 April 2016.

Regulatory systems

Regulatory Systems, which is the first focus area for the PIF Follow-up Review, have a significant economic impact and run across all policy and operational teams in MBIE.

Governments have a wide range of instruments available to them to influence behaviour in desired social, economic and environmental directions, ranging from simple jawboning to quite intrusive interventions. Some instruments such as taxation and government spending are by their nature wide-ranging and the use of regulatory powers falls into this category. While the difference is more of degree than kind, the impacts of regulation (whether beneficial or detrimental to particular activities) tend to be less explicit than those of tax and expenditure policies. Furthermore, they can also be more difficult to measure and control.

Regulation has pervasive impacts with consequences ranging widely from positive or negative effects on national economic growth right through to limitations on individual rights. The MBIE merger has brought together a wide range of regulatory functions, giving opportunities to take a more systemic approach and provide leadership across the State Services.

The authors of the 2014 PIF Review proposed that an effective approach to regulation and regulatory stewardship would require MBIE to:

- take an approach on regulation that is well informed by micro-economics, clear intervention logic, good regulatory impact analysis and skilful engagement with stakeholders
- exploit synergies across MBIE and strong policy-operations relationships
- provide more sector leadership for regulatory systems and a strategic approach to its relationship with Crown entities
- assess regulatory system performance more effectively, and identify and apply lessons from previous experience
- build community confidence that regulatory systems can address the downside risk associated with growth and development while enabling innovation and investment.

During this PIF Follow-up Review many interviewees, both internal and external to MBIE were clear that the agency has taken this challenge extremely seriously and has been laying solid foundations for further development. While the full list would be longer MBIE has:

- established a number of system leadership roles. This includes leading the joint-agency Government Regulatory Practice Initiative aimed at improving the professionalism and practice of those involved in regulation (both in policy advice and front-line regulatory roles)
- along with six other major regulatory departments, developed a regulatory management strategy, which was published in August 2016
- more generally seen itself as performing a system stewardship role (although the impact of this largely remains to be seen)

- adopted a stance of thinking more systematically and systemically about the regulatory system and stewardship, thus seeking to provide a meta-system perspective and run system-by-system assessments on a common basis
- implemented a number of worthwhile initiatives aimed at improving the quality of regulation, including progressing a number of system reviews and system charters
- as part or in parallel with this started to exploit the potential synergies of the merger by using those involved in one aspect of regulation to review and critique regulatory proposals being developed in another area within MBIE and also by sharing intelligence
- experimented in exciting ways with aspects of co-design in some areas of regulation.

In short MBIE has made a very good start on fulfilling its regulatory mandate and it was pleasing to hear a strong desire among MBIE staff and management to become a centre of excellence on regulation. If the approach is generally right and has the potential to bear more fruit, the key question now is what should be adjusted or nuanced about the approach and which aspects, if any, might require more fundamental change.

Performance trajectory and pace

The regulatory performance within MBIE is variable, ranging from the very good to rarer occasions when it is mediocre or even poor. For example, in terms of engagement at the time that regulations are being considered either for reform or introduction, stakeholders spoke of some excellent opportunities for interaction and improvement, both at concept and mature development stages. In other cases, consultation, if any, was perceived to be perfunctory and performed too late in the process with no apparent intention to take any input on board. Overall the tone of comment was supportive and the MBIE performance trajectory on improving its regulatory systems and their impact is clearly positive.

The World Bank ranks 190 economies on their ease of doing business and New Zealand has reclaimed the number one ranking as at June 2016. MBIE's contribution to this ranking is to be commended as it is responsible for overseeing and advising on several factors that have contributed to the overall score.

It will be important to keep, and strengthen, the good practices that have been developed in recent times. These include: maintaining the SLT's focus on regulatory stewardship (for example through the 90-day plans); increasing the overall momentum of change; sustaining and enhancing the element of independent challenge; continuing efforts to better integrate across systems and designing regulation with an eye to improving international competitiveness. In addition, MBIE's regulatory stewardship will be enhanced through strengthening its ability to take an all-of-system view of the performance of each of its regulatory systems. It is important that the overall programme is adequately resourced.

The experimental moves toward co-design of regulation are particularly exciting. Interestingly, this approach seemed to be welcomed by the widest range of interests, including labour, consumer and business organisations. It is essential to accelerate and expand the use of this technique, while managing risks including potential conflicts of interest. If the process is well managed it holds the possibility of faster and more robust design and greater buy-in, leading to more effective outcomes.

Greater openness to drawing on the experience and expertise of MBIE's own legal team could also pay dividends. Some external feedback suggested that policy and regulatory functions are not always aware of the practical experience that the legal team has accumulated over time. There may be opportunity, therefore, to obtain greater value from this experience than a more restricted approach of simply requesting advice on a narrow legal issue may offer.

Crown entities play an important part in the regulatory systems managed by MBIE, such as the Commerce Commission and the Financial Markets Authority. With these and other such Crown entities, it will be important for MBIE to ensure there is a clear alignment of objectives and to hold such entities to account for achieving the desired regulatory impact.

What is ahead demands transformative, agile regulatory policy and practice

MBIE needs to achieve best practice in its current regulatory policy and practice. In addition it must prepare to do well in what will be a radically different future environment. This very different future in which the regulator will operate is due to factors such as the increasing ubiquity of data, the spread and ever-changing nature of social media, disruptive technology and applications, and changing demographic and cultural compositions of the population.

Specifically, this will require a greater degree of agility in regulation than occurs today. While business interests, in particular, would favour more agility while at the same time promoting greater certainty, there is a balance to be struck between the two. To some degree this apparent trade-off can be eased by focusing to a greater extent on principle rather than prescription, but more will be required than this. Essentially, regulatory review processes often move slowly (some described the pace as 'glacial'), although to be fair this is not always the fault of MBIE. Regular monitoring of changes in the environment, of outcomes and of unintended consequences should make it possible to update regulation more promptly and more efficiently than is currently the case. The recent initiative to include an omnibus regulatory bill within the legislative framework is an example of innovation that is both pertinent and beneficial.

In terms of increasing the momentum for change, MBIE could set some clear targets and timing in relation to achieving the six key objectives in its newly published Regulatory Management Strategy.

The social licence to regulate

It will be important to recognise the changing nature of government and society. Within democratic states there has been an increasing trend to challenge the exercise of government powers. The social licence to regulate may not always be as forthcoming as it has been in the past. Globalisation and the development of offshore-based, internet-enabled business models can currently circumvent local regulation, as the experience with Uber and AirBnB has demonstrated. This emphasises the importance of regulating with, rather than at, the community, identifying and gathering support both for the rationale and proposed instrument of regulation.

Given the pressures on Ministers and government agencies, it is a challenge to maintain adherence to the Government's own decisions on good practice regulation, but it is a challenge worth accepting.

There are grounds for MBIE to reflect on the balance between regulation (at its different levels), enforcement and education. This is already occurring in some areas, such as the Labour Inspectorate and health and safety reform. Some feedback suggested that more emphasis on both enforcement and appropriately pitched education would pay greater dividends than resorting to more (or even different) regulation.

MBIE's purpose of 'Grow New Zealand for all' obviously has (and should have) a big influence on the regulatory system. It is important that this carries through to different dimensions in the analysis of regulatory proposals. An example of a worthwhile initiative that will contribute to the MBIE purpose on a number of dimensions is the introduction of the New Zealand Business Number. This can be expected to improve regulatory impact, reduce the cumulative costs of compliance and facilitate more efficient delivery of private and public sector services to businesses.

In summary, MBIE's progress to date on developing its Regulatory Management Strategy and trialling new approaches is commendable and it will be vital to continue to build on this progress. The successful regulatory system of the future will be one with clear purposes, roles and responsibilities and able to demonstrate agility in performance. To achieve this there will need to be ongoing assessment, challenge and improvement, which should enhance the credibility of the system by helping to avoid system failures and attracting high national and international ratings.

Science and innovation system

The second focus area is science and innovation, which is a critical part of the core purpose articulated by the Government to achieve excellent economic, social, environmental and cultural outcomes for New Zealand. This second focus area was chosen owing to its significant economic impact and the fact that the policy and operational work on the science and innovation system is managed from within one of MBIE's business units.

The 2014 PIF Review determined that the science and innovation system inherited by MBIE reflected relatively low levels of investment, undue complexity, cynicism and change fatigue. Performance ratings of 'well-placed' for efficiency and 'needing development' for effectiveness were awarded for the Core business 'Supporting the business and innovation system'.

The extended period of institutional change, uncertainty and fragmentation that preceded MBIE's formation resulted in a lack of a clearly articulated science and innovation ecosystem for New Zealand. MBIE's initial trajectory in this domain leading up to the 2014 PIF Review was identified during this PIF Follow-up Review as being characterised by conservatism, micromanagement, weak collaboration and asymmetrical stewardship.

Subsequently MBIE has set in place a stable platform for the future science and innovation system, the core of which is the National Statement of Science Investment (NSSI) released in October 2015. NSSI is a ten year forward-looking picture defining the critical steps to be taken. It clarifies the underlying investment context, outlines roles and responsibilities for funding and institutions as well as setting out a purposeful policy work programme. Fundamentally the NSSI will characterise how resources will need to be configured for the science and innovation ecosystem to deliver effectively. The strategy, architecture and design are almost fully formed and the sector has welcomed the NSSI.

Notwithstanding the NSSI's warm welcome, it has only partially 'reset' the system's coordinates with various entities and people tending to interpret it in their own way. An example of the signals in the NSSI not being fully and symmetrically deciphered is the recent Endeavour funding round.

MBIE is still in the early phase of implementation of the NSSI, however it is already starting to alter the discourse. Meaningful communication with deep reach and frequency will be necessary for MBIE to fully embed the NSSI within the science and innovation ecosystem. In this context MBIE will need to be alert to vested interests and how they might be managed.

The NSSI forms part of a wider suite of reforms of the science system, which include the redesign of MBIE's contestable funds into the Endeavour Fund (November 2015), the strategic refresh of the Health Research Council (November 2015) and the review of Crown Research Institute Core Funding (May 2016). The high point for MBIE was the Innovative New Zealand announcement in Budget May 2016, a series of 25 initiatives representing a total new investment in science, skills, tertiary education and regional development initiatives of \$761.4 million over the next four years. Fifty-four per cent (\$410.5 million) was allocated to the science and innovation ecosystem lifting the Government's annual science investment to \$1.6 billion by 2020. The suite of initiatives is a positive reflection on MBIE's progress.

As part of the ongoing work defined in the NSSI a review of the Marsden Fund is currently underway and a number of initiatives to explore new funding models are in the process of implementation or development (Regional Research Institutes initiative, Strategic Science Investment Fund, New Zealand Investment Attraction Strategy and Research Partnership schemes).

Feedback from stakeholders about relationships reveal that they are mainly strong with some stronger than others. The majority of the feedback is remarkably consistent in its positivity, however, a minority of the feedback is negative and should not be dismissed simply as an outlier. Rather it should be subject to further examination, as there may be useful lessons embedded within it.

The underlying narrative of the positive feedback is that in the last twelve months MBIE has demonstrated a much greater sense of direction and assurance, at a time when there are significant changes to the science and innovation system. MBIE's processes of consultation and communication have generally been highly regarded with some stakeholders indicating they have not experienced anything as good as this from a government agency in a very long time. Comments from stakeholders reveal MBIE's consultation to be authentic with a very strong commitment to ensure the process works. Overall feedback is that MBIE is a very different agency now from what it was even 18 months ago.

The negative feedback, which represents a minority, does still recognise that MBIE's science policy and domain knowledge has increased significantly over the last 18 months. However, the operations are still seen to be too slow and somewhat lacking in simplicity. There is a view that some of the science challenges and Callaghan Innovation are facing headwinds and that MBIE needs to do more to alter their current trajectories as their success is critical to the science and innovation ecosystem.

Stakeholder feedback also raised questions about whether MBIE was fully exploiting synergies through inter-agency collaboration, in particular as to whether science funding could be more involved in the Regional Economic Development projects. Furthermore, the links between the Ministry for Primary Industry's Primary Growth Partnership programme and the MBIE funding framework could be leveraged for greater value for money outcomes, as might a closer connection and shared roadmap with the Ministry of Education.

MBIE should turn its mind to a number of Issues that arise from this review of the science and innovation system:

Implementation

With many of the building blocks in place MBIE must now bring a disciplined and intentional focus to implementation. Even excellent strategies are absolutely dependent on high quality implementation to achieve desired outcomes. It is possible that some of MBIE's most highly regarded executives in the science and innovation area may not have the time or capacity to fully focus on implementation. It is essential that the science and innovation branch of MBIE is properly resourced and structured to deliver on the implementation challenge that lies ahead.

International

There is an underlying feeling from external stakeholders that MBIE should have a more international perspective with regard to global science and innovation, multinational involvement in research and development and enhanced relationships with key institutions such as the European Union.

Science and innovation connections with China have been developed as have those with the Small Advanced Economies group, representing positive progress. Notwithstanding this, an international perspective needs to be developed that is wider, has a different tone and is integrated. All parts of the New Zealand system need to be engaged in developing this wider international footprint, for which the clear priorities to be advanced for New Zealand will need to be established. A Strategic Action Plan on international science, which was signalled in the NSSI, has been progressed in 2016 and will be important in further mobilising the international perspectives and connections of the New Zealand science ecosystem.

National science challenges

The national science challenges preceded NSSI and with the benefit of hindsight have turned out to be a greater reform than first realised. The responses have been variable with some working well and others less so. The transaction costs of these challenges may have been high in the establishment phase and it will be important to drive costs down in future rounds.

There needs to be available capacity (or a robust plan to develop that capacity) to deal with new initiatives of scale and scope. A lesson to be taken from the national science challenges is that the capacity required to successfully undertake these initiatives is generally underestimated primarily due to optimism bias. To avoid this problem it is critical that all new programmes are approached from a completely neutral and independent perspective.

Callaghan Innovation

There still appears to be some confusion as to who is the innovation ecosystem designer, is it MBIE or is it Callaghan Innovation? Clarity around the role of Callaghan Innovation is important and MBIE needs to ensure it does enough in this regard. As Callaghan Innovation goes through a period of change it is critical for it to emerge with an identity within the science and innovation system as the accelerator of the commercialisation of innovation by New Zealand businesses.

MBIE's role in the innovation system

When reflecting on MBIE's progress it is important to understand, as has been described above, that the various system components are at different stages of maturity as are the system participants. Since the 2014 PIF Review MBIE has developed a coherent and functional stewardship of the science and innovation system, but that too is in a relatively early stage of its maturity. This PIF Follow-up Review reveals very reassuring signs of capability, stakeholder relationships and collaboration, but much more work is required to harvest the undoubted potential for impact in New Zealand's science and innovation system.

The next steps for MBIE are to secure greater mobilisation and momentum within the science and innovation ecosystem to deliver on the Government's high-level targets as well as the objectives the NSSI has set out. Concurrently, MBIE needs to be developing a more sophisticated suite of leading indicators that will allow earlier course correction than would be possible currently, with indicators that are predominantly lagging. Breakthrough thinking and creative problem-solving should be applied to ensure impact does not remain in the 'too hard to properly measure' basket. The oxygen of the science and innovation system will be communication from MBIE that creates meaning, calls performance honestly for all monitored Crown entities⁹ and contracts and celebrates the sector's successes. As described earlier, MBIE's disciplined, intentional and highly focused implementation will be critical to success.

The MBIE science and innovation system has progressed significantly since the 2014 PIF Review, but there remains significant potential for further improvement.

⁹ The current review of MBIE's approach to Crown entity monitoring is an important opportunity to make transformational change in how MBIE fulfils its stewardship function and ensures key participants in the science and innovation system are making best use of available funding to contribute to growing New Zealand for all.

Customer centricity

The third focus area, Customer Centricity, was selected by MBIE because it reflects on how the agency as a whole is operating. The agency aims to be a more customer-centric organisation, one of its four priorities for organisational development, with an intention to better understand the needs of different types of customers and stakeholders including: people who use its services; organisations it regulates; its Ministers and internal customers.

Under the Better Public Services reform a focus on delivering value for customers and New Zealanders (and increased value over time) is critical to the development of effective policy advice and public services. This reflects the changing nature of government and the need for a customer-centric focus was highlighted in the 2014 PIF Review with 'customer centricity' being a key theme in the Four-year Excellence Horizon and in Results and Organisational Management sections of the report. For example:

The operating model should be “explicitly designed to support MBIE’s business strategy by ensuring [among other things] that it keeps a tight focus on what drives value for MBIE’s customers and New Zealanders”¹⁰

“...many [external partners] expressed a desire to be part of developing and framing [MBIE’s] priorities at a sector and national level”¹¹

“The [Science and Innovation] system needs a shared roadmap and shared ambition”¹²

“MBIE needs to take a targeted and granular approach to understanding the voice of the customer, segmented appropriately to discover what drives value across its portfolio. This deep understanding of the customer would then form the basis for building a customer-centric operating model at MBIE”¹³.

In early 2015 the Chief Executive established the Building a High Performing MBIE programme to explore opportunities to step up MBIE’s performance. This programme proposed changes to the way MBIE works (culture and behaviour), how the corporate centre supports business units and the configuration of business units (structure). The objectives of the changes drawn from the 2014 PIF Review and external and internal feedback were to reduce operational silos and help the agency become more customer centric, flexible, responsive and lean.

MBIE has implemented a number of projects and sponsored some exciting developments as part of building a more customer-centric operating model. Further commentary with reference to specific projects and developments is noted below.

¹⁰ p16 PIF Review of MBIE 2014 – Performance Challenge – Agency.

¹¹ p30 PIF Review of MBIE 2014 – Core business 1: Strategic policy.

¹² p32 PIF Review of MBIE 2014 – Core business 2: The Science and Innovation System.

¹³ p55 PIF Review of MBIE 2014 – External Relationships.

Purpose, orientation and modelling behaviour

MBIE's customer centricity is implicit in its purpose 'Grow New Zealand for all' and this is given expression in its overarching outcome to deliver significant growth in real median household income by 2025. Each team within MBIE has its own part to play in achieving this shared purpose. It will be important for MBIE to demonstrate how it is making progress towards this key outcome and to help its employees understand how their work contributes to that outcome.

The organisational structure has been refined to further leverage connections between business areas. For example, the structure creates more resilient teams with greater surge capacity and with orientation towards specific 'types' of customers. From a customer perspective the new structure is easier to navigate and it also enables delivery of more consistent, integrated services.

The Corporate, Governance and Information Group and the Finance and Performance Group, as noted earlier, provide internal corporate services to MBIE's other business units. They have established a range of service offerings (self-service, advisory and strategic partnering), modelling the way in which MBIE seeks to engage with and deliver services to its external business partners, stakeholders and customers. The Corporate, Governance and Information Group and the Finance and Performance Group are barely a year old and customers are appreciating the business partnership approach and service quality improvements achieved. Not all legacy issues have been fully resolved, but these two corporate services business units are being given credit for the progress to date.

Customer focus driving better value

The MBIE Service Promise was developed in an inclusive way through staff workshops, surveys and discussions and was confirmed in August 2016. MBIE has established a cross-unit team to investigate the best ways to embed the Service Promise as part of how MBIE operates. There is a concern it may not resonate with all MBIE staff and stakeholders as it seems to be most relevant to service transactions and less relevant to engaging with customers on the development of new services or policy. However, it is an excellent initiative to encourage awareness about standards and approaches for customer interactions.

Vision 2015, the INZ Customer Centric Approach, used customer insights and feedback to help design new online visa application software and other services that enhance the user's experience and improve operational efficiency. Development of personas to help test new service design approaches has been beneficial. Customers are reporting an improved experience in applying for visas and there have been productivity gains through reducing application processing time and service line enquiries from applicants and brokers. Vision 2015 has also allowed INZ to drive further service delivery improvements, which will be taken to the next level through Vision 2020.

Across service delivery areas there is good work being done on segmentation ('personas') and other approaches such as human-centred design, which enables the agency to more effectively target its communication, collaboration and assistance and improve customer experience.

INZ and Market Services have started to apply customer insights, complaints and staff observations to make continuous improvements in service delivery functions and in related policy advice. MBIE staff recognise there are substantial opportunities to make even greater use of its collective information and intelligence to continue to refine its policy and services for the benefit of customers and improve the value MBIE delivers.

A 100% online operating model for the Intellectual Property Office of New Zealand (IPONZ) was developed with input from IPONZ's customers. This is recognised internationally as one of the most innovative and advanced in the world. IPONZ continues to monitor feedback and complaints from customers to develop new insights and to make continuous improvements to systems and processes.

More broadly, MBIE has encouraged collaborative work across its teams and externally using techniques such as Rapid Innovation Challenges to resolve common issues. MBIE is starting to engage formally with customers to co-design new products and services. Market Services has invited customers into discussions to improve specific aspects of regulatory function and enforcement.

MBIE leads the Result 9 – Better for Business initiatives working in partnership with nine other agencies to improve public services for businesses. As part of this work programme, the R9 Accelerator brings together private sector entrepreneurs, developers and mentors through Creative HQ in partnership with public sector staff 'to build market-validated solutions that make it easier for business to interact with government'. Much progress has been made in modernising and using digital channels to enable business to interact efficiently with MBIE's Market Services and linking through to related services of other agencies. For example, it is now easy to lodge an online application to establish a company, confirm the company name, check for any trademark issues, apply for an IRD number and register for GST as part of a connected series of online activities. The utility for customers registering new businesses deserves commendation.

More generally, there has been some good cross-government sharing driven by government priorities, Result 9, Result 10 and the Business Growth Agenda, but there is room for more.

Tailoring regulatory services to help customers and improve compliance

The Employment Agreement Builder is an exciting development to make it easy for employers to comply with their obligation to document employment agreements with employees. MBIE sought input from a range of businesses across New Zealand to inform the design of an online function to enable small business owners to construct 'tailored, user-friendly agreements with no unnecessary clauses'. Uptake of this facility has been very promising and it will promote both greater compliance and better quality agreements.

Sharing and embedding customer centricity

While efforts to share experience and ideas are definitely being made, there are unexploited opportunities to learn more widely from the 'best of the best' that is being achieved in different parts of the agency (or indeed elsewhere). Even during the PIF Follow-up Review, staff from one team were hearing for the first time about successful innovations that had been trialled by another MBIE team.

One way to embed 'customer centricity' would be to develop communities of practice across MBIE to share experiences of what is and is not working and identify best practice techniques in working with customers and for new policy development and service design approaches.

Customer-centric policy that keeps pace with business and societal change

The challenge for MBIE will be to embed customer centricity into all aspects of its business and particularly in the development of strategic policy advice to the Government. While Ministers are the customers for policy advice, the value to end customers of the proposed policy developments must inform the advice given. It is critical that external customers and stakeholders are involved early in the development of that advice.

The Auckland Co-design Lab is using co-design and other innovative techniques to work on complex, multi-agency challenges and is devising solutions to meet those challenges. It will be interesting to see the evaluation of this work and what lessons can be learnt for the same or similar techniques to be used more broadly.

MBIE's wide range of policy, regulatory and business services functions means the agency has the reach to increase or decrease value for New Zealanders and for visitors to, and investors in, New Zealand. An essential role for MBIE is to identify, provide advice on, set and monitor market conditions to support value creation that is sustainable and 'equitable' for all its customers. For example, fair trading rules and employment standards allow value created to be shared among participants: business owners, customers and employees. Over time that value will be eroded for one or all parties if policy development does not keep pace with or anticipate changes in market conditions. The current experience for the regulated taxi industry and its customers with the introduction of the Uber service is an obvious example. MBIE needs to be closely in touch with its customers and their markets and looking for the weak signals that will help it anticipate and reflect external changes in its policy advice.

Performance challenge

*How wonderful that we have met with a paradox -
now we have some hope of making progress.*

Niels Bohr, Nobel Prize winner¹⁴

MBIE’s performance trajectory has reflected its focus on achieving integration of its legacy organisations as well as performance enhancement. MBIE has prudently avoided seductive quick fixes, which generally do not work, and consequently has positioned itself well for the future.

The challenge MBIE now faces is to build even greater momentum, adaptive responsiveness and resilience, while operating in a hyper-connected global context characterised by disruptive technological change and a logarithmic expansion of data. MBIE is not alone in facing this complex, ambiguous, uncertain and volatile context, but its significant role, broad scope and multiple interfaces mean it will require a very sophisticated and nuanced understanding of how to deal with paradox.

This PIF Follow-up Review identifies that MBIE faces four key strategic performance challenges, each represented as a paradox. Purposeful re-conceptualisation of particular aspects of MBIE’s mindset, strategic approach and operating model will be critical to successfully dealing with these paradoxes over time.

The four paradoxes

Performance gap	●	—————	●	Possibility gap
Vertical	●	—————	●	Horizontal
Conceptualise	●	—————	●	Implement
Frame	●	—————	●	Reframe

To build on its current trajectory and harvest its full potential MBIE must simultaneously:

Close both the performance gap and the possibility gap

Since the 2014 PIF Review MBIE has been understandably fully focused on lifting its performance through the organisational development narrative of ‘High Performing MBIE.’ The results are striking and very welcome.

MBIE has now reached the point in its trajectory where it needs not only to ‘run the same race faster’ (performance) but also be strategic, creative and adaptive in order to ‘run a new race’ (possibility). The latter is necessary as dual disruption (intersection of new technology and new operating models) will significantly change the landscape in which MBIE operates. Uber and Airbnb are early examples of the type of dual disruption that will challenge the approach of governments and their agencies. New innovative entities characterised by being

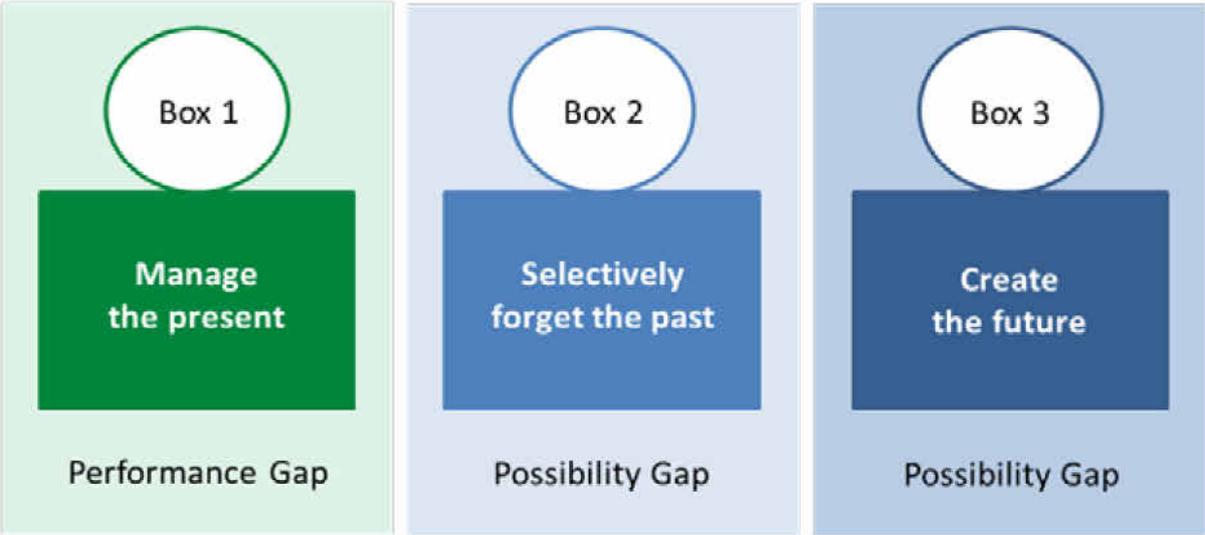
¹⁴ Moore, R., & Bohr, N. (1966). *The Man, His Science and the World They Changed*. AK Knopf, New York.

'outsiders', not having vested interests and not being weighed down by capital assets will increasingly exploit the 'sharing economy' and disrupt multiple sectors.

Applying the three-box model of strategic innovation¹⁵ (diagram 1 below) to MBIE reveals that, like many contemporary organisations, resource and attention is largely concentrated in box 1, on the performance gap. The performance gap is the measurement of the difference between the present status of MBIE's operation and its ultimate goal of performance, with the aspiration of narrowing or eliminating the gap. This is not to imply that MBIE has disregarded boxes 2 and 3, which are focused on the possibility gap. The possibility gap is the measurement of the difference between the trajectory of the current operation and a feasible and superior alternative trajectory for the future. Closing the possibility gap requires highly refined strategic and generative capacity as not only is formidable foresight required, but also powerful insight. MBIE does have a range of resources looking to the future, including strategic policy, labour market strategy, digital economy strategy and service design; these look across the economy, considering future environments and implications for MBIE.

In dealing with the performance – possibility paradox it would be very useful for MBIE to reflect more deeply on the weighting of resources and attention between boxes 1, 2 and 3 and also on the nature of mindsets, attributes and experiences of staff involved in box 2 and 3 endeavours. It will be important for MBIE not to succumb to the prevailing logic of most organisations, which is to have difficulty in differentiating medium- to long-term planning from possible breakthrough strategies and new business models for the future.

Diagram 1



Govindarajan, V. (2016). *The Three-Box Solution: A Strategy for Leading Innovation*. Harvard Business Review Press.

An example of this differentiation is the reported approaches Microsoft and Apple took to mobile devices. Both had medium- and long-term plans in place and understood the importance and market potential of mobile devices. Microsoft took the decision not to enter the mobile device market because the price point of devices was too high for consumers. Apple also decided that mobile devices were too expensive for consumers to routinely purchase, however, with a different lens into possibility entered the mobile device business. Apple conceived an operating model that involved partnering with telecommunications providers who would sell the device (with the cost

¹⁵ Govindarajan, V. (2016). *The Three-Box Solution: A Strategy for Leading Innovation*. Harvard Business Review Press.

amortised) within a term plan. This insight into possibility created a hugely profitable mobile device market for Apple, while Microsoft was left watching from the sideline.

Dealing with paradox is difficult as the nature of managing the present, selectively letting go of the past and developing the future will inevitably create internal conflict between box 1 and box 2/3 perspectives. This conflict, though, can become the basis for breakthrough thinking and transformation as nothing induces creativity quite like working through a challenging paradox.

Leverage value from the vertical and the horizontal

Intersections are an area of substantial potential within MBIE and across the wider system to reduce both the performance and possibility gaps. In the interviews conducted during this PIF Follow-up Review, MBIE management and staff identified a range of fertile cross-cutting opportunities between its various internal and external verticals - perhaps more than most other Crown agencies.

MBIE will greatly benefit from further promoting and cultivating the mindset and practice to concurrently deliver exceptional results in the vertical (branch, unit and/or job) and across the horizontal (MBIE and the wider system). A more expansive development of these 'ambidextrous' managers and staff will primarily be achieved through changing specific behaviours rather more than changing attitudes. MBIE focuses more on meaning as a cultural catalyst rather than values. While this may not appear to be a normative approach it is very insightful with significant potential if implemented well.

In line with other organisations MBIE is on the cusp of a disruptive digital revolution, which will make working vertically alone a distinctly unsustainable option. The new organisational world will require organisational elasticity and fluidity, where roles and responsibilities will be serially redefined and accountability will increasingly be across both the vertical and horizontal dimensions. It will be prudent for MBIE to continue (and speed up) the development of the mindset and skills for working in both vertical and horizontal dimensions.

The ability to exploit the intersections between the verticals and horizontals is pivotal to enhancing a number of attributes that will be critical to future success, including but not limited to multidisciplinary and transdisciplinary work, innovation and the evolution of information to insight.

MBIE will benefit from accelerating the shift in its use of data to a more multidimensional approach. This will be critical to building greater momentum for current performance as well as simultaneously becoming 'match-fit' for the future. The evolution from 'data to intelligence to insight' should be MBIE's number one priority as this, more likely than any other factor, has the capacity to close both the performance and possibility gaps. In this context, it is not simply taking advantage of big data and data analytics (which MBIE must), rather it is developing a nuanced understanding of what quality commissioning for insight looks like.

MBIE will require specific skills and capacities to make the move successfully from data to insight. In addition to the necessary technical skills and capacities, MBIE will need creative problem-solvers with the refined capacity to synthesise (rather than only analyse) and correlate (rather than only isolate) variables and problems. MBIE's critical staff in the data domain (much like the senior executive) are largely focused on the requirements of the current business and consequently have insufficient time and space to do justice to the future challenges.

As a step towards capturing the full potential and value of data, intelligence and insight, MBIE should enhance its already enabling environment for communities of practice to collaborate and experiment with data, intelligence and insight, thereby building both capability and confidence.

Integrate conceptualisation and implementation: take the inside out and bring the outside in

MBIE has taken a series of positive steps to becoming more customer centric and enhancing its approach to stakeholder engagement. Given the nature of the heightened expectations from customers and stakeholders for authentic participation and involvement, MBIE should consider widening its perspective of how it might be more effective both on the market as well as in the market.

The steps MBIE has taken to lift its presence in the market have been valued. For example, MBIE's recent exploratory approaches to co-design with external stakeholders have significant latent potential and there is genuine appreciation of this new way of working. At present, MBIE's approach is experimental and too low in scale to reveal the full range of possibility to innovate and accelerate the development and delivery of effective policy advice and services.

MBIE should contemplate adopting a more contemporary model of strategic innovation, potentially drawing on tools such as the business (or mission) model canvas¹⁶ to widen its perspectives and move beyond process-centric thinking for co-design towards business (or mission) model thinking. This would help MBIE to develop the essential capacity to integrate conceptualisation and implementation.

MBIE would need to scale up its presence in the market as this approach is dependent on very deep customer and stakeholder interaction and development to test the underlying hypotheses for policy, regulatory or service innovation. The emphasis is on agility and speed and MBIE could experiment, for example, by engaging at the framing stage with concepts such as 'minimally viable regulations'.

In a conventional public service delivery model this approach would seem both counterintuitive and risky. However, this type of approach or something similar may greatly assist MBIE to be agile and remain effective in its role, regardless of changes in context. During the PIF Follow-Up Review interviewees frequently expressed the view that "good policy takes time". As rational and logical as this might sound, in the new digitally disrupted and rapidly moving world it is possible that there will only be time for 'good-enough' policy.

¹⁶ Osterwalder, A. (2013). *A better way to think about your business model*. Harvard Business Review.

The integration of conceptualisation and implementation runs counter to popular change concepts such as the division of labour, which is frequently promoted in the literature on change.¹⁷ It is important for MBIE to think about adopting an even more ‘adventurous’ approach to taking the ‘inside out’ and bringing the ‘outside in’. Whilst such an approach will induce a certain amount of risk, this risk will likely be far less than the risk inherent in a conventional bureaucratic approach to identifying risks and capturing the opportunities of the new digitally disruptive world.

Frame and reframe

Frames help to simplify complex information and contexts and are a powerful means of communication within and outside organisations. Reframing is important to create a sense of possibility by developing and keeping a wide range of options open. Possibility is too frequently diluted or extinguished in organisations by moving far too quickly to address questions of feasibility and acceptability, often the default position in bureaucratic environments. Keeping thinking divergent for as long as possible and resisting the inherent contextual default is going to be very important to MBIE’s future success. This may be very delicate for MBIE to navigate and manage.

Reframing has already been very successfully deployed by MBIE when it realised its ‘One MBIE’ narrative was counterproductive and it transitioned to its current organisational development narrative of ‘High Performing MBIE’. This current narrative is likely at some point in time to lose its utility and become a constraint. MBIE should give serious thought to reframing ‘High Performing MBIE’ as relevant to the performance gap and framing ‘High Promise MBIE’ as relevant to the possibility gap.

The overwhelming majority of MBIE’s metrics are lagging indicators. Indicators serve a purpose beyond simply oversight and MBIE should urgently explore the creation of a complementary set of leading indicators. Ironically lagging indicators are easy to measure but very difficult to influence while leading indicators are generally very challenging to measure, but relatively easier to influence. This indicator reframe does not mean lagging indicators should be dropped, rather a set of lagging and leading indicators should be developed and reported against jointly.

Leading indicators are critical for vigilance (effectively the product of foresight and insight), which allows weak signals to be identified early and consequently acted on. Identification of weak signals is important to draw attention to what might be missing, rather than simply to what has been achieved (which is what lagging indicators essentially measure).

Reframing its approach to indicators will be a very significant opportunity for improvement in MBIEs Crown entity and contract monitoring, where deeper and more meaningful insights will facilitate more direct and honest (and consequently more helpful) assessments and feedback.

¹⁷ Alvesson, M., & Sveningsson, S. (2015). *Changing organizational culture: Cultural change work in progress*. Routledge.

Appendix: MBIE's key functions

MBIE brings together a broad range of government activity. Key functions include:

- co-lead with the Treasury, the Government's Business Growth Agenda
- co-lead with Te Puni Kōkiri He Kai Kei Aku Ringa, the Crown-Māori Economic Growth Partnership
- improve Pacific people's involvement and contribution to the New Zealand economy through implementation of the Pacific Economic Strategy
- advise on business, enterprise, sector and regional development policy and programmes
- functional lead on the public sector's procurement programme
- manage selected natural resources of New Zealand through regulation and advice
- advise on housing affordability, social housing and community housing provider regulators, the built environment, residential tenancy and weathertightness of buildings
- deliver immigration services and policy
- lead the Government's health and safety reform programme
- advise on accident compensation policy
- regulate the supply and use of the radio spectrum, electricity and gas
- oversee the roll-out of high-speed broadband nationwide
- provide and enforce consumer, commercial and occupational regulatory frameworks that support well-functioning markets
- invest in science and innovation and build the skills needed to support business growth
- provide services for company registration, intellectual property, standards and accreditation systems and insolvency
- advise on and support employment relations and enforce minimum employment standards
- lead the Government Centre for Dispute resolution
- lead the Government's Result 9 Programme – Better for Business.