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## PERFORMANCEIMPROVEMENTFRAMEWORK

# **Formal Review of the Ministry of Economic Development (MED)**

**MARCH 2012**

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State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet

## **Lead Reviewers' Acknowledgement**

As Lead Reviewers for this Performance Improvement Framework Review (the Review) for the Ministry of Economic Development (MED) we would like to acknowledge the thoughtful, open and generous input from MED staff throughout the PIF process. MED recognised this as an opportunity to identify and make performance improvements.

In addition, we had considerable input from a cross section of MED's external partners and stakeholders, who were equally committed to supporting this Review and building stronger collaboration with MED in the future.

Given MED is involved in a large number of activities, we did not examine areas where there was potential for conflict of interest through our other responsibilities, including Dr Horn's position as a Director of Telecom and Ms Suckling's position as a Director of Sky City Entertainment Group and as a panel member of the Takeovers Panel.

**Performance Improvement Framework  
Formal Review: Ministry of Economic Development**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet  
Wellington, New Zealand**

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## **AGENCY'S RESPONSE**

The Performance Improvement Framework Review has been an extremely valuable exercise for the Ministry.

The review has provided us with a clear picture of what we are doing well, and where we need to improve.

I greatly appreciate the commitment and energy the Lead Reviewers brought to the task, focusing always on how the Ministry can improve its contribution to New Zealand's economic development.

The focus of this response is on how we will work towards the Future State: four-year "excellence horizon" set out by the reviewers.

Moving to the Future State will require:

- Much stronger ownership of the Ministry's leadership role in economic development
- A culture change process that will build the behaviours and capabilities – the "MED Way" - necessary to deliver the Future State
- Strong leadership from the Strategic Leadership Team to drive the change process
- Enhanced value for money
- Holding ourselves to account.

As the Lead Reviewers note, the Ministry is able to embark on this transformation because we are building on a strong foundation, including a "can do" culture with good staff engagement and a track record of delivering for Ministers and of innovation in our delivery of services to business.

Nonetheless, the challenge is a significant one. Leading the change process will be the highest priority for me and for the Strategic Leadership Team.

### **Strongly owning our leadership role in economic development**

The Ministry's reason for being is to relentlessly pursue economic growth, for a prosperous New Zealand.

The essence of our role is to create the best possible environment for business success.

All our work will be underpinned by a deep understanding of the drivers of economic development in New Zealand.

We will assert a persuasive view on what is most important for economic development - whether we are directly responsible for it or not. We will champion that view with Ministers, government agencies and stakeholders.

We will leverage our full set of relationships with business to inform our thinking, to build support for government's approach to economic development and to co-create solutions in priority areas.

Our role in pursuing economic growth has six main elements.

### **1. Make the most of our economic development leadership role**

We will help government define its role in economic development, in promoting business success and in establishing priorities for action.

We will line up the main players across the government system to develop and deliver government's economic development priorities.

### **2. Ensure efficient markets: policy and regulation to underpin economic growth**

We will work to build trusted, well-functioning and competitive product and capital markets that promote efficiency and enhance productivity, and partner with other agencies to develop new markets, so that businesses have certainty to invest and face strong incentives to innovate, and consumers can transact with confidence.

### **3. Develop and deliver the world's best services for business**

We will ensure the business services we deliver are world-leading. We will take the lead in ensuring all dimensions of business interaction with the New Zealand government are as simple, inexpensive and growth-enhancing as possible.

### **4. Ensure New Zealand has the infrastructure to underpin business success**

Our focus is on energy and telecommunications where, following the changes of recent years, the priority is policy and regulatory settings that provide the certainty to underpin private sector investment.

### **5. Realising value from the Crown's Resource Portfolio**

MED has leadership responsibility for the mineral and petroleum estate and for radio spectrum. We will focus on whole value chains, utilising all the levers available to government to realise value for New Zealand (recognising the centrality of environmental protection and health and safety).

We have a strong supporting interest in water (particularly for electricity) and in the conservation estate (tourism, minerals).

### **6. Support sectors and firms, with a focus on innovation, capital and internationalisation**

Through our leadership of government's science, innovation and trade driver of economic development, we will work with partner agencies and with business leaders to:

- Identify and address sector-specific barriers to export and productivity growth
- Provide public sector inputs to support productivity growth, in particular a business-focused innovation eco-system (MSI-led) and market access and in-market support for exporters (led by MFAT and NZTE)
- Identify and pursue opportunities to simultaneously improve public services and promote wider economic development.

## **Culture change – defining and embedding the right behaviours**

In stepping up to the Future State, we will:

- Build a shared understanding of and commitment to our leadership role, and of the implications for the work of each part of the organisation
- More effectively leverage the Ministry's full set of relationships with, and data on, business to help us better understand the environment within which businesses operate
- Strengthen our policy development capability, by accelerating our current 'policy excellence' project
- Develop and implement a strategic plan for systematic engagement with stakeholders, focused on co-creating ideas for step change in New Zealand's economic performance and on how government can partner with business to deliver the necessary changes
- Provide much sharper advice to Ministers on priorities, including doing less of, or stopping, low priority work.

Achieving the Future State will require much stronger emphasis on the following behaviours:

- Confident leadership
- Adventurous and persuasive in the generating and selling of ideas
- Clarity about direction and priorities
- Persistence and urgency in pursuit of goals.

We will revise the MED Way to ensure that these behaviours are central, and work to embed them across the whole organisation.

We will review our recruitment, development, recognition and reward systems to ensure they work to strengthen these behaviours.

An early priority is to raise our capability in working with Māori to support stronger Māori economic development.

### **The Strategic Leadership Team**

The Strategic Leadership Team (SLT) will set the business strategy to give effect to the Ministry's leadership role, lead engagement with stakeholders and with Ministers to get support for that strategy, and drive the culture change process necessary to ensure its successful delivery.

The business strategy will focus on what makes the most difference for economic development, and will drive SLT's decisions on priorities and resource allocation.

## **Value for money**

The Future State recognises that, in stepping up, the Ministry will also have to focus on continually increasing value for money. We will build on current initiatives by:

- More rigorous priority setting
- More urgency in progressing priorities that are not being driven by Ministerial timeframes – we will set goals and evaluate progress in 90-day blocks of time
- Explicit decisions about what we should not be doing, supported by feasible exit strategies
- Collecting better management information to measure and drive improved cost effectiveness, underpinned by a fit-for-purpose time recording system and the use of objective benchmarks of quality wherever possible.

## **Holding ourselves to account**

SLT will:

- Prepare a Cabinet paper setting out the Ministry's role in economic development by 28 February 2012, for consideration by the Minister for Economic Development
- Review progress towards the Future State as a core part of our quarterly operating reviews
- Incorporate questions in our staff engagement and stakeholder surveys to measure progress in embedding the key 'change' behaviours
- Invite the Lead Reviewers to review progress on an annual basis, to ensure an independent perspective on progress and to identify any necessary course-corrections.

## **David Smol**

Chief Executive, Ministry of Economic Development

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## LEAD REVIEWERS' VIEW

*In undertaking this Review the Lead Reviewers considered: "What is the contribution that New Zealand needs from the Ministry of Economic Development and, therefore, what is the performance challenge?"*

### The Performance Challenge

1. The Ministry of Economic Development (MED) needs to step up quickly to its economic development mandate ...
  - a. The Government has set ambitious economic goals that require a step-change improvement in New Zealand's economic performance. MED needs to much more strongly own its accountability for its leadership role in economic development to help deliver that ambition.  
  
... in core regulatory areas where the role of government is broadly agreed
  - b. There is a great deal of consensus around the approach to many aspects of economic policy that will help achieve this goal: stable monetary and fiscal policy; an open economy; a low-rate broad base tax system; and flexible and competitive factor and product markets that promote efficiency and productivity. These are all necessary conditions for improved performance.
  - c. MED has a key role in the design and operation of the legislative and regulatory framework for capital and product markets. While MED has recently led what is widely regarded as a successful reform of securities law, the OECD has noted that our internationally leading position in product market regulation has been eroded over the past decade. It is also notable that we still lack the sort of overarching legislative framework in the regulatory area that New Zealand has in the monetary and fiscal areas and that have proved so helpful in creating a more stable and predictable macroeconomic policy environment.  
  
... in areas where the Government's role is clear and MED has clarified its role
  - d. While continuous improvement in these areas of broad consensus is necessary, this will be insufficient to deliver the Government's ambitious growth objectives. Government has an obvious role in some other areas, such as developing publicly owned resources and in leveraging its own business activities in support of economic development. MED has a leading role in both of these areas. For example, recently it has identified a much clearer role for itself in the development of energy and mineral reserves and in encouraging intelligent government procurement, and is building the capability necessary to deliver on these roles.  
  
... and in areas where the role of government needs clarification
  - e. However, there is far less consensus about what else government can do to promote economic development. Neither markets nor governments are 'perfect', so real clarity is required around the role of government and the logic for government intervention, especially when that is targeted at specific firms or sectors.
  - f. Government's active involvement in areas like science, innovation and internationalisation suggest that policy makers believe government has a role in these areas. However, the nature of much of this intervention remains controversial – even within government – and lack of clarity around the right role for government undermines the Government's effectiveness.

- g. While the growth strategy helps define priority areas, it does not provide an agreed framework or frameworks for helping officials to identify what sort of government action is likely to be most useful in each area to promote a step change in New Zealand's economic performance.
- h. MED has a leading role to play in helping to develop that agreement and then ensuring it is well executed in its own areas of responsibility, as well as working with other government agencies in the economic development community to ensure effective cross-agency execution. This will initially require resolution of the best framework for considering government action and the role MED should play in taking that forward.
- i. The key challenge facing MED is to take much stronger ownership of this role. The economy's current course and speed is unlikely to deliver on the Government's ambitious goals. Urgent action is required.**

2. ...by leveraging its unique assets ...

- a. Delivering the Government's objectives requires it to leverage the distinctive assets of its various economic agencies in a complementary manner. Each agency must be clear about what it brings to the table and be able to leverage its distinctive position. For MED this is particularly important in defining its role with respect to The Treasury, the Government's primary economic and fiscal policy advisor.
- b. *Relationship with other agencies:* MED has a leadership mandate in economic development that is its primary responsibility, unlike The Treasury whose economic role sits alongside its unique fiscal responsibilities. This positions MED uniquely with other agencies in the economic development sector – especially MSI, NZTE, MAF, MFAT, and MfE (see Glossary). This group of agencies is keen to see MED make more of this mandate. While MED has begun a process of more intimate engagement with the economic agencies, there is a lack of common direction and approach, as well as a lack of common ownership and urgency. Addressing this requires broader resolution of what sort of interventions are most useful.
- c. *Relationship with business:* MED is also government's leading 'business-facing' agency, especially when combined with the Crown entities that sit with MED. This requires a deep understanding of business and the need for a more frequent and richer relationship with business than The Treasury requires or can sustain. MED scores reasonably well in its transactional relationships with business but needs to both extend these relationships (to tribal economies and Māori businesses in particular) and deepen them. The aim should be to harness its relationship with business to help inform policy development and deliver benefits for the whole community, while avoiding the risk of becoming business advocates delivering corporate welfare. In some cases, MED should look to 'co-create' solutions with key stakeholders (as it did with the Capital Market Development Taskforce). This also requires a broad agreement with the economic agencies, including The Treasury, around the rationale for government intervention in, and collaboration with, the private sector.

3. ... and ensuring it is better equipped and configured to deliver by ..
- a. Developing a much stronger and overarching organisational commitment to its primary economic development role, rather than having its focus dissipated through a large number of reasonably autonomous and loosely aligned teams, often with their own Votes and reporting to their own Ministers. This requires:
    - i. developing a stronger policy development capability that is able to work more effectively with The Treasury and other economic agencies to develop agreed frameworks for helping officials to identify what sort of action is most likely to promote a step change in New Zealand's economic performance. Given the urgency, this will require both a short- and long-term solution
    - ii. better alignment of, and priority-setting among, the teams. While there is a real willingness to act collegially, more needs to be done to better align the distinct teams within MED and to focus their activities on the key priorities that will make a real difference in helping the Government to deliver the step change in economic performance it is seeking.
    - iii. more actively managing the portfolio of activity undertaken within MED to ensure it exits tasks that can be done better elsewhere and that are not core to its leadership of the economic development agenda. This includes being clear about when it should exit new tasks initially assigned to it by the Government.
  - b. The effectiveness of this enhanced focus is materially dependent on having stronger mechanisms for coordinating Ministerial effort around the economic development agenda. MED can help. It needs to build on its reputation for tidy management that can deliver on specific government initiatives to take a more proactive leadership role in economic development. Rather than focusing on where we are and where we go next, for example, MED should be concerned about what government is aiming to achieve and how it can get there. This sort of leadership at officials' level is essential to support effective Ministerial decision-making across those portfolios that impact economic development.
  - c. Specifying this stronger, overarching economic development commitment as clear objectives for MED and then holding people accountable for delivery against these objectives. MED is generally well-managed and seen positively by the people who work for it, in part because of the scope it gives its people to take responsibility. This empowering approach could be made more effective if MED's people are clear about the organisation's objectives and how their roles contribute to those objectives, have freedom to operate within agreed standards, and are consistently held to account for the results expected – a better developed 'tight-loose-tight' approach.
  - d. Building MED's reputational, relationship, and human capital by:
    - i. expecting continuous improvement within MED, with greater focus on systematically and explicitly linking individual development with organisational capability needs
    - ii. developing the disciplines and systems (including standards, protocols, processes and tools) necessary to support consistently superior delivery that is well coordinated across MED
    - iii. clearly segmenting its relationships and applying the right level of attention to each segment, and

- iv. embedding the 'MED Way' so that stakeholders come to expect a consistently professional and high-quality relationship with MED that is less influenced by the performance of individuals.
- e. Developing a culture that is more willing to take the risks associated with helping the Government deliver a step change, rather than incremental change, in New Zealand's economic performance and to pursue that objective with more determination and urgency. This will require MED to be more confident in:
  - i. its ability to take hard decisions to Ministers, and
  - ii. engaging those with different views inside and outside of government in ways that resolve rather than avoid these differences and also facilitate rapid progress.

Developing this confidence will require a culture that is 'harder on ideas' i.e. a culture that is ideas based, encourages vigorous internal debate judged on the merit of ideas and resolves difficult issues in a timely way.

- f. Increasing the opportunities within MED for developing leadership capability. MED's emphasis on a flat management structure (outside of the Business Services Branch), externally contested appointments, and technical/specialist skills development has advantages but mitigates the development of broader leadership capability throughout a person's career at MED. Some believe they need to step out of the organisation mid-career to build this capability. If MED wants to retain the benefits of a flat structure, it needs to create more opportunities for staff to develop leadership capability on the job but outside the line (for example, running large policy and operational projects, big cross-departmental initiatives and large organisational development initiatives).
  - g. Continuing to innovate and drive improved performance in its business services area (for example, to improve reliability and/or enhance New Zealand's reputation), reduce regulatory compliance costs, and reduce regulatory barriers to export growth. MED is well-placed, for example, to ensure that government can take a business-centric view of the regulatory imposts of central and local government.
4. ... a transformation that will need to be carefully managed to ensure existing strengths are retained.
- a. MED is only able to embark on this next stage of transformation because it is building on a solid foundation. It has a good relationship with its Ministers for 'safe' delivery, a reputation for innovation in the services it delivers to business (for example, via its registry function), a collegial and 'can do' culture and good staff management with a high degree of staff engagement. As well, a number of other agencies enjoy working with MED and know that they need to work even more closely with MED to deliver on the Government's goals for New Zealand.
  - b. The changes necessary for MED to step up quickly to its economic development mandate will be disruptive and will need to be managed carefully to avoid undermining the very solid foundation built over many years. This transformation poses risks ... but the prize is worth it.

## **Future State: 4-year ‘Excellence’ Horizon**

This section describes what MED will look like in a future state when it has successfully transformed itself to capitalise on the opportunities presented in this Review. Its purpose is to provide management with a yardstick for judging the extent to which MED’s proposed response to this Review is likely to be sufficient to deliver the future state provided.

Environment: While the current focus remains on managing the consequences of the global financial crisis (GFC) and the Canterbury earthquakes, these concerns are likely to be gradually replaced by a focus on what needs to be done to secure New Zealand’s place amongst first world economies that can afford first world health, education, and welfare. That will require a more innovative and better coordinated government policy response that is capable of generating a step-change improvement in New Zealand’s underlying economic performance. MED will need to respond to those demands in its specific responsibility areas and provide leadership across the economic development community and do that within a more constrained fiscal environment.

Business Strategy: The current business strategy is focused on sound management of MED’s people and projects – and the stakeholders that can influence MED’s success – to deliver ‘safely’ what the Government asks it to do. The future will require MED to be more innovative, adventurous and proactive in its engagement with the Government – not just its Ministers – and other stakeholders around helping deliver this step change in economic performance. This implies a shift towards a higher risk/reward business strategy with a stronger focus on providing value for money.

Operating Model: The current business strategy is delivered by a number of relatively autonomous and loosely aligned teams, often with their own Votes and reporting to their own Ministers. The future will require a much stronger and overarching organisational commitment to MED’s primary economic development role, with stronger alignment of individual teams to that role and a more discriminating management of the portfolio of activity undertaken within MED. It will also require a culture that is ‘harder on ideas’ and one that pursues the goal of higher sustained economic performance with more determination and urgency, as well as a shared view of the role of government with other economic agencies – especially The Treasury.

Change Capability: MED is well placed to make the changes it needs to make, with good staff engagement and a well developed project management culture. Other than the need to build stronger policy development capability, the key changes required are largely cultural and, therefore, likely to be disruptive. The challenge will be to ensure that ‘the baby is not thrown out with the bathwater’.

What will success look like?: MED would have worked successfully with the other economic agencies to ensure that government has been presented with policy options that are doable and would lift New Zealand’s economy onto a substantially higher and sustainable medium-term growth path. These agencies would share a common understanding of what is required as well as having a shared sense of determination and urgency in delivering it.

MED would be seen to be providing real thought leadership across its areas of direct responsibility and on those cross-agency issues that are essential to improve the performance of markets and productivity of firms. It would be defined by this leadership, rather than by its component parts. Because we suffer the disadvantages of size and distance, we need to have a legislative framework – and economic institutions, including regulatory institutions – that agencies like the OECD rank as amongst the best in the world.

The role of government in critical policy areas would have been clarified and officials would share an agreed framework that would guide their advice to Ministers on the sort of government intervention that would be most appropriate in areas like science, innovation and internationalisation.

MED would have a reputation as the agency government looks to for a real understanding of, and insight into, the operation of markets and firms and what is required to make capital and product markets work better and to lift business productivity, including by lifting export performance.

MED would be proactive and have persuasive engagement with relevant stakeholders and be able to engage them in co-creating solutions to issues that the Government wanted addressed.

**Dr Murray Horn**

Lead Reviewer

**Sue Suckling**

Lead Reviewer

## CENTRAL AGENCIES' OVERVIEW

The government's clear priority is to deliver better public services to New Zealanders, within the tight budget the Government is operating under. Government agencies are expected to review and change how they operate to focus on the most effective and efficient use of resources and to deliver better public services to New Zealanders.

The Performance Improvement Framework (PIF) is used by a small group of respected lead reviewers to review agencies to provide insights into how well the agency is positioned for the future. Chief executives value the opportunity to engage with lead reviewers to discuss those insights, as do we.

We, as central agency chief executives, also benefit from lead reviewers' insights about the state sector and the opportunities that exist to improve its operation.

Finally, Ministers, the public and agency stakeholders are entitled to information about agency and sector performance and to know what is being done to lift that performance.

This review of the Ministry of Economic Development is our 15th review and it represents a number of firsts:

- For this review, we have implemented a more streamlined process, designed to ensure that skilled resources are used where they provide greatest value, i.e. the engagement between the lead reviewers and the agency.
- Our lead reviewers have posed the question: *"What is the contribution that New Zealand needs from the Ministry of Economic Development and, therefore, what is the performance challenge?"* To clarify the performance challenge, they have painted a picture of what MED will look like if it is performing as an excellent organisation four years from now ('the four year excellence horizon'). This is a shift from the previous approach of providing recommendations for performance improvement actions. We have made this shift because we need to set a high level of ambition for further improvements in agency performance if we are to meet the expectations of Ministers and the public. The MED review provides a clear example of why this is necessary. MED is a high performing organisation that has continuously improved its performance **but** it can and must do significantly better to help the Government achieve its economic development goals.
- MED has identified what it will do differently to achieve the future state described by the lead reviewers.

From our own engagement with the lead reviewers during and after the review we have identified areas where we, as central agencies working together, need to support MED's role. These include clarifying the role and purpose of MED, ensuring this supports the contribution of economic development to the Government's overall economic strategy, and that all agencies and portfolios involved in the various aspects of that strategy are well-aligned. We are committed to providing that support.

**Iain Rennie**  
State Services Commissioner

**Gabriel Makhoul**  
Secretary to the Treasury

**Maarten Wevers**  
Chief Executive  
Department of the  
Prime Minister and Cabinet

# SUMMARY OF RATINGS

## Results

GOVERNMENT PRIORITIES	RATING
1. Lead and coordinate initiatives to improve the contribution of the science, innovation and trade driver to economic growth	
2. Reform government procurement in order to improve capability, 'value for money' and opportunities for New Zealand businesses	
3. Help to create dynamic and trusted markets, particularly by improving confidence and participation in capital markets	
4. Advance international economic linkages with Australia	
5. Achieve a more efficient regulatory environment that does not unnecessarily impose costs on business	
6. Accelerate development and extract higher returns from the Crown's resource portfolio	
7. Improve energy competitiveness and security of supply by ensuring effective implementation of electricity reforms and greater energy efficiency	
8. Improve long term consumer well-being by reforming consumer credit law and ensuring consumers are well informed about their rights and responsibilities	
9. Remove barriers and pursue opportunities to increase tourism's economic contribution	
10. Maximise the contribution which small businesses make to economic growth	

CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
1. Strategic policy to support economic development and a step change in New Zealand's economic performance		
2. Legislative and regulatory policy and performance		?
3. One-off projects and initiatives, and business services implementation		
Crown entity monitoring		
	RATING	
Regulatory impact	For rating refer to Government Priority 5 and Core Business 2	

## Rating System

 Strong	 Well placed	 Needing development	 Weak	? Unable to Rate
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## Organisational Management

LEADERSHIP, DIRECTION AND DELIVERY	RATING
Vision, Strategy & Purpose	
Leadership & Governance	
Culture & Values	
Structure, Roles and Responsibilities	
Review	

EXTERNAL RELATIONSHIPS	RATING
Engagement with the Minister(s)	
Sector Contribution	
Collaboration & Partnerships with Stakeholders	
Experiences of the Public	

PEOPLE DEVELOPMENT	RATING
Leadership & Workforce Development	
Management of People Performance	
Engagement with Staff	

FINANCIAL AND RESOURCE MANAGEMENT	RATING
Asset Management	
Information Management	
Efficiency	
Financial Management	
Risk Management	

## Rating System

 Strong	 Well placed	 Needing development	 Weak	? Unable to Rate
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## AGENCY CONTEXT

The Ministry of Economic Development (MED) advises the Government and implements policy in relation to a wide range of economic issues. MED has recently stated its purpose as:

*“creating the conditions for businesses to succeed and New Zealanders to prosper by:*

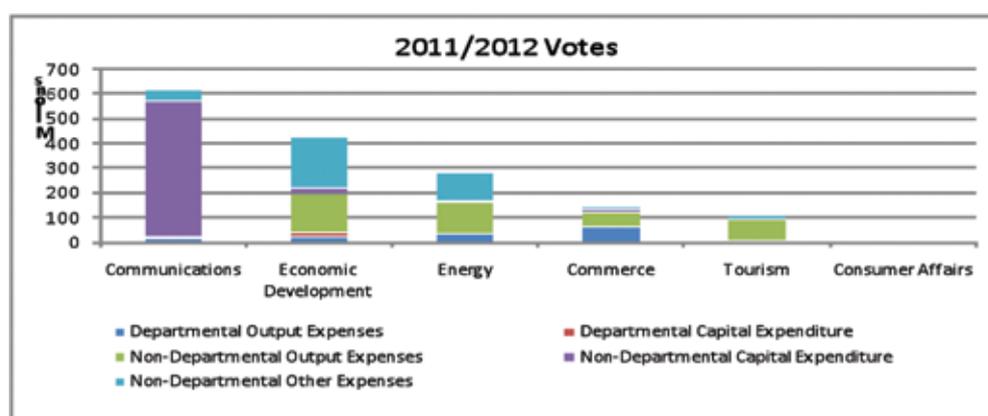
- *Setting the economic development agenda*
- *Delivering growth enhancing policy and regulation*
- *Leading the world in government’s interaction with business.”*

Although global economic conditions have improved, they remain fragile and volatile and this will continue to impact New Zealand’s economic performance. Domestically, the profile for economic recovery will be heavily influenced by the recovery from the Canterbury earthquakes. As these factors fade, the focus will shift to what needs to be done to generate a substantial and sustainable lift in New Zealand’s underlying rate of economic growth and development. MED has a central role to play in helping the Government achieve this objective.

MED provides policy advice in the following areas: telecommunications and information technology; energy and resources; commerce; regulatory reform; industry, regional, and sector development; small business; government procurement; tourism; consumer affairs; and economic development generally.

MED also delivers services to business – administering a large number of regulatory regimes – and manages discrete projects with an economic development focus on behalf of the Government. It also monitors the performance of 11 Crown entities, from NZTE and Tourism New Zealand, through to the Takeovers Panel and EECA. It works with other agencies in the natural resources and economic sectors to deliver on government priorities.

MED employs around 750 staff – including around 100 in each of the Canterbury and Auckland regions. It has eight branches and supports six Votes and nine Ministerial portfolios.



## RESULTS SECTION

### Part One: Delivery of Government Priorities

This section reviews the agency’s current ability to deliver on its strategic priorities agreed with the Government. It is based on the completeness of the agency’s plans, the stage at which the priority is at and the capability and capacity of MWA to deliver on the priority. The report is also informed by consideration of identified risks.

<b>1. Lead and coordinate initiatives to improve the contribution of the science, innovation and trade driver to economic growth</b>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>Science, innovation and trade together constitute one of the six key ‘drivers’ in the Economic Growth Agenda (EGA). The EGA has initiated a useful dialogue with the other economic agencies on economic development.</p> <p>Some of the preconditions for a step change in New Zealand’s economic performance driven by this “driver” are now in place: in particular, the clearer direction and leadership of NZTE, the creation of the Ministry of Science and Innovation and a closer working relationship between NZTE, MSI, MFAT, MAF and MED.</p> <p>However, this is a key area for MED leadership on economic development; so many of the elements highlighted in the Lead Reviewers’ View – The Performance Challenge as requiring attention are also preconditions for success. These would need to be addressed before MED could be judged to be ‘well placed’.</p> <p>In particular, MED has a leadership role in helping define, communicate and motivate the changes required to make this ‘driver’ more effective, including by encouraging greater internationalisation and commercialisation. That role includes a central responsibility for helping the Government define the roles, responsibilities, priorities and deliverables required of those government agencies whose active collaboration is essential. MED needs to work with The Treasury and MSI, for example, to develop an agreed logic to guide decisions about the nature and form of government intervention most likely to maximise the contribution of science and innovation to economic growth and development.</p>

**2. Reform government procurement in order to improve capability, ‘value for money’ and opportunities for New Zealand businesses**

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>While this is a relatively new area of activity, MED is already ‘well placed’. It has developed real capability internally and has started building capability more broadly in the State Services, delivering some significant early successes, and has a clear sense of its role.</p> <p>MED also has a clear sense of how procurement can be better used over time to encourage economic development. It adopts different approaches to three distinct areas:</p> <ul style="list-style-type: none"> <li>i. commodity-based transactions driven by quality and cost considerations (i.e., government can easily specify what it wants to buy ex ante and aims to leverage its collective purchasing power to get the right quality at lowest cost)</li> <li>ii. solution-based relationships driven by value considerations (i.e., the Government knows the problem it is trying to solve and engages the provider to solve that problem and share the benefits), and</li> <li>iii. partnerships driven by value and earnings considerations (i.e., where both parties work together to find a solution and then market that solution to a third party).</li> </ul> <p>Initial work has focused almost exclusively in leveraging the Government’s collective purchasing power to generate significant savings in the ‘commodity’ area (e.g., over 13% savings in collective purchasing of commodity items). While still early days, MED is getting good engagement and collaboration at this level (e.g., uptake has varied from 50%-80% of the potential buying group).</p> <p>MED has also made progress in:</p> <ul style="list-style-type: none"> <li>i. developing procurement capability in the public sector (which should coincidentally strengthen the private sector’s ability to respond), and</li> <li>ii. reducing the transaction costs that discourage participation of smaller- and medium-sized firms.</li> </ul> <p>MED is clear about how it sees this operation developing in the ‘commodity’ area (e.g., greater standardisation and better supply chain management), in the solutions-based value-added work (e.g., better demand management in areas like electricity use and fleet management) and into the more complex partnering opportunities. The procurement team has considered when it might make sense for some of its operations to be delivered outside of MED.</p>
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3. Help to create dynamic and trusted markets, particularly by improving confidence and participation in capital markets	
<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Strong</b></p> <p>The main priority here has been the reform of legislation governing the capital markets, which has been ‘strong’, and the establishment of the Financial Markets Authority (FMA).</p> <p>This legislative and regulatory reform programme is seen by a wide variety of stakeholders as a significant step forward. It will take time to judge the ultimate impact of these changes. While not all of the proposed changes were universally supported, there is a widespread view that the new approach will improve the functioning of New Zealand’s capital markets and so have a positive impact on economic growth.</p> <p>This is an area where MED has been able to demonstrate thought leadership and conduct a proactive and persuasive engagement with stakeholders (e.g., via the Capital Market Development Taskforce). MED has completed a large and important piece of work in a core area of its responsibility and done it well in terms of both process and result. While some difficult issues remain, deliberate choices were made about what should be addressed by regulation and what needed to be done first. MED intends to have a solid evaluation framework in place in a timely way and work has started to ensure this occurs.</p> <p>The establishment of the FMA was completed under real time pressure and to a high standard. Some logistical and organisational difficulties, are being addressed as the relationship between MED and FMA settles down.</p>

<b>4. Advance international economic linkages with Australia</b>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well-placed</b></p> <p>Advancing the Single Economic Market with Australia is a key government priority. To drive quicker progress MED played a lead role in negotiations with the Australian Treasury to deepen commitment to coordination across a range of business law areas. The negotiations included establishing a new institution - the Trans-Tasman Outcomes Implementation Group (TTOIG) co-chaired by MED and the Australian Treasury. This was announced by Prime Ministers in their Joint Statement of August 2009 and served to reinvigorate the process of pursuing cross-border initiatives.</p> <p>MED and the Australian Treasury recognised the need to embed these commitments firmly in a more enduring trans-Tasman instrument. Ministers signed a revised Memorandum of Understanding on Business Law Coordination in Canberra in June 2010.</p> <p>TTOIG is currently pursuing and monitoring progress on, 27 outcomes that cover a broad spectrum of business: insolvency, financial reporting, financial services, competition policy, business reporting, personal property securities law, intellectual property, and consumer policy.</p> <p>Nineteen of these outcomes need to be delivered by 31 December 2014; 17 are on track, reform is slowing in one area, and one area is on hold. Nine outcomes need to be delivered by 31 December 2011, with six completed and three on track.</p> <p>MED has demonstrated it is ‘well placed’ to deliver on what has been agreed with Australia.</p>

**5. Achieve a more efficient regulatory environment that does not unnecessarily impose costs on business**

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well-placed</b></p> <p>MED leads the development of regulatory reform Bills, regulatory repeal Bills and revocation orders. These instruments aim to remove unnecessary or redundant regulation across government.</p> <p>The Regulatory Improvements Bill (2010) amended regulations in nine statutes. In April 2011, 176 regulations were revoked. There is also a Bill in the House to repeal 31 Acts that are out of date and no longer effective or are of limited effectiveness. The Regulatory Reform Bill, also before the House, will amend 13 Acts. Further reform Bills are planned.</p> <p>A better coordinated and articulated economic development role should highlight priority areas for further attention. A good example of what could be done is the work MED has already initiated to address regulatory barriers to export growth. Over 90 specific issues have been identified by business and those assessed to be barriers have either been addressed or a process has been put in place to address them. Some wider sector issues in food processing and service exports have been identified and are being addressed by the relevant agencies. Officials are now looking at what on-going mechanism can be put in place to identify and address regulatory barriers to export growth.</p> <p>One of the success measures has been the significant improvement in New Zealand’s position in the ‘burden of government regulation’ index in World Economic Forum Global Competitive reports: from 65/134 countries in 2008/09 to 25/139 countries in 2010/11. The aim is to further improve this ranking.</p>
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**6. Accelerate development and extract higher returns from the Crown’s resource portfolio**

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>This is an area that has significant potential to contribute to New Zealand’s economic development. MED has worked to position the resources sector as a strong area of focus for the Government, largely through leadership of the development of the New Zealand Energy Strategy, including quantification of potential royalties for oil and gas.</p> <p>MED is reorienting its approach from a relatively passive regulator to a more active asset manager focused on maximising commercial value to the Crown and the contribution this area can make to its development. However, it is still early days and more needs to be done to complete this transition. Only then is New Zealand likely to see a lift in what has been a relatively flat profile of private expenditure on exploration, prospecting, and development of these resources since at least 2007, despite the lift in global demand for energy and minerals.</p> <p>MED has recognised some key improvement areas and is ready to start dealing with them:</p> <ul style="list-style-type: none"> <li>i. shifting its procurement of publicly funded research on the potential of these resources into more of a partnership model, especially with GNS</li> <li>ii. ensuring the right level of proactive engagement with the industry, including by better leveraging NZTE, to ensure sufficiently competitive interest in further exploration and development</li> <li>iii. much more active engagement with other stakeholders, like Māori and environmental interests, so they are aware of the opportunities and the way development risks will be managed. MED also needs to be better informed of the legitimate interests of all major stakeholders and be able to assess those and help the Government address them</li> <li>iv. more efficient, timely and predictable processes for allocating exploration and development rights and issuing permits, including better coordination with other agencies involved in the permissioning process, like DoL and DOC, to provide a more streamlined process</li> <li>v. Then ensuring the whole value chain, from science through to exploration onto market, is operating efficiently and effectively.</li> </ul>
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<b>7. Improve energy competitiveness and security of supply by ensuring effective implementation of electricity reforms and greater energy efficiency</b>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Strong</b></p> <p>The electricity reform agenda was announced by the incoming government in 2009. A Technical Advisory Group (TAG) was appointed by the Minister to develop solutions to enhance competitiveness and security of supply. MED interfaced with TAG in a productive manner (engaging its ‘can do’ approach) including ensuring a smooth transition to the new arrangement. MED facilitated TAG’s work, including external consultation. TAG’s recommendations were supported almost in their entirety and the subsequent 29 recommendations put to government were adopted. These recommendations resulted in improved market- based signals to drive optimal investment and water management, while enhancing security of supply. The recommendations relating to improved competitiveness involved significant changes to commercial asset ownership.</p> <p>The areas where the advisory group took the lead, with MED support, worked well as the commercial acumen of TAG members could be fully leveraged. MED had responsibility for the disposal of Whirinaki; there is some criticism that this process lacked the timeliness and commercial edge expected by the committee. MED ensured a smooth and timely transition from the Electricity Commission to establishment of the Electricity Authority.</p> <p>A key competitiveness issue identified from the reform process was ‘customer inertia’ in switching providers. The Government funded the ‘What’s my number’ initiative through the newly established Electricity Authority to help address this. The programme was launched in May 2011 and has exceeded all expectations (and KPIs) measured by improved competitive pricing and the number of clients switching.</p> <p>The disestablishment of the Electricity Commission created the opportunity for MED to transfer all energy efficiency-related initiatives into EECA. In 2010 a value-for-money review of the initiatives with EECA was undertaken; the findings are currently being discussed with Ministers. (The Canterbury earthquakes delayed discussions on the findings.)</p>

**8. Improve long term consumer well-being by reforming consumer credit law and ensuring consumers are well-informed about their rights and responsibilities**

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well-placed</b></p> <p>The MED executes its responsibilities in this priority area through the Ministry of Consumer Affairs, which is a semi-autonomous unit with limited resources within MED. MED’s most significant contribution in this area is through its work on consumer law reform. In addition, MED is responsible for the delivery of limited consumer awareness activities (the PowerSwitch and MVTR consumer awareness campaigns, consumer rights promotion days, and work with Citizens Advice Bureaux and Community Law Centres on consumer rights) plus the product safety and measurement group. MED is also responsible for oversight of consumer dispute resolution in the financial, electrical, and gas sectors.</p> <p>MED has undertaken two distinctly different pieces of work for reform of consumer law and consumer credit law in response to current and previous Ministers’ priorities and received positive feedback for both of these significant pieces of work. Once these are enacted they will represent a substantial improvement in New Zealand’s consumer legislation.</p> <p>MED has periodically reviewed the way in which its consumer information, measurement and product safety services are delivered. MED advised that the current configuration was assessed to be fit for purpose at the last review. As part of the four-year baseline review MED, will be considering a range of options for the delivery of these services.</p> <p>MED tracks impacts in regard to the consumer awareness activities (e.g. PowerSwitch) and has a suite of performance measures related to the product safety and measurement group.</p>
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<b>9. Remove barriers and pursue opportunities to increase tourism’s economic contribution</b>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well-placed</b></p> <p>The Minister of Tourism (the Prime Minister) rates highly MED’s work in this portfolio, including MED’s proactive approach to making changes to improve performance in this area. MED undertook a major formal review in 2010 that led to the disestablishment of the Ministry of Tourism, with the aim of improving the effectiveness of the Crown’s spend. The policy work of the old Ministry was folded into MED, with implementation of all promotional activity resting with the Crown entity, Tourism New Zealand.</p> <p>MED has worked constructively with Customs and Immigration on the Smartgate project to facilitate easy tourist flow between Australia and New Zealand, and with ATEED to leverage benefits from Auckland-based tourism initiatives across New Zealand. MED has also implemented an accord with in-bound Chinese tourist operators to improve the tourism experience for this critical target market.</p> <p>MED has responsibility for generating tourism-related data to inform policy and tourism investor/operator decision-making. MED is currently reviewing the dataset with the industry to improve performance.</p> <p>Further robust policy work is required to refine the intervention logic in regard to the scope and priority of centralised tourism development activity and who should pay. The need for this work is acknowledged by MED and Tourism New Zealand although there is a lack of alignment between the two organisations regarding the urgency of this work for the sector.</p>

10. Maximise the contribution which small businesses make to economic growth	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well-placed</b></p> <p>While the success of small business will be most influenced by the contribution MED can make to lifting New Zealand’s overall economic performance, there are a number of things MED does that will have a disproportionate effect on small business. The most important of these are:</p> <ul style="list-style-type: none"> <li>i. making it easier for business to do business with government. MED’s business services are generally perceived to be of a high standard. The business.govt.nz portal makes it easier for small business to access information and advice and to transact with government. Redeveloping the ‘Start, Manage, Grow’ information directory will make it easier for business to access information on government assistance. MED’s management of the whole-of-government procurement initiative also aims to, among other things, reduce the transaction costs that discourage participation of small business in the Government procurement process</li> <li>ii. reducing the compliance costs government imposes on business. This is the focus of Government Priority 5. The Single Business Number initiative should make it easier to supply the same information to different government agencies once</li> <li>iii. improving the effectiveness of new regional partnership networks that provide government assistance targeted at small business. MED works with NZTE and MSI on this.</li> </ul> <p>New Zealand ranks highly internationally on ease of starting a business (1st) and on overall ease of doing business (3rd). While New Zealand has improved its international ranking on the ‘burden of government regulation’ index, it is still only 25th and business remains concerned about compliance costs.</p> <p>The evaluation of the enterprise training programme led to its withdrawal and the introduction of a new co-funded, demand driven voucher model for capability development and of the regional partner network. The regional partner network has not been evaluated as it has been in operation for less than 12 months in most regions.</p>

## RESULTS SECTION

### Part Two: Delivery of Core Business

This section reviews the agency's effectiveness and efficiency in delivering its core business. The report is based on a judgement about the current performance of the agency and the trend that it has demonstrated over the last three to four years.

MED has eight branches, two of these are primarily internally focused, but also contribute to the delivery of outputs. MED supports six Votes and nine Ministerial portfolios and is responsible for a myriad of activities and outputs.

Activities range from very high level policy related to the EGA, to very immediate and specific projects, e.g., Rugby World Cup and National Cycleway, to ongoing business services, such as the Companies Office.

While many external stakeholders characterise MED as a 'collection of many things' there is a logical grouping of three areas of core business, characterised by the distinct delivery models and drivers for each.

The three core business areas for MED are:

- Core Business 1:** Strategic policy to support economic development and a step change in New Zealand's economic performance.
- Core Business 2:** Legislative and regulatory policy and performance (including business law and competition policy, energy markets, and consumer law).
- Core Business 3:** One-off projects and initiatives and business services implementation, including events, consumer affairs services and business services, such as Companies Office, IPONZ, insolvency services, and radio spectrum management.

Core business 1: Strategic policy to support economic development and a step change in New Zealand’s economic performance	
<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Needing development</b>                      Performance Rating (Efficiency): <b>Needing development</b></p> <hr/> <p>In the absence of an overarching organisational focus on its primary economic development role, MED’s focus is on strategic policy projects. There is a real willingness to act collegially. However, more needs to be done to better align and prioritise the distinct strategic projects, existing and potential, to ensure effort is focused on the right activity to help government deliver the step change in economic performance that it is seeking. Stakeholders want MED to be more deliberate and proactive in thinking about what the Government is aiming to achieve and how to get there, rather than where it is and where it goes next.</p> <p>This will require stronger policy development capability. Staff must be able to work more effectively with The Treasury and other economic agencies to develop agreed frameworks for helping officials to identify what sort of action is most likely to promote a step change in New Zealand’s economic performance. Given the urgency, this will require both a short- and long-term solution. The future will require MED to be more innovative, adventurous and proactive in its engagement with the Government and relevant stakeholders. Delivery from those working in this area needs to be more consistent and less influenced by the performance of individuals than it is now.</p> <p>Opportunity exists for MED to further leverage its success in co-creating solutions to strategic policy issues through proactive and persuasive engagement with relevant stakeholders, as it has done with capital markets and electricity reforms.</p> <p>In regard to delivering existing, agreed strategic policy projects, the outcome is variable as exemplified by the following:</p> <ol style="list-style-type: none"> <li>1. While MED has put a lot of effort into policy issues bearing on NZTE’s work, the lack of an intervention logic for NZTE was not owned and addressed by MED until it was raised in the NZTE PIF Review, despite MED having undertaken significant assessment/evaluation in this area</li> <li>2. While now well under way, MED has been slow to shift from a regulator to a more active manager of the Government’s resource portfolio – an area of significant economic potential.</li> </ol> <p style="text-align: right;">contd...</p>

	<p>3. On the other hand, strategic work with ATEED (excluding work in the event space<sup>1</sup>) has been positive, with MED having a very clear position on the importance of Auckland’s development for New Zealand’s economic success. MED has brought effective professional input and a clear policy framework to its interactions with ATEED. This includes facilitating strong linkages with other relevant economic agencies (NZTE and MSI). The next step in this relationship is to develop a shared sense of urgency to address and reach conclusions on new areas where Auckland can add value to the rest of New Zealand.</p> <p>4. MED’s proactive leadership of the Government procurement reform agenda to transform procurement policy and practice across the State sector is an excellent example of MED’s owning its leadership role and achieving effective execution.</p> <p>For two years MED has contracted NZIER to review and grade the quality of its policy briefings. The review focuses on the quality of the paper (not the analysis), its fitness for purpose, and the honesty of the arguments, judgements, recommendations, and risk articulation. The longitudinal results show consistent quality: ‘fit for purpose’. In 2011 a selection of policy papers from across the organisation was reviewed and while the overall outcome was good, there was significant variability in quality across branches.</p> <p>The Review team asked MED to provide the evidence it uses to measure its efficiency (see also Part Four: Financial and Resource Management). From the information provided it is very difficult to rate efficiency in specific delivery areas, albeit there is evidence MED is effective at reprioritisation to enable it to absorb the bulk of short-term demands, including cost pressures, put onto the organisation. Further, evaluating efficiency for policy teams is not straightforward.</p> <p>The main outcome measure to demonstrate value for money in the policy area relates to identifying lower-value spending and focusing on the key projects which, once delivered, will improve efficiency of government expenditure. A positive example of this is the work with the NZTE’s grant programme, which has seen greater rigour in assessment and administration of the programmes and reductions to NZTE’s baseline. Another example is the review of the Government’s tourism agencies and resulting changes leading to savings and better targeted outcomes for the sector. Various restructurings have been undertaken to reduce costs and focus the work in the policy areas.</p> <p>Specific efficiency measures need to be introduced to move the rating to ‘well placed’.</p>
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1 ATEED and MED both acknowledge that collaboration on events tends to be intrinsically difficult with a higher risk profile.

<p><b>Core business 2: Legislative and regulatory policy and performance</b></p> <p>This core business area includes business law and competition policy, energy markets, and consumer law.</p>	
<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> <p>?</p>	<p>Performance Rating (Effectiveness): <b>Needing development</b></p> <p>Performance Rating (Efficiency): ?</p> <hr/> <p>MED has had some notable successes in priority areas (e.g. see government priorities for creating trusted capital markets and for electricity reforms). These successes illustrate how effective it can be when it is able to demonstrate thought leadership and conduct a proactive and persuasive engagement with stakeholders. When these elements are missing, overall performance is more mixed, as well as more dependent on the individuals involved.</p> <p>To be successful, New Zealand needs to offset the disadvantages of size and distance by adopting regulatory policies that are among the best in the world. Measured against this standard, there are a number of large and complex areas that need attention:</p> <ul style="list-style-type: none"> <li>i. The OECD notes: “New Zealand’s long standing front runner status in product market regulation has been eroded away over the past decade.” While many of the issues identified by the OECD fall outside of MED’s immediate area of responsibility, it has a leadership role in the regulatory arena and has direct responsibility for some areas highlighted by the OECD (e.g., in the operation of competition policy, especially as applied to the regulation of network industries).</li> <li>ii. The basic competition law (the Commerce Act 1986) sets a good foundation that allows non-competitive arrangements to proceed if there are net benefits to New Zealand. It is important that the right balance is struck between robust competition law and the risk this leads firms to take an overly cautious approach which chills efficiency-enhancing competition and partnering.</li> <li>iii. It is also notable that New Zealand still lacks the sort of overarching legislative framework in the regulatory area that exists in the monetary and fiscal areas and that have proved so helpful in creating a more stable and predictable macroeconomic policy environment.</li> </ul> <p>(For comments on reform of consumer law see Government Priority 8.)</p> <p style="text-align: right;">contd...</p>

	<p>More effort is also needed on improving the quality of MED’s policy papers and regulatory impact statements (RIS). In terms of policy papers, MED has been assessed by NZIER as top of the adequate range. The Treasury has rated only a little over half of the significant RIS completed by MED since 2008 as ‘meets requirements’. MED is taking action to improve its performance in this area.</p> <p>The Review team asked MED to provide the evidence it uses to measure its efficiency (see also Part Four: Financial and Resource Management). From the information provided it is very difficult to rate efficiency in specific delivery areas, albeit there is evidence MED is effective at reprioritisation to enable it to absorb the bulk of short-term demands (including cost pressures) put onto the organisation. MED has searched for meaningful measures for legislative/regulatory policy development efficiency, including looking internationally, and at this point has not found meaningful measures. As a result, the Lead Reviewers do not believe meaningful efficiency assessment is possible and therefore have no rating for efficiency in this core business area.</p> <p>The regulatory areas that MED administers have evolved over the last decade, with a more targeted and specialised approach to regulation, often focused on specific sectors, and requiring an international perspective. The output productivity from MED has been significant over the past three years, with measurable achievement in significant legislative reform.</p>
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<p><b>Core Business 3: One-off projects and initiatives, and business services implementation</b></p> <p>This core business area includes events, consumer affairs services, and business services (such as Companies Office, IPONZ, insolvency services, radio spectrum management).</p>	
<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Strong</b></p> <p>Performance Rating (Efficiency): <b>Well-placed</b></p> <hr/> <p><i>One-off projects and initiatives</i></p> <p>MED has proven capability to take a project or event that it is asked to do, resource it appropriately and take a pragmatic approach to ensuring delivery is achieved on time and the project/service outcome is met. Examples of this are: PowerSwitch, National Cycleways project, Rugby World Cup and consumer information programmes. The fact that MED is asked to do these projects suggests Ministers have a high level of confidence in its ability to deliver.</p> <p><i>Business services</i></p> <p>Business Services employs 40% of MED’s staff. All MED’s business services are ISO certified. MED is required to regularly review whether it is meeting customer and stakeholder needs in the most effective way. MED has looked to provide many of its services electronically and receives very positive feedback for their ease of use and low transaction costs. The services are backed up by strong protocols and processes, with focused staff training to ensure internal processes and disciplines supporting these services are understood and adhered to. Opportunity exists to have greater automation of interfaces between the 16 registers within Business Services; this project is planned for 2011/12. Once implemented, this will provide even greater efficiency and cost- effectiveness for users. Improvement areas include:</p> <ul style="list-style-type: none"> <li>• increased systems robustness to decrease outages</li> <li>• improved application screening to reduce inappropriate use of New Zealand corporate registers</li> <li>• better use, integration and leverage from MED’s information technology (IT) systems.</li> </ul> <p>Because it has a good reputation MED will be the first ‘port of call’ for government commerce activities and specific projects. This role is required sometimes to enable policy development or proof of concept and sometimes because of convenience.</p> <p>While MED has some history of exiting workstreams, where it makes more sense for another agency to do the work, opportunities exist for MED to take a more rigorous, timely approach to evaluating and exiting tasks, where either those tasks can be done better elsewhere or are not core to its leadership of the economic development agenda. This includes being clear about when it should exit new tasks initially assigned by the Government, that can then be moved to the most appropriate organisation.</p> <p style="text-align: right;">contd...</p>

	<p>The Review team asked MED to provide the evidence it uses to measure its efficiency (see also Part Four: Financial and Resource Management).</p> <p>The area of ‘one-off’ project implementation and delivery of business services is well developed in regard to efficiency measures. For business services delivery, suites of measures are owned and reviewed at a team level. Good project management disciplines are employed and reported on to ensure projects are delivered within budget.</p> <p>Opportunities exist to refine these approaches, including external benchmarking.</p>
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<b>Crown entity monitoring</b>
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<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Needing development</b></p> <p>Performance Rating (Efficiency): <b>Needing development</b></p> <hr/> <p>MED has responsibility for 11 Crown entities. Monitoring lies with the relevant responsible branch, with a centralised coordination role existing in the Organisational Development and Support Branch. The centralised role disseminates information to the individual monitoring units and provides a forum for those with monitoring responsibility within MED. A project began in June 2011 for the chief executive on how MED undertakes its monitoring/engagement with Crown entities. The Terms of Reference for this review do not clearly establish the purpose of monitoring, and a lack of clarity exists.</p> <p>There is no overarching organisational approach to assess effectiveness and efficiency of the monitoring function, although the evidence suggests that the team undertaking this function within MED is relatively small compared to the number and size of the Crown entities monitored.</p> <p>Crown entities report significant improvement in their monitoring relationships with MED, with improved alignment between the Crown entity’s own performance analysis and reporting to its Board and Minister, and the information requested by MED. Further, there has generally been a reduction in the number of KPIs monitored by MED to better reflect the Crown entity’s accountability and risk, although the extent of this progress varies between the Crown entities. There is significant lack of clarity between the roles of the Crown entity Boards and MED regarding monitoring, resulting in most Crown entities reporting that the relationship is positive (nice people at MED) but adds limited value or challenge.</p> <p>Engagement between MED and Crown entity personnel is generally collegial and positive but there is some frustration for Crown entities’ chief executive officers and chairs where they find they are interacting on critical strategic issues with Tier 3 and 4 personnel within MED.</p>
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<b>Regulatory impacts</b>	
<b>PERFORMANCE RATING</b>	<p>Performance Rating: <b>Not rated</b></p> <p>Regulatory impacts were considered in the process of assessing MED’s response to Government Priority 5 (achieve a more efficient regulatory environment that does not unnecessarily impose costs on business, see page 23).</p> <p>Regulatory impacts were also considered in reviewing performance in Core Business 2 (legislative and regulatory policy and performance, see pages 29-30).</p>

## ORGANISATIONAL MANAGEMENT SECTION

### Part One: Leadership, Direction and Delivery

<p><b>Vision, Strategy &amp; Purpose</b></p> <p>How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders?          How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>The Statement of Intent 2011/2014 tells a consistent story that links agency purpose, government policy drivers, agency outcomes, impact measures and activities and what the agency proposes for more efficient and effective delivery. However, MED needs to develop a stronger collective commitment to its economic development role. The current business strategy is focused on MED’s people and projects – and the stakeholders that can influence MED’s success to deliver ‘safely’ what the Government asks it to do. This business strategy is delivered by a number of autonomous and loosely aligned teams, often with their own Votes reporting to their own Ministers.</p> <p>Government has set ambitious economic goals that require a step-change improvement in New Zealand’s economic performance. MED as an organisation, needs to strongly own its accountability for its leadership role in economic development to help deliver this ambition.</p> <p>The recently developed (July 2011) MED vision and purpose document could well support an organisational response to its economic development leadership mandate. However, this document now needs to be deeply embedded into the organisation and to drive critical leadership decisions on what MED will and will not do in the future, what it will exit to others and who the priority stakeholders are. MED must then align the organisation’s culture, processes and systems to support these decisions. At the moment the new vision and purpose document has very little traction within MED.</p>

<b>Leadership &amp; Governance</b>	
How well does the leadership team provide collective leadership and direction to the agency?	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>In September 2009 the Strategic Leadership Team (SLT) made a conscious choice to set up an internal Strategic Policy Forum, freeing the SLT to focus on organisational issues and strategic direction rather than becoming a forum for extensive debate on key policy issues. The Strategic Policy Forum is chaired by the chief executive and is made up of the four policy deputy secretaries plus the senior policy staff.</p> <p>Over time, the balance has tipped too far, in that discussions on what needs to be done to deliver a step change in New Zealand’s economic performance, when they occur, are happening in the Strategic Policy Forum.</p> <p>Now is the time to bring the judgement and direction setting dimensions of these discussions back to the full SLT. Only then will SLT really be able to lead the organisation in a way that is driven by a much stronger and overarching organisational commitment to MED’s economic development role. SLT also needs to translate this clarity of purpose into all aspects of its leadership, from the priorities it sets through to the way MED’s people, relationships and other assets are managed. Strengthening this clarity of purpose, and ensuring that purpose drives how MED is led and managed (and, therefore, what MED does) is fundamental to becoming ‘well placed’ in this ‘leadership and governance’ dimension.</p> <p>While SLT works collegially and effectively at prioritisation within and between Votes to fund new and/or high priority initiatives, its ability to do that is limited without a similar degree of coordination at the Ministerial and Vote level.</p> <p>The SLT has supporting governance arrangements, comprising sub-groups of the SLT and relevant other parties, to provide indepth critique and oversight of the operational delivery. These arrangements relate to: strategic policy; research and evaluation; organisation development; information technology; finance; and risk management.</p> <p>Strategic leadership rests with each branch and the specific businesses and activities within the branches, as relevant.</p>

<b>Culture &amp; Values</b> How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>MED’s flat management structure is complemented by a culture that encourages self-management and a sense of ownership that people find empowering. This culture could be more effective if MED:</p> <ol style="list-style-type: none"> <li>1. is clearer about the organisation’s objectives, to help people focus on what is important, as well as having a stronger focus on accountability for results against these objectives, i.e. a better ‘tight-loose-tight’ balance</li> <li>2. is clear about the standards, protocols and processes that are critical and non-negotiable</li> <li>3. embeds the ‘MED Way’ to ensure greater consistency in the experience of key stakeholders.</li> </ol> <p>The current culture provides a solid foundation for developing a stronger ideas-based organisation that encourages creativity and vigorous internal debate. A successful ideas-based organisation also needs to bring that debate to a timely conclusion in a way that guides future action, rather than engage in ‘serial thinking’. This includes being able to adopt a coherent collective view even when that cuts across individual ‘hobby horses’. Moving to a stronger ideas-based culture needs to be carefully managed so as not to undermine the strong sense of collegiality existing within MED.</p> <p>Finally, if MED is going to help the Government deliver a step change – rather than an incremental change - in New Zealand’s economic performance, it will need to be less risk averse and more confident in engaging with others with different views outside MED and in taking hard decisions to Ministers. Moreover, it will need to pursue this step-change objective with more determination and urgency.</p> <p>MED should be able to maintain the current empowering, supportive and ‘can do’ culture while making the very significant changes noted above. This will require careful management to not undermine the strong staff engagement achieved by MED.</p>

<p><b>Structure, Roles and Responsibilities</b></p> <p>How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of Government priorities and core business?</p> <p>How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>Structural clarity is strongest at a business unit/service level, with clear accountabilities and responsibilities within these areas. Movement across the organisation is less effective, with internal and external stakeholders not always knowing ‘how to access’ areas/expertise from another area within MED with which they are unfamiliar.</p> <p>Standard disciplines are adhered to regarding terms of reference, and position descriptions to support roles and responsibilities.</p> <p>There is no ‘right way’ to structure MED. The organisation reviewed its structure in 2009, modified it again in 2010 and has recently undertaken reviews of Organisational Development and Support, Tourism, and the Petroleum and Minerals business units, with clear sensible rationale supporting recent changes. The organisation demonstrates resilience in being able to make these changes without significant disruption to culture or output delivery.</p> <p>While MED could be structured a number of ways, better alignment of, and priority setting among, the teams is required. This should become much clearer once the issues canvassed in the Lead Reviewers’ Summary are addressed.</p> <p>The planning process is standards-based around branches and business units considering their own areas of focus and consolidating these into an organisational framework. In future this process will be impacted, as operational strategy must marry with the new overarching Purpose, Vision and Strategy.</p>

<p><b>Review</b></p> <p>How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?</p>	
<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Strong</b></p> <p>MED has an evaluation group whose role is to review performance (both MED’s own and that of Crown entities). A comprehensive work programme was successfully completed during 2010/11. This included MED’s demonstrating active reprioritisation to accommodate and respond to the impact of the Christchurch earthquakes. MED also undertook individual business services evaluation related to IPONZ and the Radio Spectrum business unit.</p> <p>In addition to these formal reviews, SLT holds quarterly reviews of performance against agreed KPI’s. Inputs into these reviews include reports from Finance, HR, and risk management, plus progress in delivering Ministerial priorities.</p> <p>MED has a culture that values evidence and review and while there is evidence of follow-up action, MED could be more transparent in this regard. Evidence of follow-up to reviews includes closure of seven inefficient or ineffective programmes saving about \$69 million per annum, changes in regulatory reviews, and reorganisation/restructure internally in response to focused reviews (e.g. Tourism).</p>

## ORGANISATIONAL MANAGEMENT SECTION

### Part Two: External Relationships

<b>Engagement with the Minister(s)</b> How well does the agency provide advice and services to its Minister(s)?	
<b>PERFORMANCE RATING</b>  	Performance Rating: <b>Strong</b>
	<p>MED supports six Votes and nine Ministerial portfolios, which is very demanding for the organisation. There is no senior Minister for the organisation to set overall priorities and each branch has to be responsive to its Minister and manage its Vote. This is typically done well.</p> <p>All output agreements include provision for Ministerial review of performance and generally received positive 'met or exceeded expectations' feedback in the 2010/11 results. Ministers consulted in the Review were very satisfied with MED, including the calibre of advice and professionalism of the MED personnel they deal with. Ministers consulted by the Lead Reviewers expressed openness to MED bringing more ideas to the table.</p>
<b>Sector Contribution</b> How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector?	
<b>PERFORMANCE RATING</b>  	Performance Rating: <b>Needing development</b>
	<p>The Lead Reviewers clustered MED's activities into three distinct groups:</p> <ul style="list-style-type: none"> <li>• development of strategic economic development policy</li> <li>• regulatory design and implementation to underpin commerce (such as capital markets and energy regulators), and</li> <li>• implementation of one-off projects and initiatives (such as Rugby World Cup, National Cycleways, etc) and business services.</li> </ul> <p><u><i>Strategic Economic Development Policy</i></u></p> <p>Over the past year the chief executive has led the establishment of a leadership group amongst the key agency CEOs charged with contributing positively to step-change economic performance for New Zealand. This forum is working well, is valued by its participants and is facilitating greater alignment and prioritisation, and more collaboration. It is too early to establish the effectiveness of this initiative and there is a need to have The Treasury involved and actively participating with these agencies, to fully realise the benefits of this sector co-operation and leadership.</p> <p style="text-align: right;">contd...</p>

	<p>A significant proportion of MED’s relationship with the Crown entities involved in delivery of economic development services is managed through its monitoring function. Significant opportunity exists to improve the proactive strategic relationship between MED and these organisations. With NZTE and NZVIF there has been extensive policy dialogue at a senior level around MED’s evaluation work. Improvement in MED’s leadership evidenced with these entities was the work on the recently completed intervention logic for NZTE, although this resulted from the NZTE PIF rather than being proactively identified by MED.</p> <p><i><u>Regulatory Design and Implementation</u></i></p> <p>MED works directly with each of the key regulator organisations. It leads the underlying policy for each regulator and has the responsibility for alignment and consistency in regulation in a way that supports economic growth. In 2010/11 it led the development of the Electricity Commission and the FMA (and disestablishment of the Securities Commission). It has demonstrated strength in legislative design and implementation. However, its performance in implementation is variable and dependent on the capability of the MED individual (or team) concerned. This variability also extends to the day-to-day relationships, with examples of positive relationships being juxtaposed with frustrating performance issues, such as: junior, inexperienced MED personnel working with the Chair/CEO of regulator organisations; lack of timely consultation on papers; unnecessary ‘churn’ on issues/papers. MED is now encouraging more senior oversight of these relationships, including on interaction between its own staff and regulator personnel.</p> <p><i><u>Projects and Initiatives and Business Services</u></i></p> <p>MED has a core strength in project delivery and getting things done. The effectiveness of relationships with other agencies in this area depends on the calibre of the MED personnel, especially the lead person, assigned to the project. External parties noted if they do have performance issues they can be resolved by taking the issue to the chief executive or relevant deputy secretary in MED.</p>
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<b>Collaboration &amp; Partnerships with Stakeholders</b>	
How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?	
<b>PERFORMANCE RATING</b>  	<p>Performance Rating: <b>Needing development</b></p> <p>MED has a very large and diverse number of stakeholders, with a range of responsibilities from informing to co-creating effective solutions for implementation. MED's performance in this area is variable, ranging from excellent to poor, which is related to the service under consideration (transactional versus strategic), how MED sees its purpose for any given activity, and the quality of staff assigned to an activity.</p> <p>One of MED's key assets is its business-facing relationships. To fully leverage this asset MED needs to develop a structured strategic 'across organisation' approach to stakeholder management, supported by appropriate IT tools and personnel capability in relationship management. Significant work is needed in this area.</p> <p>The recent Voice of Customer Survey gave positive feedback from stakeholders for the quality of MED's work in some key areas, including:</p> <ul style="list-style-type: none"> <li>• policies relating to consumer law, financial markets, Rugby World Cup 2011</li> <li>• response to the Canterbury earthquakes</li> <li>• business services.</li> </ul> <p>Some other areas (petroleum and minerals, electricity markets, regulatory reform) received less enthusiastic feedback.</p> <p>MED could make better use of its business-facing asset through more clarity of its purpose and role in economic development, prioritisation an 'across organisation' annual stakeholder plan, and growing clarity of purpose and role in leading specific projects. For example, is it 'policing' and/or administering or facilitating, the generation of sustainable economic development?</p> <p>Significant opportunities exist for MED to 'co-create' solutions, with an investment in capability required to achieve this. MED has demonstrated success in this area with its work in the energy sector and capital markets – with opportunities to use this approach in other areas, such as Tourism and Petroleum and Minerals. MED is significantly under-performing in its strategic relationship with Māori and the organisational readiness to do this.</p> <p style="text-align: right;">contd...</p>

	<p>The Communications function within MED is developing an organisational Strategic Communications Framework, which will enable more proactive communications and strategic stakeholder relationship management. There is not a clear organisational view on what an effective Strategic Communication Framework will look like and the benefits it would deliver, nor is there a sense of urgency in resolving this. The Communications function within MED is more a 'reactive doer of tasks' than a strategic partner in the organisation, with the responsibility for communications resting with individual branches. MED performs well with media basics, such as quality and timeliness of media releases.</p>
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<p><b>Experiences of the Public</b> How well does the agency meet the public's expectations of service quality and trust?</p>
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<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Strong</b></p> <p>Forty percent of staff are involved in the delivery of business services to individual users. The recently completed customer satisfaction survey carried out by the Business Services Branch showed a high degree of satisfaction with a number of the business services it delivers, such as the Companies Office, IPONZ, insolvency services and energy safety. MED has mechanisms in place for capturing experiences of users and builds this into service improvement initiatives within business services.</p> <p>The Companies Office is virtually fully electronic and there is generally a high level of satisfaction. The management of the IT risks associated with electronic service delivery, especially risks to service continuity, will be critical to ongoing satisfaction.</p>
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## ORGANISATIONAL MANAGEMENT SECTION

### Part Three: People Development

<p><b>Leadership &amp; Workforce Development</b>                  How well does the agency develop its workforce (including its leadership)?                  How well does the agency anticipate and respond to future capability requirements?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>MED’s focus in this area is articulated in the 2009/12 People Strategy, which aims to support an ‘Engaged, action oriented performance culture’.</p> <p>MED has a very strong commitment to staff development underpinned by individual development plans for all employees, an organisation graduate development programme and a leadership development programme.</p> <p>Staff really value the individual development plans but accept that the focus is more about ‘how we help you develop’ rather than clearly defining the organisation’s needs and then matching those needs with the needs of individuals (except for the case of technical expertise development which is directed). MED spent approximately \$2,000 per full-time equivalent (FTE) on training in the 2009/10 financial year.</p> <p>There is no deliberate policy of moving people around the organisation in a systematic way to enhance capability development and proactively manage leadership succession. The graduate programme is an exception. It is a structured, intensive programme, proactively rotating individuals across the organisation. Eight to ten graduates are accepted each year with the goal to develop high performance analyst capability - issues exist with retention post completion and these are being reviewed.</p> <p>The organisation has a very disciplined policy of advertising positions, which does not always facilitate efficient planned active career progression, especially across branches. It also has a very flat management structure, which leaves a big gap between frontline management and deputy secretaries (Tier 2). Some believe they need to step out of the organisation mid-career to build their leadership and management capability. Three years ago MED undertook a disciplined review of capability for active succession planning for both leadership and technical capability. However, this has not been updated formally since and is not fully leveraged.</p> <p style="text-align: right;">contd...</p>

	<p>Induction within MED is variable with implementation reported to be more consistent and robust in Wellington than in the geographic offices. Induction responsibility rests with individual managers and is more focused on the position and the team the individual is joining than organisational induction. A graduate project in 2010 (run as part of the graduate development programme) reviewed the effectiveness of MED induction and recommended a new format and approach, involving centralised induction forums for all new recruits. The recommendations were accepted but only two forums have been held. These are planned to be held quarterly in 2012.</p> <p>MED has a strong, robust recruitment process focusing on the technical requirements as well as the 'cultural fit' of potential candidates. Robust screening, selection and appointment are supported by all employees signing contracts, which are signed off by HR.</p> <p>The organisation does not have a culture of 'on the job teaching movements', with this being patchy and dependent on individual managers, although HR is looking to develop this culture.</p> <p>As part of MED's commitment to maintaining a culture of excellence and personal development, it offers a limited number of Development Awards, within a set budget of \$150,000 per annum. These Awards are in addition to the development opportunities available at both a branch and organisational level.</p> <p>There has been no evaluation of how effective the Awards are against the objectives; MED is concerned that a number of Award recipients have left the organisation before it has been able to capture the value anticipated. MED is considering how to address this.</p> <p>Formal leadership development has been a focus for MED for a number of years. This is supported by a formal leadership development programme including residential courses, followed up by participation in action learning groups. Almost all current managers have been through the programme and anecdotally it is valued. However, it is not linked to any formal assessment or career planning. This programme is currently being reviewed.</p> <p>While there are pockets of excellence in leadership and capability development, significant opportunity exists to align these and expenditure to the organisational purpose, strategy and resource needs.</p>
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**Management of People Performance**  
 How well does the agency encourage high performance and continuous improvement among its workforce?  
 How well does the agency deal with poor or inadequate performance?

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well-placed</b></p> <p>MED has a structured performance management system. This involves managers negotiating and completing documented annual performance plans with their staff. There is a generic set of definitions for the four performance ratings, which are applied to each objective. Managers are diligent in completing the agreements but staff interviewed during the Review gave mixed feedback on their own clarity of what ‘exceed expectation’ would look like. Managers give formal feedback on performance twice a year. The quality of objective setting and feedback varies between managers. For 2010/11 65% of all managers received ‘achieved expectation’ ratings with 18% exceeding expectations. Likewise, in non-managerial positions 60% received ‘achieve expectation’ and 15% ‘exceed expectation’. Significant work has been completed to clarify what is expected for the ‘exceed expectation’ rating; however, this is not fully embedded in the organisation.</p> <p>The key focus area for SLT over the past two years has been on the management of performance and organisational development. This focus has been supported by external training for managers having difficult and challenging conversations and SLT setting KPIs and putting in place a plan to manage underperformance. While managing underperformance has received attention, managers with known weakness in this area should be required to attend the training – this is currently not the case.</p> <p>In 2010/11, SLT actively monitored progress in addressing areas of poor performance in its quarterly operating reviews. HR reports that over the last twelve months there has been a noticeable increase in workload for its account managers in supporting managers to have more effective development and hard conversations with staff. Further, the leaver statistics show an increase in exits by staff with lower performance ratings.</p> <p>There is no electronic central register to support the performance management systems, with spreadsheets collated to report compliance to the chief executive. Scoping for an integrated online system had been approved. MED has expanded this scoping project to cover broader possible improvements to MED’s HR information systems. HR plans to undertake further training on implementing effective performance assessments in 2012.</p>
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<p><b>Engagement with Staff</b></p> <p>How well does the agency manage its employee relations? How well does the agency develop and maintain a diverse, highly committed and engaged workforce?</p>	
<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Strong</b></p> <p>MED’s staff engagement is high for the New Zealand State sector (77th percentile) with 46% of staff engaged and 46% neither engaged nor disengaged - although there is a wide variation between branches. Importantly also, only 8% of employees were actively disengaged in the past two years.</p> <p>MED has independently measured engagement since 2008, using Gallup in 2010 and 2011. MED has put strong emphasis on improved engagement and exceeded its SOI target for engagement in the most recent survey. MED’s engagement improvement in 2010/11 is principally attributed to an organisational focus on improved team action planning led by the chief executive’s focus in this area. Strong engagement is also supported by: a strong work/life balance culture within the organisation; the values that underpin the organisation; the commitment to individual personal development plans; supportive management of staff within functional silos; and interesting work.</p> <p>Communication with staff to support active engagement is well-executed and based around the intranet and regular staff meetings.</p> <p>The strong engagement scores for MED provide a good platform to address the areas identified in the Vision/Strategy evaluation. This leaves MED ‘well placed’ to focus on improved internal efficiency and stronger alignment of individual development plans to organisational development needs, although this will need to be managed carefully.</p> <p>MED has policies and initiatives for managing staff health and safety, and fostering diversity. Leave is well managed and there is a low level of sick leave, compared to other government departments. While MED has a higher proportion of female staff (53%) than male staff (47%), significantly more males hold Tier 2 positions than females, with the reverse the case at Tier 3. MED has only 4.7% Māori staff, which is low for the Public Service and may reflect the organisational weakness of focus in this area.</p> <p>Core unplanned turnover is consistently above the Public Service average for the last two years, having climbed to 19% for 2010/2011, this is high compared to the rest of the Public Service. MED considers that there are no systemic issues driving this increase and primary reasons may be the after-effects of a long period of organisational restructuring, as well as improved management of poor performance.</p>

## ORGANISATIONAL MANAGEMENT SECTION

### Part Four: Financial and Resource Management

<b>Asset Management</b> How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?	
<b>PERFORMANCE RATING</b>  	<p>Performance Rating: <b>Well-placed</b></p> <p>MED's only assets of significance are in IT (e.g. hardware, registries, software at approximately \$24 million), with the remaining assets (\$6 million) comprising leasehold improvements, various equipment and vehicles to support specific functions (such as for radio spectrum and weights and measures work) and furniture and fit-out. The management of IT assets is the responsibility of IT, while the remaining assets are managed through Finance. The total organisational asset spend is optimised annually to fit within depreciation, except when there is an initiative where new assets may be part of the new financial package or re-prioritisation of spend.</p> <p><i>IT Assets</i></p> <p>Previously the investment in IT assets was managed in two areas within MED – Business Services and IT. The organisation is moving to one fully integrated asset management process for 2012. MED has consistently invested in upgrading and replacing IT systems, with significant progress made to integrate whole-of-system functionality. An IT Roadmap exists that can be implemented within the forecast organisational budget. The Roadmap assumes reinvestment to address obsolescence, technology advancement and improved functionality. This Roadmap is refreshed annually.</p> <p>MED now uses as much market-sourced IT as possible; it is an active participant in the whole-of-government IT solutions project.</p> <p><i>Non-IT Assets</i></p> <p>Prior to the 2011/12 Budget, the decisions on non-IT asset expenditure rested with Finance and the CEO. Bids were received from within the organisation and Finance prioritised them within the agreed budget and presented the prioritised list to the chief executive for approval. A new process will be implemented this year. This will involve the Finance Committee drafting the prioritisation list and SLT considering and agreeing the final list with the chief executive. This new process will give more 'whole-of-organisation scrutiny and ownership' to ensure asset decisions best meet the organisation's strategic needs.</p> <p>MED met 100% of the BASS indicators for 2009/10 in the property area.</p> <p>Standard disciplines associated with sound asset management are adhered to, including keeping a detailed register, numbering assets and integrating the asset database into the financial management system. Processes are in place to ensure appropriate transparent full value disposal recovery.</p>

<p><b>Information Management</b> How well does the agency utilise information &amp; communications technologies to improve service delivery?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>The Information Management and IT functions are undertaken by different branches.</p> <p>MED’s approach to information management has had a more transactional than strategic focus, and this is likely to be a considerable brake on its efficiency and effectiveness. This is despite its IT functions being rated highly in terms of BASS quality measures.</p> <p>MED’s Information Management Strategy (begun in April 2010 and published in July 2011) describes MED’s information management as highly decentralised, which has led to silos of information, inflexibility and incompatibility of systems and a high risk of both obsolete and duplicate datasets being maintained. Internal and external users can have difficulty finding the information they need. This was identified as adversely impacting productivity, innovation and collaboration across MED and with external parties. The Information Management Strategy seeks to address these issues and actions are under way.</p> <p>MED has used IT as a business efficiency enabler for itself and its customers in delivery and public-facing aspects of its business. It is not as advanced in using IT to improve internal efficiency and effectiveness.</p> <p>MED’s IT Strategic Objectives and Plan 2010-14 envisions a desire to become a business strategic partner and identifies steps required to enable this.</p> <p>No systematic knowledge management system exists in MED, yet this is a critical function for an efficient and effective policy and service delivery organisation. In July 2011 MED developed a high-level plan to address this deficiency. Work to implement an electronic document and records management system (EDRMS) is under way (rollout begins in May 2012). It will be supported by training and use protocols to enable maximum benefit to be gained from its implementation.</p>

<p><b>Efficiency</b></p> <p>How robust are the processes in place to test for efficiency and make efficiency improvements? How well does the agency balance cost and quality when considering service delivery options?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>MED’s approach to driving improved efficiency in its activities is underdeveloped. MED has no formal systematic approach to measure the efficiency of its activities, although this is not unusual in the Public Service.</p> <p>Some targeted formal evaluations are commissioned by the evaluation group within MED. Outcomes identified by these reviews have been used to influence policy development and activities, e.g. the review of grants administration by NZTE.</p> <p>Targeted organisation-focused reviews have led to restructuring and/or refocusing to better deliver on objectives. Actions taken are evident as a result of these reviews e.g. Tourism, Procurement, Petroleum and Minerals, and the review of the Organisational Development and Support Branch.</p> <p>MED has undertaken value-for-money reviews for each of its Crown entities and identified and delivered savings. It has also focused on its own internal costs and achieved quantifiable savings in travel and electricity costs.</p> <p>MED is short on sophisticated KPIs to measure efficiency and looks to make the most effective and efficient decisions and maximise impact by:</p> <ol style="list-style-type: none"> <li>a. having a clear focus on the right outcomes and activities</li> <li>b. establishment of clear accountabilities</li> <li>c. setting, monitoring, and reporting on agreed performance measures for activities</li> <li>d. use of reviews, evaluations and benchmarking</li> <li>e. effective governance arrangements</li> <li>f. sound staff recruitment, retention and development policies</li> <li>g. efficient procurement of other inputs</li> <li>h. good supporting processes.</li> </ol>

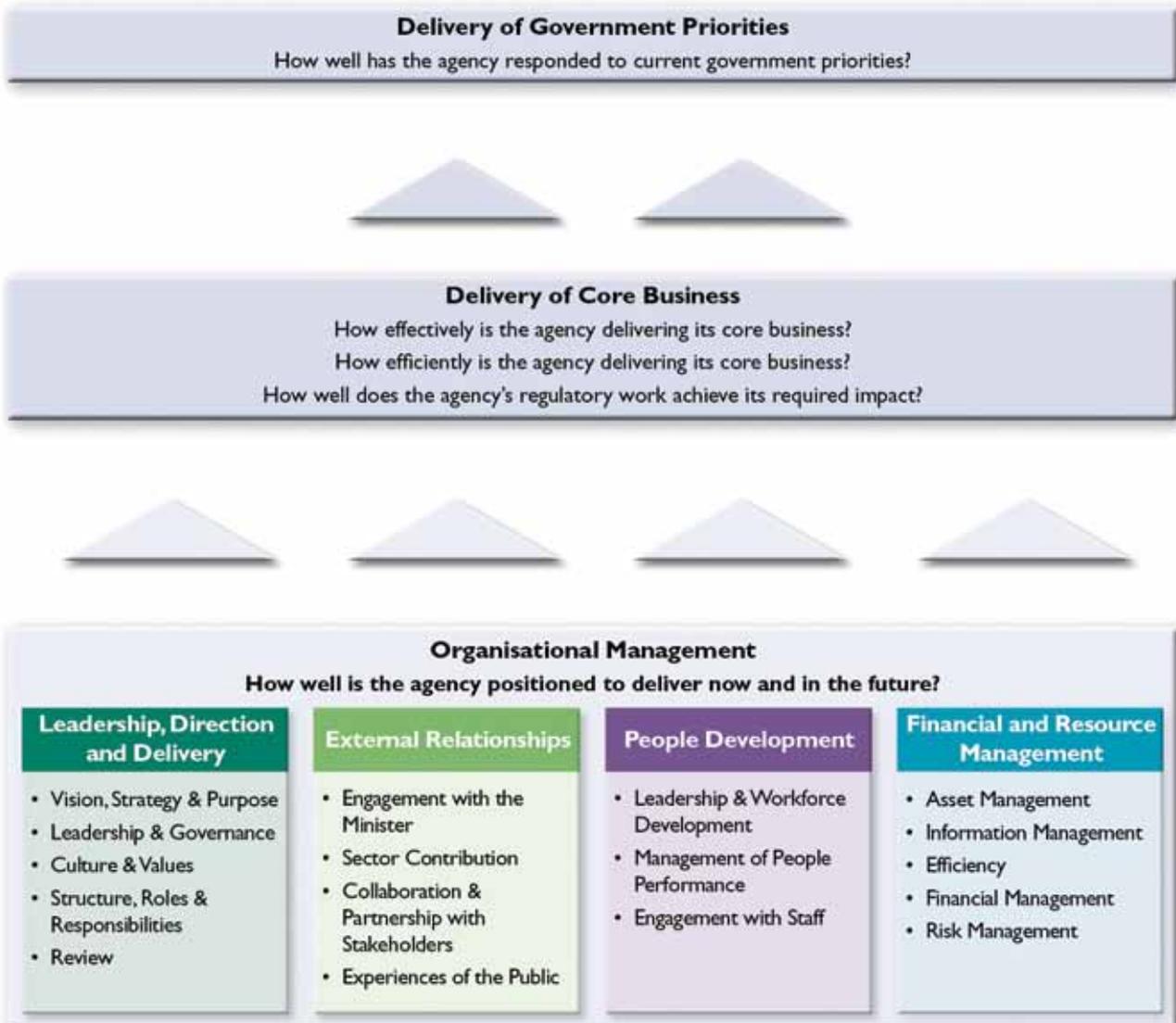
<p><b>Financial Management</b></p> <p>How well does the agency manage its financial information and ensure financial probity across the business?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well-placed</b></p> <p>There were a number of reviews of this function last year that established that the finance function was relatively low cost and high quality compared to its peers (BASS) and had ‘good’ information, systems and controls (Management Audit Report). Areas for improvement included MED’s own internal procurement which was sub-standard (BASS), the need to move its finance function from a transactional focus to ‘establish strategic finance functions’ (ODS Review), strengthen management accountability, achieve better links between budgets and work programmes and centralise budget risk and reprioritisation management (KPMG).</p> <p>MED has responded with a number of initiatives: financial training for managers; revised procurement policies and procedures; realigning the finance group structure to allow more of a strategic focus, and upgrading forecasting and modelling capacity.</p> <p>This is all useful progress in the right direction and lays the foundations for an improved strategic contribution: i.e. improved within-year management against budget (reducing under-spends), better assessment of the impact of different scenarios and priorities, stronger ability to manage shocks, and more timely anticipation of longer-term budgetary pressures given the funding profile of MED’s existing multi-year projects. This leaves the finance function “well placed” to cope with the current and likely future financial demands of the current business strategy and operating model.</p> <p>However, this relatively benign environment will change significantly as MED’s business strategy and operating model changes in response to the challenges outlined in this Review. There will be far greater demand for value-added strategic finance functions in the past – a demand that would increase even further if the Government’s fiscal situation also became more demanding. The changes under way may need to be accelerated to ensure MED’s finance function remains ‘well placed’ in a more demanding environment.</p>

<p><b>Risk Management</b></p> <p>How well does the agency manage agency risks and risks to the Crown?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>The governance of risk and assurance within MED is supported by the work of three key committees: Risk and Assurance Committee, IT Governance Committee and Finance Committee, and one contracted internal resource seconded from KPMG.</p> <p>SLT regularly discusses, confirms and updates a ‘Top 15’ Risk and Opportunity Profile. However, these risks are operational in nature, often based on listing incidents and learnings arising from these incidents. MED has a strong track record in managing risk in delivering operational projects. The Top 15 Risks do not focus on organisational strategic risks related to MED not contributing to the economic step change the Government is looking for or to threats to its distinctive relationship assets.</p> <p>Every branch is required to maintain an operational risk register and regularly review approaches to managing the identified risks. The internal audit function (Business Assurance) maintains a rolling internal audit plan. The plan is linked to MED’s agreed top risks, with all internal audits being contracted to KPMG, from an annual budget of \$80,000. The budget is small for the size of the organisation, delivering approximately four reviews per year. The outcome of the 09/11 reviews rated very good or good on a poor to excellent scale, providing assurance of ‘tidy control’. There is currently a refocus on risk within the organisation moving away from a compliance framework towards active risk management. The new approach will be launched in April 2012, fully endorsed by the Risk and Assurance Committee.</p> <p>Legislative compliance has been supported by ‘Comply with’ software for the past three years (including generic and MED-specific legislation). In addition, the ‘Comply with’ software is used to assess compliance with internal policies (Statement of Assurance). The rigour of implementation is individual dependent, ranging from tick box responses to meaningful assessment and reporting. It was noted that no action has been taken to address the underperformance evident in the tick box approach.</p>

# APPENDIX A

## Overview of the Model

### Performance Improvement Framework – High Level Agency Model



## Lead Questions Results

### Performance Improvement Framework Agency Model Lead Questions

<b>Results</b>		
<b>Critical Area</b>	<b>Lead Questions</b>	
<b>Government Priorities</b>	1. How well has the agency responded to current government priorities?	
<b>Core Business</b>	2. How <b>effectively</b> is the agency delivering its core business? 3. How <b>efficiently</b> is the agency delivering its core business? 4. How well does the agency's regulatory work achieve its required impact?	
<b>Organisational Management</b>		
<b>Critical Area</b>	<b>Element</b>	<b>Lead Questions</b>
<b>Leadership, Direction and Delivery</b>	Vision, Strategy & Purpose	5. How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? 6. How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?
	Leadership & Governance	7. How well does the senior team provide collective leadership and direction to the agency? 8. How well does the board lead the Crown entity? (For Crown entities only)
	Culture & Values	9. How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?
	Structure, Roles & Responsibilities	10. How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business? 11. How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?
	Review	12. How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?
<b>External Relationships</b>	Engagement with the Minister(s)	13. How well does the agency provide advice and services to its Minister(s)?
	Sector Contribution	14. How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector?
	Collaboration & Partnerships with Stakeholders	15. How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?
	Experiences of the Public	16. How well does the agency meet the public's expectations of service quality and trust?
<b>People Development</b>	Leadership & Workforce Development	17. How well does the agency develop its workforce (including its leadership)? 18. How well does the agency anticipate and respond to future capability requirements?
	Management of People Performance	19. How well does the agency encourage high performance and continuous improvement among its workforce? 20. How well does the agency deal with poor or inadequate performance?
	Engagement with Staff	21. How well does the agency manage its employee relations? 22. How well does the agency develop and maintain a diverse, highly committed and engaged workforce?
<b>Financial and Resource Management</b>	Asset Management	23. How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?
	Information Management	24. How well does the agency utilise information & communications technologies to improve service delivery?
	Efficiency	25. How robust are the processes in place to test for efficiency and make efficiency improvements? 26. How well does the agency balance cost and quality when considering service delivery options?
	Financial Management	27. How well does the agency manage its financial information and ensure financial probity across the business?
	Risk Management	28. How well does the agency manage agency risks and risks to the Crown?

## APPENDIX B

### List of Interviews

This review was informed by input provided by a number of MED staff, relevant Ministers, and by representatives from the following businesses, organisations and agencies:

Agency/Organisation
Audit New Zealand
Business New Zealand
Cameron Partners
Canterbury Employers' Chamber of Commerce
Christchurch International Airport Limited
Commerce Commission
Crown Fibre Holdings
Department of the Prime Minister and Cabinet
Electricity Authority
Energy Efficiency and Conservation Authority
Financial Markets Authority
GNS Science
Infratil Limited
Ministry for the Environment
Ministry of Agriculture and Forestry
Ministry of Foreign Affairs and Trade
Ministry of Science and Innovation
New Zealand Business Roundtable
New Zealand Trade and Enterprise
New Zealand Institute of Economic Research
PwC New Zealand
Productivity Commission
State Services Commission
Te Rūnanga o Ngāi Tahu
The Treasury
Tourism New Zealand

## APPENDIX C

### Glossary

ATEED	Auckland Tourism, Events and Economic Development Limited
BASS	Better Administrative and Support Services – A State sector programme based in The Treasury to lower cost and strengthen effectiveness and efficiency
CRM	Customer Relationship Management
Customs	New Zealand Customs Service
DOC	Department of Conservation
DoL	Department of Labour
DPMC	Department of the Prime Minister and Cabinet
EECA	Energy Efficiency and Conservation Authority
EGA	Economic Growth Agenda
FMA	Financial Markets Authority
GFC	Global Financial Crisis
GNS	GNS Science
Immigration	Immigration New Zealand
IPONZ	Intellectual Property Office of New Zealand
KPI	Key Performance Indicator
MAF	Ministry of Agriculture and Forestry
MfE	Ministry for the Environment
MED	Ministry of Economic Development
MFAT	Ministry of Foreign Affairs and Trade
MSI	Ministry of Science and Innovation
MVTR	Motor Vehicle Traders Register
NZIER	New Zealand Institute of Economic Research
NZTE	New Zealand Trade and Enterprise
NZVIF	New Zealand Venture Investment Fund
PIF	Performance Improvement Framework
SSC	State Services Commission
TTOIG	Trans Tasman Outcomes Implementation Group





