

# PARTNERSHIP AND PRODUCTIVITY IN THE PUBLIC SECTOR – SUMMARY REPORT

November 2006

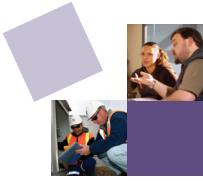
A REPORT COMMISSIONED BY  
THE PARTNERSHIP RESOURCE CENTRE





## CONTENTS

|     |  |    |
|-----|--|----|
| 1   | Introduction.....  | 2  |
| 2   | Productivity in the Public Sector .....  | 3  |
| 2.1 | Concepts of Public Sector Productivity.....  | 3  |
| 2.2 | Historical Perspective .....   | 4  |
| 2.3 | Measurement.....   | 4  |
| 2.4 | The Impact of Measurement on Productivity Itself .....   | 4  |
| 3   | Workplace Partnership in the Public Sector .....   | 6  |
| 3.1 | Introduction.....  | 6  |
| 3.2 | Organisational Arrangements and Attitudes in Partnership.....  | 6  |
| 3.3 | Processes and Purposes of Partnerships.....  | 6  |
| 4   | The Impact of Workplace Partnership on Public Sector Productivity.....                                       | 8  |
| 4.1 | Evidence Linking Productivity Gains to Partnership.....  | 8  |
| 4.2 | Reasons Why Workplace Partnership Should Improve Productivity.....   | 8  |
| 4.3 | Workplace Relationships as the Foundation of Individual and Organisational Performance.....                  | 9  |
| 5   | The Conditions for Effective Partnership .....   | 10 |
| 5.1 | Procedural and Substantive Guarantees.....   | 10 |
| 5.2 | The Spectrum of Partnership Relationships .....  | 10 |
| 5.3 | Mutual Gains: An Uncomfortable Compromise?.....  | 11 |
| 5.4 | New Public Management as an Obstacle to Partnership .....  | 11 |
| 6   | Breaking Out of the Box: Linking Public Value to Productivity and Productivity to Workplace Partnership..... | 12 |
| 6.1 | Public Value and the Governance Agenda.....  | 12 |
| 6.2 | Productivity Measurement and Partnership Effectiveness.....  | 12 |
| 6.3 | Towards a Partnership Model of Public Sector Reform .....  | 13 |



# 1. INTRODUCTION

Public sector productivity, and the need to improve it, has become a hot political issue worldwide, and New Zealand is no exception. While the heat may sometimes be uncomfortable for governments, it must be right for citizens that more light is shed on how their tax dollars are spent. The trouble is that the issue tends to generate more heat than light, which can sometimes lead to the wrong decisions being made for the wrong reasons. If public sector employees are set the wrong targets, the public can be short-changed, even if those targets are hit; the value of what the public sector produces can fall, even if its employees' productivity seems to be rising. Therefore, understanding what we mean by public sector productivity and how it can be increased is crucial.

In 2006, the Partnership Resource Centre decided to study the problem by examining the evidence for the idea that, if public sector employers and unions work more cooperatively towards shared goals, productivity can be increased. Anecdotal evidence, particularly from overseas, suggested strong links between union-employer partnership approaches and productivity gains. But most of the evidence came from the private sector, and there was a need to draw out lessons on how partnership approaches can impact on productivity in the different environment of the public sector. Therefore, we commissioned a comprehensive review of the existing literature on workplace partnerships and productivity to try to find out whether union-employer cooperation really can be a driver of productivity in the public sector and, if so, how.

The review was carried out by Brendan Martin and Conor Cradden of Public World in London and Geneva, assisted by Public World associate Christof Schiller. It drew on literature from both international and New Zealand sources, and the following is a summary of their report.

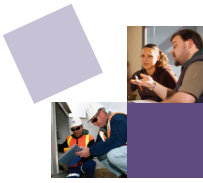
The report starts by exploring what productivity means in the public sector. Is it the same as productivity in the private sector, and if not, in what ways is it different? The report shows how our understanding of what public sector productivity means depends on what we want government to do and how we want it done. It goes on to look at how productivity is measured and how performance measurement can affect what the public sector produces and how it produces it.

Then the report explores the various forms of workplace partnership and discusses how the attitudes of participants are just as important as how partnerships are organised. As with productivity, what we understand by "partnership" and what it can achieve are strongly influenced by changing public sector reform models.

The report then brings the two strands together by looking at what the literature tells us about how employers and unionised workers can cooperate to produce better outcomes in more cost-effective ways. It does this by considering the impact both on organisations and on their individual employees.

The conclusion reached by the report is that partnership can indeed improve productivity, provided the right conditions are in place and both employers and employees can place their trust in their relationship. This is achieved, the report argues, through what it calls "procedural and substantive guarantees", which, in plain English, are binding agreements about what is done and the way it is done.

Based on that analysis, the report makes suggestions about how relationships between government, citizens and employees need to change if the public sector is to improve its ability to produce the right outcomes in the most cost-effective ways.



## 2. PRODUCTIVITY IN THE PUBLIC SECTOR

### 2.1 CONCEPTS OF PUBLIC SECTOR PRODUCTIVITY

There is no precise definition of public sector productivity, and so the report set out from the emerging consensus that public sector productivity involves *effectiveness* (in terms of *outcomes*) as well as *efficiency* (in terms of the ratio of *outputs* to *inputs*). The literature shows wide agreement with that general proposition, but there is less agreement beyond that, even on the meaning of terms such as *output*, *outcome*, *objectives*, *performance indicators* and so on.

Two questions really show why public sector productivity is such a contentious issue: Are citizens being provided with what they need? How could the services citizens need be provided more cost-effectively?

In the private sector, where goods and services are provided for the market, productivity is defined simply as the ratio of outputs to inputs; that is, how does a measurable volume of what is produced compare to the volume of resources that goes into producing it? But, even in the private sector, there are many different benchmarks, and the choice between them depends not only on the purpose of the productivity measurement but also on the availability of data. The issue is further complicated by the fact that, in reality, the productivity with which a company or an individual worker operates is determined by many factors, some of which are independent of the company or worker.

It gets more complex still in the public sector, where the mission is not to respond to what the market wants but to provide what society and citizens want, as expressed through their choice of government and the decisions made by that government. But the results of what the public sector does are influenced by not only what governments do but also how those actions and their results interact with other factors. Think of education, where the outcomes for any particular child are determined partly by what their school does, but also by other factors, such as their home life, their genetic inheritance and their family's income and wealth.

So the *outcomes* of the public sector are the product of more than its *outputs*, and its *effectiveness* cannot be reduced to its *efficiency*, although both are important. Efficiency has both qualitative and quantitative characteristics, which include the volume and cost of services, response times, error rates, accessibility, citizen satisfaction and so on. Effectiveness is a matter of whether or not services are provided in accordance with the priorities and objectives of government, and produce the expected or desired impacts. This is similar to the distinction made in economic theory between *allocative efficiency* (i.e. whether the right *things* are being produced) and *technical efficiency* (i.e. whether they are produced in the right *way*). However, the public sector doesn't just aim to maximise the satisfaction of *customers* but must deliver for society as a whole, while also fulfilling the particular rights, needs and wishes of minority groups and individuals.

One way to look at the particular role of the public sector is to think of it as creating "public value", which has three interconnected components: services, outcomes and trust. The public value of services is expressed not only in user satisfaction but also in the ethos and culture expressed in their delivery. Outcomes are produced in part by services directly, but also by the effects of those services interacting with other social and cultural activities and forces. Trust is more difficult to pin down but is arguably the most important. It is at the heart of the relationship between citizens and government, and even if formal service and outcome targets are met, a failure of trust will effectively undermine public value.

## 2.2 HISTORICAL PERSPECTIVE

The question of public sector productivity can also be explored by looking at the historical debates about what the public sector is for, how it should operate and how it should be evaluated. The report describes the history of public sector productivity in terms of the various phases of public management models over the last century. In short, it began in the early 1900s when the approach to efficiency in public administration drew heavily on the scientific management theories of the time, which held that there was one best way to produce a defined product. There was later, from around the 1940s to the 1970s, a shift of focus to control of expenditure, and this was followed, from the 1980s, by a new approach, often referred to as “new public management” (NPM). This was ideologically motivated and advocated that public services should be delivered by the private sector or, at least, in ways characteristic of the private sector.

A further phase may now be emerging, one that corresponds to the public value approach to public governance and management. This emerging phase does not do away with the need to measure outputs and outcomes, but complements it by evaluating also the relationships involved in governance and management, seeing these as indicative of capacity to improve services and outcomes.

## 2.3 MEASUREMENT

Like the definition of public sector productivity, its measurement is dependent on what the public sector is expected to do and how it is expected to do it. Finding the causal links between outcomes and inputs is fraught with difficulty, and, as it is easier to measure outputs, they are often measured instead. But judging the public sector and its employees by output targets may not only fail to measure the effectiveness with which they contribute to desired outcomes. It may also affect their behaviour so that they aim to meet their targets, even if doing so is not the best way, in particular circumstances, to achieve a desired outcome. Yet governments must be accountable, and this continually recreates this drive to produce what can be most easily measured.

Just as productivity in the public sector began with the orthodox definition of measuring outputs against inputs, as in private sector production, so public sector productivity measurement systems began by measuring quantity of output and quantity of input. But because this left quality out of the equation, measurement systems were refined to include indicators such as timeliness and accessibility, and further complicated by attaching various quantified weights and measures to different qualities.

While understandable from a public accountability point of view, because citizens are able to judge governments against measurable targets, the result can be disastrous from a public value point of view, because it can lead to perverse incentives, producing wrong decisions, financial loss and demotivated staff.

## 2.4 THE IMPACT OF MEASUREMENT ON PRODUCTIVITY ITSELF

As the measurement of productivity impacts on service delivery and public management practice, it follows that it impacts on productivity itself. The more productivity is defined in terms of standardised outputs, the more it tends to lead to “homogenisation” of services, particularly where staff are judged and rewarded against their performance in meeting output targets. This collides with the public value approach in which a critical element of service quality is meeting the socially and culturally diverse needs of citizens. In order to serve diverse needs equally well and for services to be available to everybody, public services in diverse societies must offer far greater flexibility to meet personal needs, while keeping the ability to connect resources and activities across entire systems of governance.

In addition, the specification of performance standards often narrows the scope for organisational innovation. This is partly because it encourages risk aversion and establishes rigid parameters of organisation and formal responsibility, limiting the gains that can be made from collaboration across service boundaries.

What, then, is the way out of this conundrum? The answer is not to abandon measurement, targets and standards, but to see them as tools to be used carefully and owned by the participants, rather than as instruments of top-down control. In that way, the public sector can be accountable at the same time as continually adjusting organisational and individual employee behaviour in accordance with what is required to produce quality services and desired outcomes. That, in turn, builds trust between governments, their employees and citizens and therefore creates public value.

Such observations are well supported in the literature, which offers considerable evidence that government performance measurement systems do not generally provide a reliable means of assessing how well public services (and the people who deliver them) contribute to the broader objectives of government. One suggestion noted in the literature, to ensure that a measurement system will be accepted and used appropriately, is to include as many viewpoints as possible in its development. The importance of involving frontline employees, in particular, is noted. Workers know the operations most intimately and are the ones in most immediate contact with users. They are the natural source of feedback, ideas and insights into the specifics of operations.

Although such ideas are well supported in the literature, however, governments evidently find it difficult to accommodate them in the way services are organised and productivity evaluated. This may be due to the limited timescale of accountability within the political cycle, which does not fit well with the longer-term and complex nature of organisational development and transformation.

The importance of *adaptability* in successful productivity measurement is also suggested in the literature, along with the important role staff can play in ensuring that their organisations do adapt to changing and diverse demands on them. This requires systematic feedback mechanisms that allow professionals and other employees to learn from the system and find ways to make improvements. This means keeping it simple at first and letting the measurement system and productivity improvements grow together. Provided that is done transparently, it need not undermine accountability arrangements, but can enrich them.



## 3. WORKPLACE PARTNERSHIP IN THE PUBLIC SECTOR

### 3.1 INTRODUCTION

The term “partnership” is now used so much in the fields of public management and labour relations that some have suggested that its meaning is unclear. In the workplace context, it means that employees become systematically involved in making decisions about how their organisation operates. That can be a contentious issue. Some managers see it as threatening their authority, while some unions see it as a trap for their members. However, there is also plenty of experience showing that partnership approaches can bring mutual benefits.

This study looked at workplace partnerships in a mature collective bargaining environment, in which employees are organised in unions, and found that unionised workplaces are better suited to effective partnerships. It found that, typically, partnership involves some combination of formal communication process and changes in work organisation to enable team-working, and increased task discretion and responsibility. This is frequently combined with increased functional flexibility. These characteristics also appear to align well with empirical evidence about conditions for effective employee involvement in productivity improvement.

### 3.2 ORGANISATIONAL ARRANGEMENTS AND ATTITUDES IN PARTNERSHIP

There are many forms of workplace partnership in the public sector but the aims, values and attitudes of the participants can be more important than the organisational arrangements in shaping the outcomes. It requires different mindsets than the more traditional forms of management and industrial relations; while partnership requires a cooperative approach, traditional collective bargaining is adversarial by nature.

Specific organisational arrangements are required, but can be either on-going or ad hoc. Whether or not these arrangements are separate from pre-existing collective bargaining machinery also varies, and there are strengths and weaknesses either way. Some experience and evaluations suggest that it is a weakness if the partners are able to retreat back into established collective bargaining machinery if the partnership process hits problems, while others suggest the ability to do so is a necessary safety net.

Partnership takes time to develop and usually begins as a result of some catalytic challenge, such as an external threat, requiring broader cooperation or joint discussion outside of normal bargaining. Some evidence suggests that, while national union leadership can positively affect outcomes, workplace partnership is usually the product of local decisions, often to deal with a crisis and following leadership changes. But sustaining partnership requires institutionalisation of the process; when an individual champion leaves, innovation often dies.

The literature suggests that most partnership models and agreements settle for vague formulations that emphasise a broad unity of purpose and mutual commitment to making all possible efforts to understand and accommodate each other’s needs, while recognising the legitimacy of the separate interests of employees and employers.

### 3.3 PROCESSES AND PURPOSES OF PARTNERSHIPS

The literature suggests that a key to effective partnership is that both sides learn to take responsibility for issues that are traditionally the responsibility of only one of them. In particular, public sector employers need to develop more commitment to the quality of their employees’ work life, while public sector unions need to

take a corresponding interest in improving service quality. Both theoretical and practical evidence suggests that improvements to productivity and quality of working life are necessary conditions of each other, and that each party must be willing to learn about the other's culture and leadership pressures.

While partnership is normally used in processes of operational or organisational change, it often stops short of involving staff and unions in strategic decision-making. Indeed, there are few cases in which there has been any significant movement away from traditional patterns of decision-making, and management tends to retain the right to decide what issues are subject to the partnership process. This may help to explain the gaps revealed in the literature between the stated intentions and actual implementation of partnership in some cases, and the disappointments experienced in others.



## 4. THE IMPACT OF WORKPLACE PARTNERSHIP ON PUBLIC SECTOR PRODUCTIVITY

### 4.1 EVIDENCE LINKING PRODUCTIVITY GAINS TO PARTNERSHIP

Establishing causal links between workplace partnership and productivity isn't straightforward. The links between the social relationships within an organisation and their outputs are so complex that it is extremely difficult to untangle the effects of partnership from the many other factors that might have an effect on productivity or quality. In addition, partnership relationships differ sufficiently between organisations to make the validity of any comparison problematic. Most research on partnership, therefore, takes a qualitative case-study approach.

However, the wider body of research on the effects of different management practices and work organisation strongly indicates that partnership *does* improve productivity and quality, because of evidence that partnership can encourage the practices that are shown to do so. Practices shown to produce significant permanent increases in labour productivity include employee participation and cooperative relationships associated with less hierarchical management methods. A conducive environment is one in which partnership is seen to contribute to increasing employment security and the benefits of productivity increases are shared with workers.

The literature also suggests that, in the context of a high-involvement approach to management, unions have at worst a neutral effect and at best a positive impact on productivity. Moreover, there are strong indications that, along with genuine management commitment, a strong union base is one of the critical success factors in high-performing partnerships, and its absence is a feature of low-performing ones. This appears to be related to the role of strong and independent unions in ensuring that employee cooperation is not unfairly exploited.

### 4.2 REASONS WHY WORKPLACE PARTNERSHIP SHOULD IMPROVE PRODUCTIVITY

The wider theoretical evidence reinforces those empirical findings, and the study analyses it into three sets of reasons why workplace partnership would be expected to improve productivity.

#### 4.2.1 Organisational Reasons: Organisational Adaptation and the Environment for Decision-Making

Workplace partnership may enhance performance simply by giving rise to more effective decision-making than that which is possible under hierarchical-bureaucratic or market systems of governance. Workplace partnership involves a range of participative decision-making structures at various levels within the organisation, operating independently within their respective areas of competence in the context of an overarching general agreement about the aims and scope of the process.

This kind of system is particularly well-suited to organisational environments characterised by a continuing need to adapt structures and processes to meet changing demands, which applies not only to the modern firm but also to contemporary public services. Partnership can contribute to the delegation of decision-making authority to the most appropriate level, enabling the most relevant information to be mobilised operationally within an agreed set of overall organisational aims and priorities.

By its nature, such an approach requires the development of sustained trust, and the report argues that market approaches to public service management (characteristic of new public management) are deficient in their understanding of the importance and effects of trust, cooperation and commitment. Among the strengths of workplace partnership appears to be its capacity to develop and mobilise these qualities in support of the social, economic and political goals of governments in ways that enable appropriate technical solutions.

## 4.2.2 Relational Reasons: Commitment, Legitimacy and Mutual Trust

There are also reasons relating to employment relationships why partnership might give rise to improvements in productivity and performance. The argument assumes that a genuine commitment to the goals and practices of the organisation will give rise to initiative, willing cooperation and functional flexibility. Overall, the literature supports the idea that beneficial outcomes flow from such shared commitments to both objectives and process, and that partnership on that basis enables employees to believe that their organisation's success is in their interests too.

Where organisational processes, structures and relationships have some history, their outcomes are reasonably predictable and participants can be confident that the stance they adopt in response is appropriate. In the context of change, however, when organisational processes are new, the commitment-action-performance cycle makes it difficult for participants to decide whether or not they should commit. The solution is trust in the *process*, which undermines either side's assumption that the other's propositions in favour of change should be interpreted as strategic attempts to gain some advantage over the other. Where mutual trust is sufficiently high, change can be embarked upon in the confidence that its full benefits will eventually accrue to each participant in proportion to the costs borne.

But how to create the circumstances under which it is rational to advance trust, even though there is no history of relationships based on trust? Partnership can resolve this problem if it is based on guarantees that reduce or remove the risk that one party's adoption of a cooperative stance will be strategically exploited by the other.

## 4.2.3 Psychological Reasons: Control and Empowerment

The third set of reasons why partnership should improve productivity can be called psychological. It relates to the opportunities that partnership provides for employee autonomy and other forms of direct participation in decision-making. The literature on the psychological aspects of participation and employee involvement is vast and is generally associated with models of industrial democracy, which emphasise the importance of the workgroup and the need to encourage personal development and job satisfaction at work.

Research has demonstrated the links between participation and employees' psychological well-being, and between psychological well-being and individual performance, including the propensity to cooperate with managers and employees. The reasons are that when people have more control over their lives (including at work), when they are enabled to feel autonomous and equally valued, and when democracy reinforces their confidence in decision-making processes and their outcomes, they tend to respond positively.

This theory has to be tempered by evidence suggesting that certain practices designed to increase worker autonomy and direct participation in decision-making may, in some circumstances, lead to negative outcomes for individuals in terms of increased stress and work intensification. It has also been widely reported that direct participation, particularly team-working, tends to be accompanied by increased levels of mutual surveillance and social control within the group. However, these risks can be minimised by ensuring that direct participation is part of a coherent overall strategy that includes "partnership guarantees".

## 4.3 WORKPLACE RELATIONSHIPS AS THE FOUNDATION OF INDIVIDUAL AND ORGANISATIONAL PERFORMANCE

What this brief discussion suggests is that, even if the direct causal link from partnership to productivity is less clear, the "procedural and substantive guarantees" on which effective partnerships are based, and which they reinforce, do contribute to the success of organisations in underpinning and enabling organisational adaptation and individual performance. As opposed to a top-down management system, in a genuine partnership environment employees are treated as adult human beings with rights that must be respected under all circumstances. The scope of an employee's direct control over his or her work is maximised in an accountability system that links that control to responsibility to others. At the same time, structures of representative participation articulate and transmit employees' knowledge, opinions and interests within collective decision-making processes.

In this way, the interaction of the organisational, relational and psychological factors outlined above may well be mutually reinforcing through a virtuous spiral of cooperation, improved performance and individual benefit.



## 5. THE CONDITIONS FOR EFFECTIVE PARTNERSHIP

### 5.1 PROCEDURAL AND SUBSTANTIVE GUARANTEES

The argument in the previous section suggests that partnership is most likely to lead to improvements in organisational performance when it functions as an institutional guarantor for trust, commitment and legitimacy. Two types of partnership guarantee are identified in the literature: “substantive” and “procedural”.

“Substantive guarantees” are mutual commitments to certain actions or outcomes, or to the avoidance of certain actions or outcomes, so that goals are shared. “Procedural guarantees” are those that define the rights of both sides in decision-making, so that all have confidence in the process.

Procedural and substantive guarantees work by undermining mutual suspicion between managers and employees and introducing more transparency into each side’s interests and the power relationships between them. But they require strong commitment from political leadership, as without it managers are much less likely to take the risks associated with entering into workplace partnership arrangements. Indeed, the more solid the guarantees defining the relationship between management and employees, the less managers will be able to enter into them without a corresponding guarantee underpinning their relationship with the political leadership to which they are primarily accountable.

### 5.2 THE SPECTRUM OF PARTNERSHIP RELATIONSHIPS

While the literature sheds important light on the ideal characteristics of workplace partnership, in practice the aims with which participants enter partnership arrangements, and the underlying attitudes they bring to them, cover a wide spectrum.

At one end are those who see partnership as a technique, one among a range of approaches to winning worker commitment. There is a good deal of evidence that this is the preferred model among managers, particularly in the UK. At the other end are those who see partnership as an extension of democracy. This can involve the delegation of managerial power into radical forms of self-management. Somewhere in between can be found the majority of existing partnership relationships, in which the aim is to promote “mutual gains”. While the emphasis is on cooperation, the inevitability of conflicts of interest is also acknowledged.

The most notable feature of this mode of partnership is that the most basic existing prerogatives of employers and unions remain unchallenged. Distributive or adversarial bargaining continues for traditional industrial relations issues, such as pay, and terms and conditions, and unilateral management decisions remain the norm for high-level strategic issues.

However, the evidence suggests that, even when partnership is described in “mutual gains” terms, managers often understand it as simply another technique for pursuing organisational aims through exercising control rather than the sharing of decision-making power. Investigations into partnership practices in the UK health service found that concepts such as team-building, communication and empowerment were typically seen by staff as empty words, and not accompanied by management practices that gave them a clear voice at senior management level.

The report argues that these perceptions, which reveal limits to trust in partnership relationships, may help to explain why high-trust, involvement-driven work systems are yet to emerge on anything like the scale that might be expected, given the record of success where they have been tried. More whole-hearted approaches to partnership, and the benefits they can bring, are likely to remain exceptional as long as managers are unable or unwilling to share their existing prerogatives to the extent required.

## 5.3 MUTUAL GAINS: AN UNCOMFORTABLE COMPROMISE?

The “mutual gains” model is currently the form of partnership winning most favour with public sector employers in most of the English-speaking world. Unions and government in Ireland, the UK, the USA, South Africa and New Zealand are all broadly in favour of union-management relationships in which the formal rights of each party remain as they have traditionally been, but where there are voluntary moves – some modest, some more ambitious – towards a blurring of these boundaries.

Why is workplace partnership not more widespread in the public sector than it is? If it is the case that the benefits of partnership arise from individual employee autonomy and discretion, and from representative participation that guarantees that employee interests, opinions, knowledge and experience are factored into decision-making, why does the adoption of partnership remain a managerial choice rather than an obligation?

The report argues, on the basis of the evidence in the literature, that lack of political commitment can undermine the institutionalisation of partnership relationships and that, without this, they are often unable to be sustained for long enough to build the virtuous spiral required. Unions cling to the older procedural guarantees of adversarial collective bargaining, reinforcing management beliefs that ceding power is too risky.

While far from ideal, by enabling partnership to proceed on the understanding that either side can retreat into the conventional labour relations machinery if necessary, this “mutual gains” compromise provides a safety net without which some partnership arrangements might break down more irrevocably.

## 5.4 NEW PUBLIC MANAGEMENT AS AN OBSTACLE TO PARTNERSHIP

A factor in managerial reluctance to more whole-heartedly embrace partnership with employees may be the pressures on them of performance management systems typical of the NPM approach. These tend to reward or punish managers for their performance against output targets rather than providing them with incentives to innovate. In such a climate of fear, it is understandable that managers are reluctant to delegate control of their fate to others.

In addition, the application of NPM often involved experimentation with what has been called a “hard market” in public sector employment. Combined with a severe cost-cutting agenda, this trend directly undermined a very important substantive guarantee by exposing employees to the threat of market-based pay and conditions, and unions to the threat of the division in their ranks.

What this discussion suggests is that both management and employees may feel unable to provide the procedural and substantive guarantees that successful partnership demands, which brings us back to the role of political leadership. Here, the problem may be that the timescales involved in organisational transformation are longer than those of the political cycle, with the result that politicians have insufficient incentives to promote workplace partnership. They risk being blamed for failure without being able to reap the benefits of success.



## 6. BREAKING OUT OF THE BOX: LINKING PUBLIC VALUE TO PRODUCTIVITY AND PRODUCTIVITY TO WORKPLACE PARTNERSHIP

### 6.1 PUBLIC VALUE AND THE GOVERNANCE AGENDA

A route out of this conundrum may be offered by what has been called the “new public governance” (NPG), which may overcome the limitations of NPM while building upon its advantages in terms of devolution of authority. Whereas NPM focused principally on outputs as a means to enhance productivity in the public sector, the new public governance model also emphasises processes and outcomes. It emphasises the ownership of and participation in the decision-making process, by including multiple stakeholders – citizens, the voluntary sector, unions, business and different levels of government.

Linking workplace partnerships to governance arrangements devolving more authority to participatory processes of direct democracy may lead to a breakthrough both in defining public sector productivity and developing understanding about how to increase it through partnership. The emphasis in the NPG approach is on improving quality of life – both in terms of quality of service outcomes for users and quality of working life for staff – by developing strategic management systems. Accountability is provided by a “balanced scorecard” (BSC) approach, based on combining measures of output, outcome and capacity to drive future performance, evaluated through feedback processes that give voice to the experience of both employees and citizens.

### 6.2 PRODUCTIVITY MEASUREMENT AND PARTNERSHIP EFFECTIVENESS

Analysis of the literature suggests that the more partnership is an on-going systemic process embedded in organisational culture, the more likely it is to produce sustainable improvements in performance. If workplace partnership is to contribute to productivity improvement, it follows that public sector organisations must have the capacity to develop and sustain it. Therefore, an evaluation framework ought to focus on progress in the development of the organisation’s partnership capacity, as well as the two other major elements of public sector productivity: service efficiency (outputs in relation to inputs) and service effectiveness (outcomes).

The report proposes a list of points for evaluation in line with this suggestion:

- Neither the decision to adopt partnership, nor the interpretation of what it means in practice, should be left to management alone.
- Partnership requires substantive guarantees with respect to (at a minimum) employment security, wages and conditions of work.
- Partnership requires procedural guarantees that ensure that there is clarity about who has the right to decide what, when and how.
- Management must have the power to provide the required guarantees and to ensure that they are respected under all circumstances.
- Partnership should be focused not on particular substantive goals, but on increasing individual employee autonomy and discretion and on constructing systems of representative participation that articulate and transmit employees’ knowledge, experience, interests and opinions within collective decision-making processes.
- The scope of partnership should be defined but subject to negotiated redefinition through the partnership process itself.

- The “safety net” of collective bargaining and managerial prerogative should be used only after non-adversarial dispute resolution has repeatedly failed and when unions, management and employees agree that consensus is not possible.

## 6.3 TOWARDS A PARTNERSHIP MODEL OF PUBLIC SECTOR REFORM

The approach outlined above is founded upon the provision of appropriate procedural and substantive guarantees to enable workplace partnerships to improve public sector productivity. Together, these protect the collective and individual interests of employees, removing the risk of exploitation that is otherwise attached to cooperation in circumstances where it is not clear that shared interests exist. Cooperation becomes a rational and successful experience if it leads to mutual trust, legitimacy and organisational commitment. These, in turn, reinforce the rationality of cooperation. The procedural guarantee of direct participation increases employees’ autonomy and control over their work, permitting them to apply their knowledge and experience to the solution of operational problems, and increasing their capacity to respond to the needs of citizen-users.

This corresponds to an approach to public sector productivity that is based on defining the mission of the public sector in terms of creation of public value, and ensures that an appropriate balance between organisational priorities and employee interests is maintained. The application of employee knowledge and experience means that decision-making is more effective. The articulation of employee interests in decision-making processes means that decisions are more legitimate, even (perhaps, *especially*) if compromises have to be negotiated. Together with the flexibility that arises from mutual trust and cooperation, this legitimacy ensures that implementation of decisions proceeds more smoothly. Thus, both the organisation’s capacity for change and the effectiveness of that change are improved, leading to improvements in service quality and public value.

It follows that detailed definitions of productivity criteria and measures should be based on public value creation and improvements, rather than being imposed from outside the organisation or from the top down. Evaluation criteria and measures should be developed through participatory processes involving new governance arrangements in respect of relationships between public sector organisations and citizens and service users, and workplace partnership processes in respect of internal relationships. Moreover, institutional design should seek to link these processes without undermining either the democratic priority of citizens in the determination of public value or the prerogatives of employees and their unions in collective bargaining.

It might be that such devolution of authority would also lower one of the key obstacles to the development of genuine workplace partnerships in the public sector, which is lack of political leadership commitment. This is because, by transparently devolving more accountable authority to participatory democratic processes involving both citizens and employees, the political risks associated with the different timescales of organisational transformation and the national political cycle would be reduced.

Material in this publication is subject to copyright unless otherwise indicated. The Crown copyright protected material may be reproduced free of charge in any format or media without requiring specific permission. This is subject to the material being reproduced accurately and not being used in a derogatory manner or in a misleading context. Where the material is being published or issued to others, the source and copyright status must be acknowledged.

The permission to reproduce Crown copyright material does not extend to any material in this publication that is identified as being the copyright of a third party. Authorisation to reproduce such material must be obtained from the copyright holders concerned.

This report was commissioned by the Partnership Resource Centre and produced by Brendan Martin and Conor Cradden of Public World in London and Geneva, assisted by Public World associate Christof Schiller.

The views expressed in this occasional paper do not necessarily represent the views of the Department of Labour.

ISBN 0-478-28090-4

© 2006 Partnership Resource Centre, Department of Labour, PO Box 3705, Wellington, New Zealand

Phone: 64 4 931 6066

Email [partnershipresourcecentre@dol.govt.nz](mailto:partnershipresourcecentre@dol.govt.nz)

Website: [www.dol.govt.nz](http://www.dol.govt.nz)

