
PERFORMANCE IMPROVEMENT FRAMEWORK

Follow-up Review of New Zealand Trade and Enterprise (NZTE)

JUNE 2013

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

**Performance Improvement Framework
Follow-up Review: New Zealand Trade and Enterprise**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet
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PIF FOLLOW-UP REVIEW

It is important to understand the context within which the Performance Improvement Framework (PIF) is being delivered. There are two developments driving change across the public sector. The first one is that everywhere across the world people are under some fiscal constraint of one sort or another, some more severe than others. What that means is that there isn't a lot of money around to fund services, so people have to look really hard at how they get the best value from the dollar they've got. The second big development is that people's expectations, citizens' expectations, are rising. People want to interact with government in a different way. People's expectations of the sorts of services they can get from government are changing. It's partially a generational thing, there is a huge change coming in terms of the way individuals want to access services. But, more critically, people expect more from their tax dollar. These two things in particular are driving the need for the State Services to do things differently. The changes we made in the late 80s and early 90s were world leading. They had lots of strengths but they had lots of weaknesses. While PIF builds on the strengths of those early reforms the stated aspiration is to take New Zealand from having a good public service, which it has today, to a great public service in the future.

New Zealand public service is already number one in the world for the absence of corruption. Senior leaders in the State Services want to lift performance in a number of other areas to make sure we have the best public service in the world. PIF is a key tool to enable public servants to do just that. At its heart a PIF is a review of agencies' fitness-for-purpose as they prepare for the challenges in the future. It looks at the current state of an agency, then how well placed the agency is to deal with the issues that confront it in the near future. It looks at the areas where the agency needs to do the most work to make them fit-for-the-future. And, because change does not happen overnight, the PIF is evolving to assist chief executives and Chairs beyond their first report. The PIF Follow-up Review is a stock take of the progress the agency has made since its initial review. It is another example of the public service taking ownership of its own continuous improvement and using the PIF to do its job better. As with the first reports, these reports are published. That way the public can have confidence that the public sector is continuing to improve its performance year in and year out.

CONTENTS

PIF Follow-up Review	1
Agency Response.....	3
Executive Summary	5
Conclusion	12

AGENCY RESPONSE

In short, Murray Horn has got it right and we agree with the findings of the PIF Follow-up Review. We will proceed to implement the findings with enthusiasm and rigour.

In 2010 we began a journey to transform New Zealand Trade and Enterprise (NZTE). The initial PIF Review in 2011 was part of a systematic review process, which revealed the organisation wasn't delivering on its potential. In response, we reset and refocused our strategy: putting our customers, New Zealand's internationalising businesses, at the heart of what we do, and reconnected with NZ Inc. to support international growth.

Two years on, indicators of positive change and more focused delivery are good - our customers report we are adding more value, our people are more engaged, our relationships are better than ever, our efforts are more targeted, and businesses are working more collaboratively.

But we are only part way through the journey, so the insights offered by Murray Horn in this Follow-up PIF Review are very welcome input into the period ahead. This analysis of progress to date provides a valuable overview, and we agree with the findings.

Our primary focus, as the report acknowledges, is to complete the work begun two years ago. Several elements of the original PIF are still to be successfully executed. This includes an integrated service suite, a more developed focus on capital, and knowledge management infrastructure. Progress in these areas has been challenging, and we need to bring the current changes to successful conclusion.

Significant work streams are underway across people, leadership and digital platforms (see table overleaf for an outline of initiatives). Our new way of working with customers, which focuses on a collaborative approach and consistent delivery, is being implemented internationally. This is reinforced with an increased organisational focus on understanding our performance and impact.

But our new strategy is not just about more focused activity; it is about delivering outcomes for New Zealand exporters. While deal flow is up and portfolio growth is strong, the Greatest Imaginable Challenge, to double the growth rate of our customers, is still in front of us. The PIF Follow-up suggestions will be fed into our strategy and planning process, and we welcome this on-going input to meet the demanding goal.

We are positive about the journey ahead. The cultural shift to a more targeted, one-team way of working has delivered more urgency and focus. NZTE is now a different organisation - new ways of doing things, new energy. We remain committed to this journey, and acknowledge the tremendous support of our staff, NZ Inc, and our customers for the change.

There is much to be optimistic about, and with support from across the Government and business ecosystem we are confident of positive results ahead.

Peter Chrisp
Chief Executive, New Zealand Trade and Enterprise

Action	Response	Progress	Expected Completion Date
Original PIF Actions			
1. Design, develop and communicate an integrated customer-focused service offering, aligned to future market needs	<ul style="list-style-type: none"> NZTE is rolling out the 'Customer Way' service offering, to be developed and delivered by the Customer, International and Services teams globally. Training is currently being delivered across our global network. External launch on 1 July. 	On target	July 2013
2. Transform the efficiency of the organisation through process flow improvement and information communications technology	<ul style="list-style-type: none"> NZTE has implemented changes to improve both the type of service and service experience provided by the Internal Partners team (Support services). We have developed and are implementing a technology strategy, which is focused on 'Anytime, Anywhere' Access and Knowledge Facilitation. 	Largely on target	November 2014
3. Transform the support services function to performance enablement and business partnering, including the implementation of an excellent knowledge management system, and a financial management process that supports the organisation's strategy	<ul style="list-style-type: none"> Changes to date have included the deployment of secure mobile technology, unified communications solution and a new intranet. Over the next 18 months we will be focusing on improving analytics, workflows and collaboration capability through the introduction of a new information management system and online collaborative workspaces. 	On target	November 2014
Identified Improvements to be made			
4. Strengthening the Products and Services Suite	<ul style="list-style-type: none"> NZTE is nearing completion of an integrated approach to current/future services delivered to businesses. Alignment of this with Callaghan Innovation is also underway. 	Underway	November 2014
5. A Stronger Capital Proposition	<ul style="list-style-type: none"> A new GM Capital has recently been appointed who is developing a Capital strategy to be agreed upon with key public and private sector parties. This will also include the identification of target areas and sectors where NZTE can achieve the greatest impact. 	Underway	November 2014
6. Moving beyond the focus on the Individual Firm	<ul style="list-style-type: none"> NZTE has an active programme of multi-firm, high impact activity across multiple sectors and events. NZTE will be undertaking internal and cross-agency engagement to identify how NZTE and our partners can further improve these multi-firm activities. A critical piece of work will be the delivery of the NZ Story (and to work up wording). 	Scoping	November 2014
7. More active portfolio and pipeline management	<ul style="list-style-type: none"> NZTE is currently building a business intelligence team to be focused on improving the business analysis and intelligence functions within the organisation. This team will support the organisation to further develop our understanding of how NZTE can identify and implement growth opportunities for current and future high growth firms. Collaboration with Callaghan Innovation and Regional Agencies will be critical to this success. Work with our partners will explore further opportunities to share information, coordinate our efforts around common and future customers, and the cross-delivery of programmes. 	Scoping/Under way	November 2014

EXECUTIVE SUMMARY

New Zealand Trade and Enterprise (NZTE) has made significant progress in addressing most of the weaknesses identified in the early 2011 PIF Review. The task now is to translate this ongoing organisational transformation into greater impact on New Zealand's export performance.

The progress made to date has been impressive and has helped generate both a significant lift in key lead indicators, like staff engagement and customer satisfaction, and an early efficiency dividend. Given what has been achieved in two years, with little apparent disruption, NZTE is an example of successful organisational transformation.

However, we are unable to say with any certainty if this transformational activity is having the desired impact at the aggregate level. In 2011, NZTE set itself the five-year challenge of doubling the growth rate of its Focus 500 companies. This size impact should be easy to see. The fact that we are still unsure about impact, suggests more change is likely to be required for NZTE to be confident of meeting this goal.

While NZTE does not need to rethink its direction at this point, it does need to identify the next set of initiatives it must take to meet this challenge. While the immediate task is to successfully execute the changes already in the pipeline, this Follow-up PIF Review has identified four areas that deserve attention:

- a Some elements of the original set of PIF recommendations have yet to be successfully executed; especially “design, develop and communicate an integrated customer-focused service offering, aligned to future market needs”. The information technology (IT) and knowledge management areas also require attention and need to complement a greater focus on analytics and improved performance metrics
- b A better defined, developed and integrated role in helping mobilise capital to support export growth, especially in encouraging value-adding foreign direct investment
- c NZTE needs to rethink its approach to how it and its partners – like Callaghan Innovation – add value beyond the focus on the individual firm. While this includes the approach to multi-firm activity, it also includes areas like strengthening New Zealand brand protection
- d More active management of the Focus 500 portfolio, and especially of the pipeline into and out of that portfolio, so that NZTE and its partners have an even more tailored impact focused on the right firms at the right time. This requires better use of data to generate useful targeting and tailoring intelligence, as well as more productive collaboration with its partners like Callaghan Innovation and the regional development agencies.

NZTE's success rests on its clarity of purpose and its focus in the execution of that purpose. While these four suggestions add up to a substantial work programme, they do not represent a change in direction or role and need to be executed in a way that helps further focus attention on where NZTE and its partners can add most value.

NZTE has made substantial progress in two years

NZTE is far more focused, coherent, urgent and open than the organisation described in the 2011 PIF Review. The serious weaknesses identified in the ‘Leadership, direction and delivery’, ‘People development’ and ‘External relationships’ components of organisational management have been significantly addressed, with many elements now more likely to be rated ‘strong’ or ‘well placed’, rather than ‘weak’ or ‘needing development’.

More of NZTE's customers 'strongly agree' it adds value and its people are significantly more engaged with the organisation, at the same time as it has reduced its operating costs by about 11.4% (actual 2009/10 to budget 2013/14).

This has not happened by accident. It has been achieved through inspiring leadership that has successfully communicated a clear sense of purpose and direction; the development of a stronger 'one team' culture focused on working with others to have more impact rather than focused on the individual's or institution's interests; and a well executed change management programme based around rolling 90-day delivery cycles.

How have the specific priority areas of the initial PIF Review recommendations been actioned?

- a The recommendations around purpose, strategy and direction have been delivered to a high standard. The intervention logic has been clarified and agreed and the organisation's purpose, direction and key objectives are motivating, discriminating and unifying. There is a remarkable degree of alignment in the way a variety of staff in NZTE describe the organisation, eg, as focused, coherent, open. The task now is to more fully embed the intervention logic in the organisation's approach, eg, to multi-firm interventions, see below.
- b The recommendations around governance have been largely implemented. The Board agenda has been refocused on its governance role, with management issues more clearly delegated to management. This progress would be enhanced by further development of simple management performance metrics that assessed NZTE's impact on firm and portfolio performance. These metrics are still in their infancy. International Growth Fund (IGF) governance could be even more focused on the application of well developed criteria and process (with consideration of individual cases only when that helps to develop those criteria or processes).
- c The recommendations around organisational leadership and culture have been significantly advanced, although the new management team has only recently been completed and the development of a high performance 'one team' culture is still a work in progress. Having said that, NZTE is nowhere near as fragmented as it was two years ago.
- d NZTE has come a long way in people management and addressing the recommendations around leadership development, performance management and improved management capability. There has been a significant and continuous increase in employee engagement and NZTE is now above the public sector benchmark (with the proportion of engaged employees nearly doubling to 32.6% between the 2010 and 2012 surveys). While much more needs to be done on the 'perform' and 'develop' dimensions of the people plan, and in building a true performance culture, the evidence suggests that good progress is being made.
- e The quality of engagement with Ministers, policy agencies and other related Government entities has been significantly improved and NZTE is held in high regard, including for its willingness to work constructively with others. The focus now has to be on improving the collective impact of that collaboration.
- f While some progress has been made on the recommendation to design a refreshed and integrated product and services suite that covers all stages of the customer's internationalisation journey, this is still incomplete (albeit now starting to receive the necessary attention).

- g Progress has been mixed in transforming the ‘internal partners’ suite of functions to performance enablement and business partners, with initial and increasingly effective focus on people management now being supplemented with a greater attention to the knowledge management, IT and communications areas highlighted in the PIF Review (although more work is required in knowledge management and IT).
- h Evidence of improved efficiency includes the uplift in areas like staff and customer satisfaction, and increased deal flow, with reduced expenditure.

Overall, NZTE has made strong progress and is clearly on track with what is a multi-year transformation programme. While there are some lagging areas, the most significant improvements have been made in the most important areas which the PIF also identified as particularly weak: ie, ‘Leadership, direction and delivery’, ‘People development’ and ‘External relationships’.

More needs to be done to ‘shift the dial’

A significant amount has been achieved in the last two years. However, more needs to be done to be confident of converting this organisational activity, and consequent uplift in customer and staff indicators, into the desired impact on export growth that NZTE is looking to achieve.

While NZTE’s customers recognise the organisation has improved, and more ‘strongly agree’ that NZTE adds value, there is still an emphasis on the grant element of that value. Moreover, only 460 companies currently qualify for the sort of attention reserved for the Focus 500 group. More significantly, while the growth rate of Focus 500 firms seems to have improved, especially in the period to March 2012, measurement and attribution problems undermine management’s ability to assess NZTE’s impact on these trends.

Execute the current agenda

The immediate task is to successfully execute the suite of changes already under way or in prospect: especially, executing the next phase of the people development agenda; strengthening IT and knowledge management; and – perhaps most immediately impactful – bring the new NZTE ‘customer way’ to life. NZTE is well advanced in most of these areas, although could usefully focus on IT and knowledge management in light of the greater focus on analysis and improved metrics recommended in the next section.

Greater focus on analysis and improved metrics

Improving impact measurement is under way. The emphasis to date has been on improving the quality of the firm-level data. Attention now needs to be on better understanding and representing what that data can tell us about:

- a Portfolio-level performance (eg, by isolating portfolio growth and portfolio mix effects by, for example, focusing on those firms that do not change between reporting periods)
- b Identifying those firm-level characteristics or performance indicators most closely associated with superior export growth and, in particular, most responsive to those interventions that align with NZTE’s intervention logic. This would help NZTE target the right firms and work with them in ways most likely to have the greatest impact on their export performance
- c Identifying simple measures of NZTE’s value add (ie, contribution to improved export performance)

- d Combining the value data above with a better understanding of the total cost NZTE incurs to deliver that value: ie, NZTE's cost to serve different segments and to deliver different services in the service suite. This should help NZTE better target effort on those segments and services that deliver most value for money.

Each aspect of this analysis is important in:

- a Better targeting NZTE's efforts on those activities and firms where it can add most value for the cost incurred (especially to support the development of a better services suite and to drive more active segment and pipeline management, which are key issues in the next phase of NZTE's development discussed below)
- b Developing what should be a powerful new product: ie, the intelligence generated in 'b' and 'd' above should be transparent to firms so they can more systematically learn from the experience of others, as well as help NZTE identify areas where more value could be created for cost expended
- c Building a 'performance culture' and 'increasing recognition and celebration of success' by improving the line of sight between individual initiatives on one hand and firm and portfolio-level impact on the other. These two areas were highlighted for improvement in the March 2012 staff survey.

Implementing this set of recommendations is likely to require NZTE to develop and fund a significant research programme to turn what is currently raw firm-level data into useful intelligence for both NZTE and its customers.

The next phase: Four suggestions to shift the dial

While successfully executing the latest set of initiatives and using analytics and improved metrics to manage for greater impact are all necessary, they are unlikely to be sufficient to meet the demanding challenge NZTE has set itself.

Four 'new' areas of activity have the potential to substantially enhance NZTE's impact at the portfolio level.

a Strengthening the product and services suite

The original set of PIF Review recommendations suggested NZTE needed to "design, develop and communicate an integrated customer-focused service offering, aligned to future market needs".

There has been some progress in this area: to strengthen firms' capability to raise and deploy capital (Better-by-Capital) and the Go-to-market toolkit, which helps select the right business model in market.

NZTE now needs to:

- execute the changes in the Services area that the incoming General Manager has identified as critical to develop a strong professional services approach that is better able to tailor products and services across NZTE and its partners to meet specific customer needs, including structure, tools, processes, systems and people
- develop the right portfolio of products and services and the ability to continuously improve that portfolio – as envisaged in the original PIF Review (ie, one that is justified in terms of what is now the agreed intervention logic for NZTE; considers the whole internationalisation life cycle; is well integrated with what the new Callaghan Innovation is providing; and draws on private provision when this is superior).

This will ensure NZTE and its partners are well placed to provide or procure the services firms, and clusters of firms, most need as they internationalise.

There are three issues that deserve more attention than was originally envisaged when the PIF identified shortcomings in the portfolio: ie, the scope for:

- products and services that are specifically designed to support multi-organisation initiatives, including high impact project initiatives (see below). One area where there would be a strong logic for NZTE intervention, for example, is in helping government and public agencies to select the right go-to-market business model for innovations that have commercial export potential. This is likely to be a 'multi-organisation' service because public agencies face unique and common issues; in part because their common owner has unique assets, opportunities and constraints. This whole area is gaining greater prominence and could benefit from some NZTE leadership
- products and services that strengthen the contribution the local 'eco-system' can make to ongoing firm growth and development, including the Government's various contributions to the quality of that eco-system. The more valuable the local eco-system, the less likely activities will be shifted offshore, with consequent loss of the wider benefits of government investment in internationalisation, science and innovation adopted by that firm as a result of, for example, foreign ownership. Foreign ownership may well be the right solution to what is a chronic lack of local scale, but is less likely to be welcomed if simply results in the loss of New Zealand-based activity that had received government support
- an improved allocation of responsibilities between NZTE and the Callaghan Innovation, given the latter's more focused mandate. For example, while this is under consideration, it seems even more logical that Callaghan Innovation takes the lead on managing the Government's involvement at the incubator stage of firm development.

While strengthening the product and services suite is likely to be a permanent item on the agenda of the NZTE management and Board, a step change is needed at this point in NZTE's development.

b A stronger capital proposition

Capital must play a more central role in helping NZTE achieve its export challenge.

While individual exporters need capital to grow, the capital markets play a far bigger role in supporting exports. This is especially true in helping New Zealand firms overcome limitations of scale and distance, eg, via mergers and acquisitions, as well as foreign direct investment (FDI) that helps improve access to export markets, intellectual property, offshore distribution and supply chains and so on.

NZTE's capital proposition needs to be better defined and integrated into NZTE's wider customer service proposition and broader partnership networks. This will require:

- a much clearer policy framework, especially for identifying and encouraging the sort of FDI most helpful in supporting both export growth and the national and city infrastructure that underpins that growth. NZTE should be more active in bringing its operational experience and insights to bear in helping Ministry of Business, Innovation and Employment (MBIE) and the Treasury to develop this framework. NZTE can also be more active in helping those agencies to raise public awareness of the likely benefits of the right sort of FDI to the success of New Zealand exports
- turning that policy framework into a clearer NZTE 'proposition' around capital, with a team that has the priorities, the people and the performance management framework required to deliver that proposition

- ensuring that the capital team is able to partner effectively with not only NZTE’s customer service teams and offshore network, but also with Callaghan Innovation, the local development agencies and private capital providers, including banks and funds.

For example, while Auckland and Christchurch have large capital needs, it is not clear what role NZTE’s capital and offshore teams should have in helping these cities source the capital they need (even if these needs were better articulated). Similarly, NZTE does not yet have a view of the sort of relationships it should be developing with funds and banks, eg, is it just a matter of helping firms be better prepared via the Better-by-Capital programme?

c Moving beyond a focus on the individual firm

All firms depend, to a greater or lesser degree, for their success on the ‘eco-system’ they operate within. Indeed, we often see individual business units ‘clustered’ inside large corporate structures or multi-nationals because of the obvious benefits this larger eco-system bestows.

The intervention logic for both NZTE and the precursor to Callaghan Innovation suggested they could add value in part by helping New Zealand firms overcome some of the disadvantages of their small scale by replicating some of these clustering benefits virtually, rather than what might be achieved by foreign ownership or by mergers and takeovers in larger markets. Indeed, NZTE’s offshore network provides many of the benefits to individual New Zealand firms that a multi-national’s offshore network provides to its constituent business units and is often cited by firms as NZTE’s greatest asset.

While NZTE has rightly initially focused on its role in helping individual firms, along with some highly selective multi-firm high impact projects, this is unlikely to be sufficient. Moreover, the approach to identifying, configuring and then working alongside Callaghan Innovation to create the right multi-firm eco-system for these multi-firm projects is still in its infancy. Given the constraining nature of the lack of scale of New Zealand firms, both agencies now need to give this area, and the role they play in it, more serious consideration.

One obvious cluster for immediate attention is publicly-owned organisations and the role that both NZTE and Callaghan Innovation can play in helping increase the value of exports from this large sector. Māori-owned natural resource-based export businesses may also have common features that make the ‘virtual multi-national’ approach particularly valuable. Both public- and Māori-owned organisations are, for example, less likely to see foreign ownership as an acceptable solution to constraints of scale.

Moving beyond a focus on the individual firm has other dimensions. One of the most important eco-system benefits to many exporters is the New Zealand brand: eg, New Zealand’s reputation for integrity and food quality. While NZTE already has a role in brand promotion, the value of this work will be undermined unless it and its partners give brand protection more attention. This is especially so as the value of New Zealand brand attributes become more valuable and vulnerable: eg, as is increasingly likely with food exports to China. This is an area where government is best placed to act, because of the public-good nature of the brand and because our government is well placed to help the Chinese Government provide assurance to its citizens on food quality and safety.

d More active portfolio and pipeline management

Shifting the dial on NZTE's impact is also likely to require more active management of both the Focus 500 portfolio and the pipeline of firms that feed into this portfolio. When this is based on the analytical and operational metrics discussed above, it will allow better:

- matching of NZTE products and services to different firms within the Focus 500 portfolio and more timely intervention as firms move into and out of what is the high cost-to-serve Focus 500 grouping
- targeting of NZTE and partner effort on those firms in the feeder pipeline, to increase the number of firms that are likely to graduate into the Focus 500.

Evidence on the effectiveness of the current segmentation and pipeline management is suggestive only. Only 460 companies currently qualify for the Focus 500. The quarterly reviews of customers in this group, and the aggregate turnover figures, suggest there is active management of the portfolio and that this is well informed (although the figures probably overstate the extent of 'steady-state' activity because of the recent management of 70 firms out of the portfolio). Even then, however, the need for better analytics and metrics discussed above suggests there is further scope for better targeting and tailoring of NZTE's effort within this rather large grouping.

More significantly, the fact that there are only 460 firms that qualify suggests the pipeline is not being managed well enough. Part of this will be the inevitable result of the need for better analytics and metrics described above. That should be a better basis for sub-segmentation of this feeder group, with relatively more emphasis on those firms most likely to graduate into the Focus 500 and relatively less on those with a low probability of graduating.

However, part of the solution is also likely to involve stronger partner relationships, in particular:

- an even closer relationship with Callaghan Innovation; one based on shared customer information and analytics that can help identify innovative and fast growing firms with export potential and then ensures a seamless delivery of the right products and services from both organisations
- a more structured relationship with NZTE's regional partners, and some thought to the creation of a new set of partners, that is codified, with clearer roles and incentivised to deliver outcomes, rather than activity. In this case the outcome is improving the quality and quantity of the Focus pipeline. This is likely to be most effective in the bigger cities with well resourced development agencies. A more demanding relationship may also be easier to achieve if combined with stronger NZTE support in helping these cities source and possibly even pre-qualify offshore investors for well defined city projects (see capital section above).

Being able to focus more tailored effort on a larger number of firms that are more likely to be successful scale exporters, will make a significant contribution to helping NZTE achieve its five-year challenge.

CONCLUSION

NZTE has made considerable progress over the last two years in transforming itself into a more effective and efficient organisation. The task now is to translate that into more impact on New Zealand's export performance. This Follow-up Review has identified a small number of areas that, along with the initiatives currently under way, can provide a solid basis for strengthening NZTE's impact.

Implementing these new initiatives may well require some reprioritisation of existing activity. It may also require NZTE to be more discriminating in what it does, who and how it helps, and what it requires in exchange. Given the progress made to date, however, NZTE can approach these challenges with a high degree of confidence.

