

**‘Pushing the boundaries’ versus identifying the boundaries:  
The limits and limitations of NPM**

**ABSTRACT**

This paper considers the limitations and boundaries of new public management (NPM) through a case study on activity within Transpower, a New Zealand state-owned enterprise. The case highlights complexities of NPM in practice, and reveals inconsistencies between structured theoretical principles and less structured reality on the fringes of NPM. An assessment of the exercise of management prerogatives in this case reveals blurred lines and boundaries within NPM frameworks, with implications for public sector organisations such as SOEs, government, and other external stakeholders. Despite regulations and guidelines, the reality of NPM is such that state-owned enterprise managers may push the boundaries beyond the point where the shareholders and/or public are comfortable. Thus, a key challenge for promoters and proponents of NPM involves defining clearer boundaries such that commercial freedom can be balanced with external stakeholder acceptability.

**Keywords:** State-owned enterprises, new public management, boundaries

## INTRODUCTION

The concept of New Public Management (NPM) - adopting a more business-like approach within government organisations - has been both criticised (Terry 1993) and supported (Borins 2000). While those such as Moe (1994) and Moore (1992) suggest that commercial activity is outside the scope of government, others have supported a more business-like, and proactive approach within a public sector context. The various rationales for change in the public sector include: increased efficiency with minimal bureaucracy (Moon 1999); a deliberate search for innovation (Linden, 1990); cost minimisation (Ramamurti, 1986); generation of new revenue sources (Bellone and Goerl 1992); on-going innovation to achieve increased efficiency and effectiveness (Osborne and Gaebler, 1992); operating with a strong customer focus under competitive market forces (Cullen and Cushman 2000); and adopting creative and risk-taking activity (Lewis, 1980). However, while the potential of NPM has been well promoted, noticeably less attention has focused on how far public sector organisations can or should go in pursuing a more commercial approach; the boundaries within NPM frameworks.

There is continued disagreement about various aspects of a commercial approach to NPM. Some researchers (Morris and Kuratko, 2002; and Terry, 1993) contend that the concepts of innovation, risk-taking, and proactivity seem inconsistent with public sector organisations which are traditionally viewed as bureaucratic, risk-averse and conservative. Others (Osborne and Gaebler, 1992; Ramamurti, 1986; and Weinstock, 2002) note the increasing acceptance and growing expectation of efficient, proactive, and even innovative activity within the public sector. To these authors, NPM is an effective framework to address the increasing expectations placed upon government, as well as to promote economic development and growth on a national scale (Osborne and Gaebler, 1992). However, somewhat less attention

has been given to identifying and understanding where the outer limits (or boundaries) lie with respect to roles, responsibilities, and acceptable commercial behaviour in a NPM context. This lack of attention is perhaps because the explicitly commercial agenda for NPM is a relatively new one, and a rigorous assessment of these aspects has yet to emerge. Common understandings and accepted practices are still being developed and shaped, and new experiences in different SOEs bring to the fore new questions.

New Zealand's reforms of the mid 1980s with respect to SOEs are recognised as comprehensive in nature, successful in increasing service efficiency, and a prime example of NPM (Easton, 1999; Eggers, 1997; Schick, 1998). Polidano (1999) notes New Zealand's reforms are a clear example of NPM, involving a systematic approach. Khaleghian and Das Gupta (2005: 1084) refer to New Zealand as a "poster country" for NPM with sweeping reforms being adopted in the mid 1980s involving corporatisation and market deregulation. With the reforms now well-embedded and commercial activity being both encouraged and implemented, New Zealand's SOE sector provides a valuable context in which to explore some of the boundaries (or outer limits) of acceptable activity within NPM.

This paper explores the complexities of NPM in practice through a case study on activity within Transpower New Zealand Limited, one of 16 state-owned enterprises (SOEs) operating in New Zealand. In 2006, the New Zealand Government announced a new policy encouraging SOEs to broaden the scope of their operations into related markets and undertake entrepreneurial activity, with an expectation of increased profits (Mallard 2006). Such freedoms of expansion, however, raise the question of: *Where do the boundaries of commercial activity lie with respect to NPM in practice?*

As a SOE established in the mid 1990s, Transpower provides an interesting case study for a number of reasons. First, as the owner-operator of New Zealand's national electricity grid, Transpower operates in a deregulated market, yet effectively functions as a monopoly. It is monitored by various government organisations, and subject to similar expectations as those placed on other SOEs, yet also faces a number of unique regulatory challenges and restrictions. And last, Transpower took a rather unconventional approach to financing part of its operations, entering into two transactions in particular which resulted in significant controversy and public scrutiny. Transpower's activities were referred to as "pushing the boundaries" by Transpower (Roberts, personal communication, July 6 2006), approved as "legal and tax positive" by the New Zealand Government (CCMAU, 2005: 80), and largely viewed as irresponsible and unacceptable by the general public (Alexander, 2005).

The following sections of this paper present a review of selected literature on the roles and responsibilities within NPM frameworks, followed by an overview of New Zealand's public sector reforms. Details of the research method and case study findings are then presented, followed by a brief discussion of three key issues, and our conclusions.

### **A REVIEW OF NPM: ROLES, RESPONSIBILITIES, AND EXPECTATIONS**

The emergence of NPM in the late 1970s has been a key issue on the reform agenda of various OECD countries (Hood, 1991; Parker and Gould, 1999). The theoretical foundations of NPM can be traced to new institutional economics and managerialism. New institutional economics is founded on public choice theory (Buchanan and Tulloch, 1962), transaction cost economics (Williamson, 1979; and 1998), and principal-agent theory (Althaus, 1997), and emphasises user choice, efficiency, and transparency. The concept of managerialism promotes professional management and freedom to manage as central to improved

organisational performance (Martin, 2003). As such, supporters of NPM contend each of these principles can be applied to activity in the public sector. In contrast, proponents of traditional property rights theory (Alchian, 1987; Coase, 1960; and Demsetz, 1967) promote an agenda for government focused on politics rather than business, arguing the public sector is less efficient in using resources to maximise wealth. Hoggett (1991: 243) refers to the basic principle of NPM as “freedoms within boundaries”.

The freedoms of NPM (e.g. encouragement of commercial activity, innovation, and change) are well documented. Common features of NPMs frameworks such as that in New Zealand include the role of government as owner, regulator, and purchaser of outputs; the role of government organisations such as SOEs to be self-funding, self-sustainable, commercial, and competitive; and the responsibilities of both parties to follow the spirit and the letter of the law (Taggart, 1992). Although NPM frameworks differ between countries<sup>1</sup>, the commonality remains endorsement and encouragement of change, ranging from increased efficiency to customer focus, commercialisation, innovation, and new revenue streams. The limits or boundaries of such activity, however, are less clear, besides that which is specifically prohibited (Taggart, 1992). While legal responsibilities are express, the subjective responsibilities (Mosher, 1968) such as prudence, good judgement, and moral probity raise more complex issues than simply complying with legislation. And in the context of the public (compared to the private) sector, higher ethical standards are often expected by the general public (Gregory, 1995).

Although the boundaries of NPM have not been defined, researchers have noted the potential problems of NPM in practice – particularly in relation to the roles and responsibilities

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<sup>1</sup> See Wollmann (2003) and Pollitt and Bouckaert (2003) for a comparative overview of NPM frameworks in various countries.

assumed by public sector managers. Kaboolian (1998) likens NPM to transactions of negotiated contracts, complete with concerns about moral hazards. Terry (1998) contends the legitimacy of NPM rests on the public's confidence that public sector managers will be faithful to the public interest and can be held accountable for their actions. Until this accountability can be ensured, however, Terry argues the risks are too great to adopt NPM frameworks. Pallot (1999) notes the shift in concern from public *management* to *public* management, ensuring public scrutiny and participation. And Pollitt (1995) questions whether NPM should be justified through works or merely faith, due to the lack of serious and systematic evaluation. Gregory (1995) and later Lapsley (2008) warn that unless a broader range of theory and experience is drawn upon, unintended and undesirable consequences may follow. Specifically, Gregory (1995) and Pallot (1999) refer to a distinction between outputs (the work a government agency does) and outcomes (the effects of that work on the community), and the risk of focusing on the former at the expense of the latter.

Various authors recognise the need for caution and guidelines in the implementation of NPM frameworks. Hood (1991), for example, notes NPM may not be an all-encompassing solution, with inevitable sources of conflict arising (e.g. government intervention resulting in imperfect market competition). Yet he also acknowledges its potential, subject to the inclusion of a number of important features (e.g. separation of management and state, clear and distinct lines of accountability). Schick (1998) highlights the importance of established political and economic governance frameworks as essential foundations for NPM in practice. Sinclair (1995) and Day and Klein (1987) consider various accountability dimensions relevant to the public sector, but note formal lines of accountability are often blurred by public views and expectations on what constitutes good conduct and acceptable performance. However,

few commentators have specifically addressed the outer limits of what is acceptable within the scope of NPM in practice.

Given the relative newness of NPM and the ongoing development of such reforms in various countries – something O’Flynn (2007: 358) refers to as “two decades of experimentation” – the success of NPM remains a question for the future (Mulgan 1997a). Arguably, however, an examination of issues arising from SOE reforms such as those in New Zealand which have been implemented and refined over the past two decades, can provide valuable insight into understanding the complexities and challenges of NPM in practice. Specifically, this paper provides the opportunity to consider not only the freedoms or liberties within NPM, but also the limitations (or shortcomings) and boundaries.

Notwithstanding NPM’s relatively recent implementation, researchers such as Stoker (2006) and O’Flynn (2007: 353) have started to look beyond NPM as a singular overarching framework with inherent limitations, towards new and alternative paradigms such as public value – ‘a way of thinking which is both post-bureaucratic and post-competitive’. Essentially, however, it is the principles of NPM which remain at the fore of various countries’ political agendas (O’Flynn, 2007; and Shirley 1999), including Australia, Britain, China, India, Malaysia, Russia, and the United States of America. While various approaches to NPM have been taken, a policy initiative which gained significant attention in the 1980s was the corporatisation of SOEs. In particular, New Zealand’s SOE reforms have attracted significant attention from foreign governments (Cullen, 2003) due to their perceived success. The following section presents a brief overview of New Zealand’s SOE reforms.

## **NEW ZEALAND’S SOE REFORMS**

New Zealand underwent major public sector reform beginning in the 1980s, with the intention of increasing efficiency and effectiveness within the public sector (Mulgan, 1997b). The new approach focused on emphasising results and outcomes, together with effective use of public sector resources (Palmer, 1988). As part of these reforms, government departments with a strong trading function were corporatised and held as SOEs or privatised. The underlying concept was that such services could be more efficiently provided by commercially-orientated organisations, rather than remaining subject to ministerial control and government interference (Mulgan, 1997b; and Scott, 2001).

Under the SOE Act 1986, shares in SOEs are held by the Minister of Finance and Minister for SOEs on behalf of the Crown. These Ministers also have independent advisors – New Zealand Treasury for the Minister of Finance and the Crown Ownership Monitoring Unit (COMU)<sup>2</sup> for the Minister for SOEs, and are accountable to Parliament for performance of their duties. Treasury primarily advises on SOEs’ financial performance, economic issues, and balance sheet matters. COMU focuses on performance matters. These ministers review SOEs’ operations, and also appoint a Board of Directors to oversee management of each SOE. Directors are appointed based on their business knowledge, skills, and experience, and are subject to directors’ duties outlined in the Companies Act (1986), including the duty to act in the best interests of the company.

Specifically, New Zealand’s SOE reforms involved market deregulation, with express profit-making requirements imposed on SOEs, resulting in accountability for both competitive services and commercial results. Other features of the reforms included self-funding obligations, separation of SOE management and the state, the role of Government redefined

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<sup>2</sup> Formerly Crown Company Monitoring Advisory Unit (CCMAU)

as purchaser of outputs rather than provider of inputs, together with performance-based contracts and rewards for managers (Brash, 1996; Mascarenhas, 1993; and Taggart, 1992). Thus, corporatisation provided the opportunity and the incentive for these former government departments to become both efficient and profitable, enabling freedom of commercial choice and responsibility for commercial returns. In 2006, the incumbent Labour Government reinforced and extended its position, encouraging SOEs to broaden the scope of their business operations into complementary markets and regions, and undertake entrepreneurial activity. ‘SOEs will be encouraged to expand into new areas of business that are linked to what they already do’ (Mallard, 2006a, ¶2). Then Minister for SOEs, Trevor Mallard (2006a, ¶4) commented:

New Zealanders have agreed that we should keep state assets in public hands. But that does not mean that they should not be put to work for us. They’re big commercial operations and that’s why they’re perfectly placed to play a key role in helping to change New Zealand into an innovative, high-wage, and high-value economy.

Given the nature and role of certain SOEs, monopolistic positions were sometimes difficult to avoid. Essentially they arose from default rather than design, due to the practicality of one organisation fulfilling the required role within their respective industries in a nation the size of New Zealand.<sup>3</sup> Transpower is one such example, being the sole owner-operator of New Zealand’s national electricity grid. Consistent with market deregulation and competition, SOEs were subject to industry regulations, and tendered for contracts under commercial terms. In 2004, for example, Transpower was contracted for a five year period to be the systems operator for the New Zealand wholesale electricity market. After that period, the contract was once again available for tender.

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<sup>3</sup> Population approximately 4 million people

## METHOD

This case study is based on triangulated data (Yin, 2003) including publicly available documents (including both financial and non-financial data) and in-depth personal interviews. This approach provided the foundations for examination from the outside and inquiry from the inside (Evered and Louis, 1981). Examination from the outside involved review of documentation relating to the conduct of New Zealand's SOE sector and Transpower in particular, including legislation, ministerial announcements, press releases, and media reports, as well as analysis of Transpower's annual reports and financial statements from 2002 to 2006. These documents provided background detail on the operating environment of Transpower and the SOE sector in general, together with financial outcomes and implications (in terms of government support or otherwise) of SOE activity. Inquiry from the inside involved two interviews with Chris Roberts, (then) Communications Manager of Transpower. The interviews were conducted in person at Transpower's offices in Wellington, New Zealand, in July 2006 and July 2007. Interviews were semi-structured, lasting 1.5 and 1.25 hours each, with discussion shaped by a comprehensive schedule of questions relating to Transpower's past and current activities. Specifically, questions focused on the operating context and regulatory environment of SOEs in general, and Transpower in particular, as well as commercial, strategic, and innovative activity undertaken by the SOE.

Conducting interviews in two phases, one year apart, provided a valuable longitudinal perspective (Villalonga, 2000), allowing insight into the development of events and changed perceptions over time, particularly as New Zealand approached an election year in 2008. Interviews were recorded, transcribed, and returned to the interviewee for confirmation and approval, prior to any formal data analysis. Coding of more than 40 pages of transcripts was then undertaken in two phases: manually, and later with the use of NVivo. Data

categorisation and thematic analysis was an iterative process which resulted in a number of themes emerging. Analysis of transcripts, and comparison with publicly available secondary data revealed a number of interesting findings relevant to NPM in practice, and Transpower in particular. Further, analysis of financial statements and related financial data disclosures (under New Zealand's Freedom of Information Act) provided a number of insights into the complexities of NPM in practice. A case study on the commercial activities within Transpower was then constructed, drawing upon the challenges and anomalies of NPM with respect to Transpower, to explore differences between structured theoretical principles and a more complex, rich and vivid (Miller and Friesen, 1978), yet unstructured reality (Eisenhardt, 1989; and Eisenhardt and Graebner, 2007). The case study is presented next.

## **TRANSPOWER**

Transpower was established as a SOE in 1994, and assumed the role of owner and operator of New Zealand's national electricity transmission grid. The "national grid" comprised over 12,000 kilometres of high voltage transmission lines connecting power stations owned by generating companies to more than 170 electricity substations feeding local networks that distributed electricity. The electricity grid served three core functions: transportation of energy throughout New Zealand, facilitation of competition between energy generation providers, and the provision of a secure, safe, and reliable energy supply to commercial and residential consumers (Transpower, 2006). Specifically, Transpower's main operating objective was to "keep New Zealand's electricity flowing and support a sustainable energy future" (Transpower, 2007: 1).

As owner-operator of the national grid, Transpower's role was to facilitate electricity transmission and provide co-ordination functions essential for the secure and efficient

operation of the national power system. Reliable power supply was central to sustaining commercial confidence, enabling economic development and growth, and ensuring New Zealand remained competitive in the global economy. As a SOE, Transpower's principal objective was to operate as a successful business and be:

- a) as profitable and efficient as comparable businesses that are not owned by the Crown;
- b) a good employer; and
- c) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage those when able to do so (s4, SOE Act 1986).

Transpower's strategy was one of growth, as it prepared to invest in upgrading the existing infrastructure and securing electricity supply to meet growing demands for power in New Zealand; developing a national grid plan for the next 40 years. The initial investment was expected to take more than 10 years and involved expenditure of more than \$1.5 billion (Gorman 2004). Subsequent projects were expected to cost in the range of \$100 million per annum, over a 10 year period. The full scope of Transpower's plans extended to 2040. With large-scale investment plans, Transpower was acutely aware of the importance of its operational performance, funding strategies, and its investment profile. "There are real risks for New Zealand in the long-term if we fail to promote a regulatory regime which is recognisable and acceptable to international capital markets" (Transpower, 2005: 6).

### **Transpower's operating and financial performance**

The (then) Crown Company Monitoring Advisory Unit, set up to monitor the performance of Government organisations, referred to Transpower's performance as "steady" in recent years (2005: 79). Table 2 presents a summary of Transpower's performance over the five year period from 2002 to 2006 detailing profits in the range of \$23.2 million to \$144.5 million, and dividends in the range of \$10 million to \$82.9 million. Forecast dividend payments for future

years were negotiated down to \$10 million per annum, to allow for large-scale investment in the grid (Transpower, 2005).

[Insert Table 1 about here]

The calculation of return on equity [ROE] highlights the profitability of Transpower in terms of the amount invested by the New Zealand Government, showing reasonable returns averaging 9 per cent. Calculation of return on capital invested [ROCI] and return on investment [ROI] show similar results (averaging 8 per cent and 6 per cent respectively) by examining the profits and cash returns to Government in terms of the amount of capital invested by Government. Although Transpower was comfortable with its past performance, the company was aware of the task ahead, and the impact it may have on the company's results.

A key commercial challenge ahead of Transpower in undertaking this new investment will be to ensure that it can earn and secure payment of an appropriate rate of return for its shareholder (Transpower, 2005: 5).

Yet, Transpower faced a number of challenges. Old and failing equipment requiring ongoing maintenance and significant upgrade, presented operational and financial challenges for Transpower. Unreliable power supply, power failures, and repeated threats of power cuts for almost a decade had caused considerable frustration for the business community and general public (see Figure 1 below). Strained relations between Transpower and various stakeholders (including farmers, landowners, the general public, Government and opposition parties, environmentalist lobby groups), arose due to Transpower's proposed upgrade of the national transmission grid, and the company's perceived attitude of arrogance (New Zealand Herald, 2006a). And the regulatory environment in which Transpower operated was referred to as "dysfunctional", due to numerous regulatory authorities, some with overlapping roles, which had introduced price controls restricting Transpower's revenue generation. Transpower viewed the threshold as inappropriate, given the level of activity and investment required in

the national grid, and was subsequently subject to a formal inquiry under the Commerce Act for breaching the threshold in 2004 and 2005. Transpower, however, expected these breaches would continue (Transpower, 2005; and Roberts personal communication, July 6 2006).

[Insert Figure 1 about here]

### **Transpower’s operating environment: freedom within boundaries**

As a SOE, Transpower operated within a framework designed to be free from government intervention and political influence in its day-to-day operations. As owner-operator of New Zealand’s national electricity grid, however, Transpower was regulated by a number of government authorities including the New Zealand Electricity Commission (established to approve transmission investments and the allocation of transmission service costs between users of the national grid), and the Commerce Commission (established to ensure compliance with the New Zealand Commerce and Fair Trading Acts, overseeing a wide range of industries).

In 2005, Transpower expressed “serious concerns on the direction being taken” (Transpower, 2005: 4) within the industry. Of particular concern was the overlap in the scope of the two regulatory authorities’ roles with respect to Transpower’s revenue, pricing, and services. National Party Energy spokesman Nick Smith noted “the reality for Transpower in the past two years is that both the Commerce Commission and the Electricity Commission have been blocking its attempts to invest and upgrade the grid” (Scoop, 2006: 5). Transpower also publicly aired its frustration.

Effective regulation is needed to ensure that necessary new investment can be undertaken in a timely manner. Unfortunately that is not what appears to be developing in New Zealand. The Electricity Commission’s approach to regulating transmission investment risks undermining Transpower’s accountability for the performance of the national grid (Transpower, 2005: 6).

## **A year like no other**

Transpower (2005: 4) noted that the financial year ended June 2005 was a year “unlike any other in the company’s history”. Confrontational public consultation processes on a proposed new power line, operating under the shadow of regulatory authorities, and being publicly perceived as arrogant, were some of the challenges faced.

The perils of arrogance have rarely been so clearly shown as in Transpower’s attitude to those who questioned its [initial power line] proposal. In some ways this may even have contributed to its downfall. Transpower, like a government department of old, was not for turning. A touch of humility would not go astray (New Zealand Herald, 2006a ¶2).

Yet, while Transpower had established profitable operations, strong financial results in 2005 proved costly in terms of the company’s reputation. The significant increase in profits during 2005 was attributable to an increase in the demand for electricity, as well as one-off gains from two rather controversial transactions. In 2003 Transpower entered into two separate arrangements referred to as “cross-border lease and structured finance transactions” (CCMAU, 2005: 79). While CCMAU (2005: 80) seemed satisfied the transactions were “legal in the relevant jurisdictions and tax positive for New Zealand”, the New Zealand public was less accepting.

In 2003, Transpower essentially entered into a “lease-in lease-out” arrangement involving overseas banks and a syndicate of United States investors with entities in the Cayman Islands. The circular lease transactions, involving Transpower’s \$700 million high-voltage transmission grid located in New Zealand’s South Island, gave rise to tax benefits for the US investors. As consideration for those benefits, Transpower received a one-off payment of \$34.6 million (Roberts personal communication, July 6 2006). The second arrangement involved a loan of \$700 million taken out by Transpower, \$500 million of which was on-lent to other companies. The arrangement effectively provided Transpower with a lower interest

rate on the \$200 million funding it required. Internally, both arrangements were viewed as entrepreneurial solutions for a SOE in need of large-scale investment finance.

The arrangements were subject to significant criticism within New Zealand, regarding the legitimacy and ethics of the first transaction, and the unnecessary assumption of risk with respect to the latter transaction (Alexander, 2005; Gorman, 2005). Transpower's view was that it managed the associated risk, and resourcefully accessed cost-effective finance. "What the taxpayers fail to see is that (receipt from the first arrangement) was \$34.6 million (the public) didn't have to pay for electricity" (Roberts personal communication, July 6 2006). However, speaking in what they saw as the public interest, others took a different view.

It's about whether Transpower was behaving appropriately with crucial assets. Should overseas companies 'own' such assets? Transpower seems to have ignored its social responsibility. The other issue is transparency. We should know what is happening with our assets. What did the Government know about this? Has the South Island electricity grid been sold or leased? Transpower will not confirm details, but this kind of lease is usually up to 99 years. The assets are considered 'sold' under United States tax law, because the deal runs for longer than the useful life of the assets. Transpower's position was that at no time had it lost legal ownership of the assets. It also said commercial confidentiality had limited its ability to answer questions (Gorman in Alexander, 2005 ¶8).

While the legality of the transaction was confirmed at the time, such deals were subsequently made illegal in the United States (Alexander, 2005). Questions were raised in the New Zealand media. "Strictly legal or not, is it ethical? Why would you put major assets at risk for \$34 million?" (Newberry in Gorman, 2005: 28).

Regarding the [loan arrangement], why is Transpower acting like a bank? That's not its job at all. There is a \$100 million default payment if the loan conditions aren't met – where would Transpower get \$100 million if [other parties to the loan] default? (Gorman in Alexander, 2005: 9)

There is also the question of who should front up on such crucial issues when the going gets tough. Transpower has failed in this regard. The grid company says its chairman, David Gascoigne, never talks to the media; its chief executive, Dr Ralph Craven, leaves it to his public relations staff to weather the storm. As happened when Transpower admitted last winter that there could be power cuts in [the South Island]

because its lines did not have enough capacity, Craven has again proved to be more elusive in a crisis than a torch in a blackout (The Press, 2005: 4).

## **DISCUSSION AND IMPLICATIONS**

While the above case study provides a brief overview of Transpower's operations and in particular its financing activities, a number of more fundamental and complex issues emerge with respect to the limits and limitations of NPM in practice. Official roles and responsibilities of both government and Transpower within the structure of NPM are relatively clear. Less clear, however, are the complex issues which emerge in a less structured commercial reality.

Although the paper broaches issues such as the various roles of government in the context of NPM, and the difficulty in isolating government's responsibilities in terms of SOEs' political and managerial accountability, a number of central issues deserve attention. The first issue concerns the freedoms and limits of NPM in practice, such that commercial freedom is balanced with the interests and expectations of shareholders and the general public. The second involves the variation, and at times tension, between legal requirements and ethical expectations placed upon SOEs, particularly when operating with the freedom afforded under commercial principles of NPM. And the third issue relates to the onus on government to establish a regulatory framework which allows SOEs to operate effectively (i.e. with the freedom of commercial choice intended). Each of these issues is discussed below.

Transpower operates in a critical sector where there is strong government, commercial, and political interest. Meeting the expectations of these stakeholders, however, and balancing the interests of each becomes increasingly complex. This is particularly so where Transpower faces added restrictions which (to some extent) diminish the SOE's accountability. Thus,

within a framework intended to promote freedom of commercial choice, what boundaries, if any, should apply to the choices made? While Transpower did not violate laws and entered into transactions which were clearly commercial in nature, such activity raises the question as to what liberties should be afforded to SOEs under NPM frameworks. The SOE Act 1986, for example, identifies SOEs' objectives as being profitable and efficient, good employers, and organisations which exhibit a sense of social responsibility. However the lack of detail, varying interpretations, and at times conflicting interests, ultimately lead to variations of NPM in practice. These issues are perhaps part of what Hood (1991) refers to as inevitable sources of conflict. Nevertheless, the lack of defined boundaries reflects an important limitation within NPM frameworks. Accordingly, the limits – or boundary conditions (Dubin, 1978) of the theoretical framework of NPM require attention. Specifically, limits need to be made more express. Much of the focus within NPM frameworks involves authorising and endorsing activity. However, unless the boundaries are expressly identified, there is a risk that varying (and perhaps too liberal) interpretations of what is acceptable will eventually lead to public concern, and NPM's demise.

Regarding the legal requirements versus ethical expectations, findings from the case raise the issue as to who should be ultimately accountable for ensuring the choices made by SOEs are appropriate, given the interests of various stakeholders? Interestingly, both Transpower and the Government viewed the SOE's financing transactions as acceptable, and it was only as New Zealand approached an election year that the Government advised similar transactions should not be entered into (Roberts personal communication, July 10 2007). Further, while the legality of the transactions was confirmed, there seemed to be no such concern (other than perhaps public) that the SOE was assisting in an arrangement which ultimately resulted in a loss of tax revenue for the United States Government. Thus, the issue arises as to whether an

agreed ethical code (an issue relevant to both the public and private sector) should be part of NPM frameworks, particularly given SOEs' social function. The blurred lines of accountability referred to by Sinclair (1995), and emphasis on accountability for financial performance and results (with respect to both SOEs and government) indicates another limitation of NPM. Arguably, this emphasis requires further consideration, such that a balance between commercial performance and social and ethical leadership is achieved. As noted by Roberts (2006), there is an expectation that SOEs "show some sort of social responsibility, although there's no real definition of what that is supposed to mean". Given NPM represents an emerging field with a wide range of stakeholders, potentially its success hinges on reaching shared agreement on what is (and is not) acceptable practice, such that NPM evolves to reflect the expectations of a wider audience (Maguire, Hardy, and Lawrence, 2004).

Another issue which emerges from the case is the responsibility of Government to establish a workable regulatory framework in which SOEs must operate. While Transpower's financing activities were clearly unwelcome in the public domain, restrictions placed on Transpower's revenue streams raise the issue of Government's accountability to ensure an effective regulatory environment, which in turn ensures Transpower can be held fully accountable for its own actions. While the boundaries of NPM are not clear from the literature, activities such as those arising in practice (e.g. Transpower's approach to financing) are perhaps a timely reminder for the scope of NPM to be expressly considered or reviewed. The lack of detail surrounding this issue within NPM in practice reflects both a limitation of current theory and practice, and is perhaps an extension of the issues raised by Schick (1998). While Schick highlights the importance of stable and developed political and economic governance frameworks from a national perspective, the operating environment of Transpower highlights

the importance of a proactive and responsible government overseeing and contributing to effective regulatory frameworks from an industry perspective. These issues are summarised in Table 2 below.

(insert Table 2 about here)

## CONCLUSION

This case shows some of the fundamental problems within the domain of a SOE have not been overcome by structural and managerial reform. Further, the case highlights the complexities of NPM, contrasting structured theoretical principles with less structured (and sometimes irregular) practice. Issues which emerge from the case may be viewed as a call for a re-think of NPM, borrowing perhaps from principles central to ethics, accountability, and institutional theory, such that the implied is made more express, and the expectations of all stakeholders more explicit, as the relatively new domain of NPM evolves. In particular, findings from this case (and future research focusing on the anomalies of NPM in practice) may be used as a foundation for addressing some of the limitations of NPM and a more deliberate consideration of where the boundaries for NPM might lie. Specifically, defining clear boundaries, establishing limits on what is acceptable practice, and reviewing the emphasis on accountability for financial performance are areas (and limitations) to be addressed within NPM frameworks. While NPM generates positive financial and social outcomes, it is likely to be supported. However, the tendency for SOE managers to push the boundaries with perhaps unfortunate financial or social results could result in NPM's demise – or a declining acceptance of NPM's role in the future. As noted by Hood (1991: 13), “the ‘coin’ in which success or failure is measured...includes public trust and confidence, and the ability to exercise citizenship effectively”. Hence the future success of NPM is perhaps dependant on due consideration being given to the limits and limitations of NPM based on

current practice.

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**Table 1 Summary of Transpower's financial performance**

\$m

	2002	2003	2004	2005	2006	Average
1 Revenue	545.6	528.9	534.1	636.1	640.2	577.0
2 NPAT	144.5	23.2	59.2	141.5	96.9	93.1
3 Total assets	2,281.3	2,242.8	1,745.8	2,743.5	2,888.3	2,380.4
4 Contributed capital	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
5 Equity	1,012.6	1,001.0	1,043.6	1,145.1	1,232.0	1,086.9
6 Dividends %	57%	150%	28%	28%	10%	55%
7 Dividends	82.9	34.9	16.5	40.0	10.0	36.9
8 Tax expense	0.1	26.0	33.7	54.2	56.7	34.1
9 Total	83.0	60.8	50.2	94.2	66.7	71.0
10 ROE	14%	2%	6%	12%	8%	9%
11 ROCI	12%	2%	5%	12%	8%	8%
12 ROI	7%	5%	4%	8%	6%	6%

**Key**

1. Revenue - total revenue for the year
2. Net profit after tax for the year
3. Total assets - based on year end values
4. Contributed capital - total contributed capital based on year end values (representing the amount of capital contributed by the New Zealand Government)
5. Equity - total owners' equity based on year end values
6. Dividends % - dividends paid compared to net profit after tax for the year
7. Dividends paid for the year
8. Tax paid for the year
9. Total payments = dividend paid + tax paid, being the two main forms of cash returns to Government from SOEs
10. ROE: Return on Equity = Net profit after tax ÷ Equity
11. ROCI: Return on capital invested = Net profit after tax ÷ Contributed capital
12. ROI: Return on investment = Total payments ÷ Contributed capital

## Figure 1 Headlines on New Zealand's electricity woes

1998	Auckland nears state of emergency on power	(The Press, 1998)
	City plunged into darkness	(Gerlich, 1998)
	Power cuts disrupt city retailers	(Cosgriff, 1998)
	Energy crisis...what energy crisis?	(Balls, 2003)
	Power plays as energy crisis looms	(The Press, 2003)
	Government creams profits from energy crisis	(Scoop, 2003)
	Making way for grid revamp	(Gorman, 2004)
	Transpower deal puts (South Island) power grid at risk	(Gorman, 2005)
	Well-merited jolt for Transpower	(New Zealand Herald, 2006a)
	Auckland's blackout could have been avoided, inquiry finds	(New Zealand Herald, 2006b)
	Lack of investment blamed for blackout	(Steeman, 2006)
	Blackout reports raise more questions than answers	(Scoop, 2006)
	2006	Power cut threat for two years

**Table 2 Themes and related issues**

<b>Themes</b>	<b>Sub-themes</b>	<b>Related issues</b>
1. Limits and freedoms	<ul style="list-style-type: none"> <li>• difficulty in balancing multiple interests of stakeholders*</li> <li>• multiple lines of accountability (managerial, political, public)</li> <li>• restrictions imposed by industry regulators</li> <li>• restrictions on decision-making give rise to accountability implications</li> <li>• freedom of commercial choice</li> <li>• ethical performance versus financial performance (implied versus express)</li> </ul>	<ul style="list-style-type: none"> <li>• conflict of interest</li> <li>• regulatory framework limitations</li> <li>• SOE accountability impaired</li> <li>• boundaries and limits unclear, issues to be addressed</li> </ul>
2. Legal requirements versus ethical expectations	<ul style="list-style-type: none"> <li>• who should be ultimately accountable?</li> <li>• difficulty in balancing multiple interests of stakeholders*</li> <li>• balancing commercial performance and social leadership</li> </ul>	<ul style="list-style-type: none"> <li>• issue to be addressed</li> <li>• conflict of interest</li> </ul>
3. Accountability and responsibility	<ul style="list-style-type: none"> <li>• official accountability mechanisms clear (e.g. commercial operations under the SOE Act 1986)</li> <li>• multiple lines of accountability*</li> <li>• accountability both to and from government for an effective operating environment</li> <li>• accountability from government to act in the public interest</li> </ul>	<ul style="list-style-type: none"> <li>• limitation</li> <li>• dual accountability</li> <li>• multiple accountabilities</li> </ul>

\*overlap in sub-themes