

2006/07 Vote EI&RD evaluation stocktake



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Executive summary

Annually the Ministry reviews what it has learned from its evaluations of Vote Economic, Industry and Regional Development (Vote EI&RD) policies and programmes through the production of a “stock-take” report. The focus of this year’s stock-take is the question ‘how valuable is evaluation’? In other words, what contribution, good or bad, does evaluation make to the management of the Vote and particularly to Ministers’ ability to make choices about the government’s economic transformation policies?

The core contribution of evaluation to the management of the Vote, to Ministers, and to policy and delivery agencies, is and has been information for decision making. Evaluation provides information on the relevance and impact of the government’s policies, areas of inefficiency in the operation of programmes, and recommendations for improvement in both policy design and delivery.

Evaluation also contributes greater robustness to the operation of the policy system; it signals that the performance of policies and programmes within the Vote is regularly subject to in-depth scrutiny and that debate is encouraged amongst a range of stakeholders.

Why evaluate?

Evaluation has typically been used internationally to provide accountability for government expenditure. It is however, increasingly being used to provide an evidence-base for policy analysis and improvement, and to contribute to ensuring the relevance of new policy. In this broader role, evaluation can be both backward and forward-looking, combining evidence from experience with future-focused information to provide ‘strategic intelligence’ (Kuhlmann, 2003). When focused on providing ‘strategic intelligence’, rather than solely on accountability for public expenditure, evaluation will prove most useful to decision makers.

Within Vote EI&RD there has been an extensive amount of evaluation work completed over the past four to five years, strongly driven by Cabinet requirements for early-stage feedback on the Vote’s programmes. These first-round evaluations are now complete and have been useful for both accountability and for decisions on policy and delivery improvement.

How valuable is evaluation?

The answer to the question of evaluation value is determined by use; whether it produces the kind of strategic intelligence that Ministers, policy makers, and delivery agencies need to be continuously improving the performance of the government’s economic transformation policies.

This stock-take concludes that Vote evaluations have added value by:

- Reinforcing the robustness of the policy process through accountability and feedback;
- Directly contributing to policy improvement, including better targeting, resource prioritisation and identifying new policy opportunities from the evidence;
- Improving the operational performance and efficiency of programmes; and
- Stimulating debate amongst stakeholders about policy priorities and performance expectations.

Expenditure Review of Business Assistance

The Expenditure Review of Business Assistance (completed November 2006) was a significant example of the value that evaluation can add to policy making. The review provided both an overall perspective of Vote performance and a set of policy opportunities based on this assessment. From its consideration of evaluation findings to date the review concluded that the most important market failures that government can help correct in the New Zealand environment are in the areas of access to capital, and assisting firms to internationalise and innovate. To achieve greater value-for-money from the Vote the review identified policy and programme design principles, including the need for a more robust, evidence-based policy development process, and greater cross-Vote coordination in the delivery of the government's innovation policies (both these are discussed further in this report and recommended below).

Opportunities to add further value

Nearly all of the key areas within the Vote have been subject to evaluation over the past five years. Most evaluation projects, however, have been undertaken within three years of the specific policies and programmes being established, with insufficient information on participants, and thus contained limited information on policy impacts.

There are important short-term opportunities to further improve the value from evaluation. In particular, improving evaluation methodologies to determine policy impacts more robustly (working jointly with Statistics New Zealand) is a key focus for the next phase of evaluation work (from 2007/08 onwards). Not only will improved access to quantitative information contribute to evaluation robustness, it will assist in improving the efficiency with which evaluation is conducted. While overall the approach to evaluation is relatively efficient (e.g. representing less than 0.5% of the total Vote expenditure for 2006/07) improving the access to better quantitative information is a worthwhile and important opportunity for improvement.

Recommendations

This report recommends the following actions to further improve the value that evaluation can deliver to the government. All recommendations relating to evaluation strategy and policy processes are actionable by MED and progress will be reported in June 2008. In some cases work is already underway.

Evaluation strategy

- a. Enhance evaluation methodologies to support policy impact evaluation and to make use of ongoing improvements in data availability (e.g. a result of collaborating with Statistics New Zealand on firm performance data). This includes using evaluation approaches both for baseline research to inform new policy development, as well as ex-post assessments of effectiveness;
- b. Look for opportunities to take a more collaborative approach to evaluation across innovation policy agencies to build an understanding of the full impact of the government's set of innovation policies;
- c. Further develop approaches to the communication and dissemination of findings to ensure that evaluation evidence effectively informs decision making;

Policy process

- d. Increased emphasis on developing robust policy frameworks to help build consensus amongst stakeholders about performance expectations and to improve the accountability for performance with Ministers. This will require formalising the approach to new policy

development to incorporate evaluation requirements as well as (in some cases) reviewing existing policies in preparation for second-round evaluation; and

Delivery systems

- e. Full implementation of NZTE's Performance Management Framework (PMF) to support decision making and to enhance understanding between the NZTE and the government.

1. Policy context: economic transformation

In November 2006 the government released its economic transformation agenda; its strategy and targeted actions for pursuing greater national economic prosperity. The primary objective of the economic transformation agenda is to raise the living standards of all New Zealanders by growing an economy that is productive, innovative and export-led; that focuses on our strengths; and that produces high-value products and services for businesses and consumers around the world. Within the agenda were identified a number of themes intended to contribute to achieving the overarching objective:

- Growing globally competitive firms;
- World class infrastructure;
- Innovative and productive workplaces;
- An internationally competitive Auckland; and
- Environmental sustainability.

Vote Economic, Industry and Regional Development (Vote EI&RD) plays an important role in responding to the economic transformation challenge. Globally competitive firms are the primary generators of economic wealth. Vote EI&RD provides advice and develops programmes (delivered by New Zealand Trade and Enterprise and the New Zealand Venture Investment Fund) to improve firm performance and productivity by addressing market failures such as information asymmetries, co-ordination failures and externalities.

Innovation policy system

Innovation is a key driver of economic transformation and productivity growth. Innovations produce disruptive technologies and new business arrangements that give innovators market leadership, and substantial growth opportunities including spill-over benefits for other businesses. Innovations stem from individual ideas and are stimulated by the systems in our society that generate skills, new knowledge and technologies and new market opportunities. Consequently, governments throughout the world are seeking to improve the performance of these national innovation 'systems' as part of maintaining and enhancing the competitive position of their economies.

Enhancing New Zealand's innovation capability and performance requires a systems approach that both develops the specific areas (e.g. business services, R&D, and skills development) and builds complementarity between areas (Smith, 2006). This can be constrained by the need for focus in each area on core policy responsibilities and institutional arrangements. For New Zealand to achieve its economic transformation goals we are likely need superior levels of policy performance. Identifying such performance requires good analysis both within and across the different policy areas. Evaluation should, where it has a cross portfolio mandate, provide useful insight of cross-system performance.¹

¹ Example: recently announced tax credit for R&D. There is an economic development policy perspective in terms of the policy aim to encourage greater innovation in New Zealand businesses and to make New Zealand a more attractive location for innovative businesses. There is a research policy perspective in terms of effects on R&D investment and there is a tax policy perspective in terms of administrative efficiency and deadweight costs.

2. A review of evaluation

2.1 Evaluating Vote EI&RD

The objectives of Vote evaluations are to determine the effectiveness and delivery of policies and programmes and to form conclusions that are relevant to future policy. Policy reviews are conducted alongside evaluation work. While evaluation focuses on assessing how the policy or programme has performed against its existing objectives, the policy review determines whether those objectives remain appropriate as the basis of the programme. First-round evaluations were mandated by Cabinet, and through the process of reporting findings to the government, requirements for second-round impact evaluations have been established.

The high-level commitment to evaluation has enabled a process to be established for ensuring that all programmes are assessed over approximately a four-year cycle. Annex 6.1 sets out the policies and programmes that have been evaluated over the past five years.

2.2 Why evaluate?

Evaluation has typically been used internationally as a means of providing accountability for government expenditure. It is however, increasingly being used to provide an evidence-base for policy analysis and improvement, and to contribute to ensuring the relevance of new policy. In this broader role, evaluation can be both backward and forward-looking, combining evidence from experience with future-focused information to provide 'strategic intelligence' (Kuhlmann, 2003). When focused on providing 'strategic intelligence', rather than solely on accountability for public expenditure, evaluation will prove most useful to decision makers.

In the New Zealand public sector, departmental performance has, until recently, been judged by output-based and cost measures (a relatively narrow assessment). With the requirement for departments to manage more actively for outcome achievement, performance management now requires agencies not only to deliver on purchase contracts but also to demonstrate how their activities contribute to the outcomes desired by the government.

The extent to which individual departments evaluate activity within their votes is not prescribed and is largely driven by government policy priorities. The State Services Commission's guidelines, supported by the Office of the Auditor General, have enabled the different areas of the state sector to develop appropriate and flexible evaluation approaches. While a move towards a more standardised approach might reduce the sense of ownership that departments have for evaluation, there are opportunities to place greater demands on evaluation, for example by including evaluation as a standard component of Cabinet reporting papers.

The volume of evaluation work completed within the Vote over the past four to five years has been strongly driven by Cabinet requirements for early-stage feedback on the Vote's programmes. These first-round evaluations have proven to be useful for both accountability and for decisions on policy and delivery improvement.

2.3 How valuable is evaluation?

There is not widespread agreement about how the value of evaluation should be determined. For some its value lies mainly in its potential for rigorous, objective examination (what constitutes rigorous methodology is debated). For others its value lies in the insights that evaluation findings provide and the usefulness of its recommendations (although the quality recommendations depends, in least in part, on the soundness of the methodology).

Evaluation could be determined successful or unsuccessful on a number of grounds, but this stock-take focuses on usefulness. The core contribution of evaluation to the management of the Vote, to

Ministers, and to policy and delivery agencies, is and has been information for decision making. Evaluation provides information on the relevance and impact of the government's policies, areas of inefficiency in the operation of programmes, and recommendations for improvement in both policy design and delivery.

Evaluation also contributes greater robustness to the operation of the policy system; it signals that the performance of policies and programmes within the Vote is regularly subject to in-depth scrutiny and that debate is encouraged amongst a wide range of stakeholders.

2.4 When does evaluation have impact?

To have impact, we believe evaluation must do five things:

- i. Address questions that are relevant to stakeholders;
- ii. Produce reliable analysis;
- iii. Draw implications and generalize findings for other policies or programmes;
- iv. Generate timely information to support decision making; and
- v. Disseminate findings in the most appropriate or effective way to various stakeholders.

The performance of Vote evaluation against the five criteria is considered below. Annex 6.2 provides findings from a Canadian Treasury Board Secretariat study into the drivers of effective evaluations and similar learning from the Canadian International Development Agency.

2.4.1 Address the right questions

Internationally, evaluation has tended to focus strongly on accountability and justification of the success or otherwise of existing policies and programmes. This single focus, however, is changing, and the role of evaluation in improving the understanding and information available for future policies is becoming more prominent.

As a result, the focus of evaluation work is broadening from a narrow view on the economy and effectiveness of specific initiatives to one that includes the appropriateness of policy tools, performance improvement and strategy development. This changing focus means that there are a greater number of potential stakeholders to the process, and consequently a greater number of questions to be answered, for example:

- Ministers – does the programme or policy represent good value-for-money? What results have we seen from the programme? Is the programme making a difference?
- Policy makers – has the policy achieved its objectives? Are the objectives stated at the policy's outset still the right ones? Is there still a need for government involvement?
- Delivery agencies – are there areas for improvement in the operation of the programme? How effectively does the programme work with other programmes to achieve results? Is the programme achieving results for clients?
- Business community – will the programme continue to operate? Does the programme available address relevant business needs?

Current assessment

A partnership approach in the planning and execution of evaluation between evaluators, policy advisors and programme operational staff has been effective in ensuring evaluations can address

the information needs of various stakeholders. Some questions, however, remain challenging to answer due to either limitations in the evaluation methodology or lack of necessary information.

Cost effectiveness and value-for-money

Questions around cost-effectiveness and value-for-money continue to be constrained by the paucity of impact and cost data across programmes. This is, in part, being addressed through the development of a performance management framework for NZTE and by working with Statistics New Zealand to access information on recipient and non-recipient firms, which will support the use of more sophisticated evaluation approaches (discussed further in 2.3.1.2 below).

Box 1: Longitudinal firm performance database

A systematic and comprehensive approach to measuring the performance of the Vote's programmes is critical to being able to assess more objectively the contribution that the government's business assistance programmes are making to New Zealand's economic transformation. We need to understand the relative cost-effectiveness of specific Vote programmes in growing globally competitive firms and the way in which the programmes work together as a suite of interventions. This will enable Ministers to look across the Vote and make judgements about the extent to which these programmes are improving the performance of firms and contributing to the achievement of the government's core economic goals.

The longitudinal firm performance database project involves the integration of data on NZTE assistance to firms with Statistics New Zealand data on firms' characteristics and performance to produce information on the relative performance of comparable firms, both recipients and non-recipients of the government's business assistance programmes.

Intervention rationale

Most evaluations have found it difficult to address questions related to a policy's underlying rationale, for example, what is the problem the policy is trying to solve, does the problem still exist, and is the chosen policy tool the best way to address the identified problem.

There are two reasons why this analysis has been underdone. Firstly, evaluation work has focused heavily on determining the types of impacts resulting from individual programme interventions, and secondly, in the majority of cases the rationale for intervention has not been clearly articulated upfront in policy papers, making policy evaluation (as distinct from programme evaluation) relatively difficult. The importance of robust policy development for evaluation is discussed in 3.1 below.

Box 2: Evaluation of Investment New Zealand

The policy focus for Investment New Zealand is on attracting 'quality' FDI to generate spill-over benefits. What constitutes quality FDI, however, has not been well defined making evaluation more difficult. This point is now being addressed through the development of definitional criteria.

2.4.2 Deliver reliable analysis

Successful evaluation is reliable for decision-making. If evaluation is not sufficiently robust and credible then, regardless of any other merits, its value is limited.

Current assessment

To date, the application of more sophisticated (in particular) quantitative techniques has been constrained by the quality of NZTE's data collection and recording systems, and for some programmes, small populations and relatively short programme histories. Current work, however, on the development of NZTE's PMF and progress in accessing national statistics to build comparison groups and assess the counterfactual will support improved evaluation approaches.

Ongoing development of sophisticated methodologies is important because estimates of programme impact are affected by the evaluation approach; more sophisticated techniques are likely to result in smaller (but more accurate) estimations of programme impact as more factors are taken into account and controlled for through the evaluation methodology e.g. firm size and sector, and programme selection biases (Storey, 2004). Specific areas for evaluation development are:

- Using performance data on recipient and non-recipient firms to determine attribution and additionality more objectively;
- Moving towards determining net rather than gross impact of programmes by estimating displacement, deadweight, multiplier effects, external effects (given that large numbers of programmes are justified on externality arguments), and programme cost-effectiveness; and
- Developing approaches for evaluating the impact of the programmes as a whole (a system-wide analysis) rather than on a service-by-service basis.

Box 3: Evaluation of Enterprise Development Grants (Capability Building)

Enterprise Development Grants (Capability Building) are available for businesses and entrepreneurs to purchase external advice or expertise in a management related area (e.g. HR, e-business, market research).

The evaluation of the programme showed that there was a significant association between firms undertaking projects that are targeted at the management level and reported impacts on improvements in the way the firms are managed, as well as on firm performance. Firms whose projects were targeted at the business level were less likely to report improvements in management practices and firm performance.

While the evaluation could demonstrate these associations, it was not able to determine additionality (i.e. whether the fund was the cause of the changes), as it was not able to establish the counterfactual or to establish that the reported results were achievable without the funding. However, the evaluation made the judgement that there was a sufficient association between the funding and the outcomes reported by firms to continue the programme.

2.4.3 Draw wider implications

Vote policies and programmes are part of a wider innovation policy system. To push the boundaries for evaluation and to really understand the impact of initiatives funded under the Vote, it's necessary not only to draw out and share lessons with other parts of the innovation system, but also to increasingly work with other players in the design and implementation of evaluation.

Current assessment

Concurrently undertaking a number of evaluation projects is one way to encourage thinking about whether specific findings can be more widely applied. The debate surrounding the release of each of two sets of evaluation reports in 2006 (one set was released to coincide with the Budget and the other with the announcement of economic transformation agenda priorities) has benefited from the fact that a group of evaluations enables the type and extent of impacts to be compared across programmes and assessments of relative effectiveness to be made. Despite this, evaluation is still relatively narrowly focused, being undertaken on a programme-by-programme basis and focusing on one part of the broader innovation policy system.

The recent Expenditure Review of Business Assistance recommended that agencies across the innovation policy system (i.e. MED/NZTE, MoRST/FRST and MoE/TEC) develop a framework to support joint priority setting and resource allocation in relation to technology areas and sectors. Given the government's endorsement of this, there is likely to be a case to evaluate innovation policies across agencies (particularly joint work between MED and MoRST). Examples of joint projects might include the evaluation of the R&D tax credit, major grant programmes (e.g. FRST's TBG and NZTE's GSF), or relevant funding industry bodies. Even if review work is not formally

undertaken jointly, there are other opportunities to partially collaborate through peer review or project advisory groups.

2.4.4 Generate timely information

The core contribution of evaluation to the policy system is information for decision making. This means its timing is important. Evaluation projects are typically of relatively long duration and it is possible that intermediate (e.g. interim findings) or final products will be an input into planning, decision making or reporting processes.

Current assessment

There are useful examples of evaluative work done within the Vote that has been timed to coincide with necessary decisions, for example the December 2005 review of the Enterprise Training Programme that was completed in time to inform re-tendering of contracts for training providers.

Despite efforts to be responsive it is likely that the dynamic policy environment will always mean that the pace of decision making by Ministers and policymakers will always be faster than evaluation efforts. This will mean that judgement and concentrated input from key stakeholders will form the primary basis for policy decisions in a number of cases. Although, this reality perhaps highlights the need to review evaluation approaches to ensure that they are capable of informing a more dynamic decision-making process.

2.4.5 Effectively disseminate findings

Openly sharing and debating evaluation results amongst stakeholders is beneficial to:

- Build a shared understanding of the reasons for success/failure and areas for improvement;
- Draw out lessons and implications for other policy areas;
- Test the credibility of the evaluation by exposing it to critique; and
- Apply pressure to make changes where these are required.

While there are clear benefits to open and informed debate, a key risk to the success of any evaluation is that it becomes buried and its findings are not widely debated. There is always a risk that making findings widely available exposes decision makers to criticism, particularly in the case that the evaluator is the bearer of “bad” news. This however, should be balanced by the importance of providing accountability for public expenditure and by recognising that the very process of evaluation and exposing the findings to debate demonstrates a willingness to operate a robust policy system and an evidence-based approach to decision making.

Current assessment

The principle of full disclosure is applied to Vote evaluations (unlike many overseas jurisdictions); all reports, along with findings and recommendations, are made available on the Ministry’s website. The commitment of the government to release and debate both “good” and “bad” news findings is a particularly unique and positive feature of Vote EI&RD evaluation.

During 2006, two sets of evaluations were released in conjunction with significant government announcements; the first set with the Budget priority announcement in May and the second with the release of the economic transformation strategy papers and the review of expenditure on business support programmes in November.

Undoubtedly, the release of a number of reports and their release alongside significant government strategy announcements, has improved the profile and recognition of the evaluation work and the

extent to which it is discussed. It also allows the evaluation findings and subsequent decisions by government to be weighed and debated.

Evaluations of the Vote's programmes have rarely been wholly "good-news" stories; they have typically recommended opportunities for improvement in either design and/or delivery. In a dynamic policy system, it is unlikely that interventions will get it right first time, every time and, as such, identifying areas for improvement, and taking action on them, is a positive outcome from evaluative work.

There is, however, room to improve the dissemination of findings by giving more thought upfront to a dissemination strategy as part of evaluation planning. This may include producing a variety of evaluation products which are targeted at different audiences and working more deliberately to incorporate evaluation findings on an ongoing basis into policy processes.

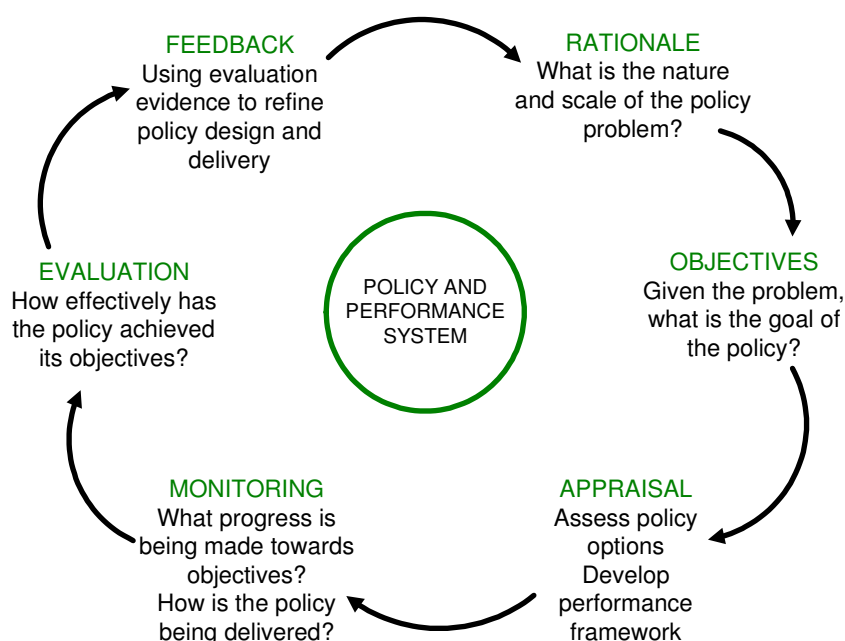
3. Evaluation impact within Vote EI&RD

3.1 Policy making

3.1.1 Evaluation feedback

Evaluation is a part of a wider policy development process (see figure 1), contributing evidence and information to assess the effectiveness of existing policies and to provide feedback on areas for improvement. The boundaries of policy knowledge, however, are broad and while the evaluation-feedback loop is an important part of the cycle, evaluation evidence is only one influence on policy and political decision making. While not always necessarily bringing about changes to policy settings, evaluators should continue to contribute independent analysis and recommendations as an input to the policy process.

Figure 1: policy and performance system



Despite the range of factors that may impact policy decisions, the extent to which evaluation recommendations are acted on is a measure of evaluation impact. Evaluations of the Vote's programmes have been successful in terms of bringing about specific changes in the design of individual programmes, for example changes to funding levels or eligibility targeting (annex 6.3).

Beyond these very specific changes, evaluation work has the potential to influence the overall robustness of the policy making process by contributing to the development of policies with a greater degree of design specificity (e.g. in the articulation of clear policy objectives that are able to be evaluated). Improving the integration of evaluation into the policy design process should be an important priority within the Vote as it will enable Ministers to establish clear expectations of policy performance and a basis for more confidently determining success or failure and opportunities for improvement.

3.1.2 Improving policy clarity

Much of the evaluation work undertaken to date has been made more difficult by a lack of policy specificity. Figure 1 highlights that clarity in defining the basis for policy intervention and in setting

objectives and expected performance outcomes is necessary for good-quality evaluation to take place as these steps in the policy design process set the parameters for evaluation.

This tension, however it not unique to the policies and programmes within Vote EI&RD; it is common in all policy areas as well as in other governments in overseas jurisdictions. It results from a difference in emphasis between typically forward-looking policy and backward-looking evaluation focused on providing accountability for government expenditure.

Box 4: Evaluation of SME policies and programmes from OECD countries

Drawing on a review of the experience of OECD member countries in evaluating SME policies Professor David Storey (University of Warwick) concludes that:

- Good evaluation requires the objectives and targets of SME policy to be clearly specified in upfront policy formation; and
- Evaluation needs to become more central to the policy-making process. Rather than being used at the end-of-the-line as a historic accounting exercise to assess whether public money has been spent wisely, it should be used to inform current policy so that objectives and targets can be modified in light of evidence of policy effectiveness. This requires consideration of how policy will be evaluated to be incorporated into policy formulation when new ideas are being developed (Storey, 2004).

While this tension is common, there are opportunities for both policy making and evaluation to be improved to bring about a step-change improvement in the Vote's performance. Alongside providing accountability for expenditure, evaluation needs to be increasingly focused on providing future learning and forward-looking 'strategic intelligence' in order to be valuable to decision makers. To support good quality evaluation, the policy formation process within the Vote needs to give greater consideration to evaluation requirements.

There are three opportunities to take action in this area.

i. **Formalising requirements for new policies.** The Expenditure Review of Business Assistance Programmes recommended that all Vote Cabinet papers be required to include policy performance expectations and an evaluation framework from 2007/08 onwards. This should work along the same lines as the Ministry's requirements for the assessment of the regulatory impact of policy proposals. A process like this would establish at the outset the expectations amongst all stakeholders that the policy will be evaluated and that there is a clear basis for determining success or failure. New policies should include the following:

- Clearly stated rationales for intervention, including specification of the nature and scale of the policy problem and the contribution that government can make to addressing that problem;
- Specific and measurable objectives which relate to the rationale for government involvement;
- A statement about the outcomes intended to be achieved as result of the intervention;
- Specification of how the selected policy instruments are expected to work to bring about the desired outcomes; and
- Well-articulated statements of performance expectation, including key success criteria and outcome indicators.

ii. **Revision/review of existing policies for second-round evaluation.** While a number of the Vote's policies were designed and implemented within relatively short timeframes during NZTE's establishment, these programmes are now well-established; a good understanding

has been built up by policy makers, evaluators and NZTE staff involved in delivery about their operation and the impacts they have on firms. The opportunity now exists to review and revise policy frameworks to improve their ability to be evaluated in the future.

- iii. **Changing focus of evaluation.** An increasing focus on baseline review work within the Vote will support improvements in policy specificity. The baseline review of the Seed Co-investment Fund confirmed and refined the policy and performance expectations for the programme at its outset, and collected baseline data about the size of the angel investment market in New Zealand. Important similar upcoming work is the baseline research and rationale testing for the Enterprise Development Grants (Market Development) programme which, with Export Year additional funding, represents a large investment within the Vote.

Box 4: The importance of quality information for policy development

Public private partnerships

Dani Rodrik (a prominent academic on economic development) argues that good industrial policy requires eliciting information from the private sector on significant externalities and their remedies, and industry policy is about designing the setting where the public and private sector can work together to solve problems.

This approach to industry policy relies on constant information flows between the public and private sector. The challenge then is to determine how close or far to hold the private sector from government. Too close and government risks being accused of being “in the pockets of” private interests, while too far means that policy is instituted without an adequate understanding of the needs of the private sector. While governments may have imperfect information, this is also mirrored in the private sector. Government’s role is therefore in reducing the information externalities present in the market. While governments need to maintain integrity and credibility through being independent from private interests, they can still gain useful information through an ongoing engagement with the private sector.

Information sharing across government

The ability of existing public-private mechanisms to deliver value to policy making depends on the regular flow of high-quality information, firstly from the private sector through to the government, and secondly, across the government system to all points where it can be used to inform the policy process.

The recent Expenditure Review identified a number of principles for the design and operation of business development programmes. One principle stated that business assistance agencies should use the channels available to them to identify, and keep other government agencies informed of wider issues which the business community believes need to be addressed to achieve economic transformation goals. The review outlined that this information conduit role is a recognised part of NZTE’s mandate, but that currently insufficient use is being made of their detailed knowledge of business strategies and their perceptions of the constraints facing sectors and sub-sectors.

NZTE is best placed, through their interaction with sectors, to be a source of such information, and to be clearly seen by business as the most effective channel to convey their views on policy issues. In doing this though, the review commented that NZTE should avoid an advocacy role and should not be seen as having responsibility for subsequent changes in policy sought from the relevant government agencies.

The role for NZTE in this area has not really been clearly set out and better mechanisms for sharing and responding to business views need to be established. In order to bolster the effectiveness of NZTE’s role in this area the review recommended that NZTE be regarded as an important source of expert analysis on the factors affecting firms and contribute fully to the debate around key strategic choices faced by particular delivery agencies and government generally.

Box 5: Using research information to support problem definition

Recent research completed by the Ministry presents some interesting challenges for the policy and operational definition of high-growth firms and therefore, the firms that are accessing NZTE's high-impact services (the working definition of high-growth potential that both MED and NZTE use is firms that have the ability to achieve 20 percent year-on-year revenue growth over a five year period or a total revenue growth of \$5 million within five years²):

- Revenue growth figures indicate that these two definitions of high-growth potential are far from equivalent in terms of the number of firms achieving high-growth. Approximately 46,000 (roughly 10 percent) firms achieved 20 percent year-on-year growth for five years but only 1,400 achieved total revenue growth of \$5 million over the five year period;
- Either definition produces a number of potential clients for NZTE that is far beyond what it is currently working with or could accommodate; and
- While these are the numbers that did in fact achieve high-growth by our definitions, the more relevant question is how many firms require NZTE assistance to achieve this result? Some firms will achieve high-growth without any assistance and there will be other firms who did not achieve high-growth but could have had they received assistance. Further, the initial size of the firm in 2000 did not prove to be a useful indicator of the likelihood of achieving high-growth; both very small and very large firms could be considered high-growth over the 2000-2005 period. Larger firms tended to be more likely to achieve high-growth according to the \$5 million definition.

Survey data from the Growth Services Range evaluation indicated that approximately a third of recipient firms achieved greater than 20 percent average annual growth. While this is three times the rate that achieved this rate of growth in the general population, is this a sufficiently good result? Research like this will assist in establishing appropriate targets, benchmarks and programme performance expectations.

3.2 Programme delivery

3.2.1 Improving delivery effectiveness

Evaluation findings in programme delivery have focused on improving the robustness of delivery processes, including the upfront selection of firms or projects, and follow-up monitoring and performance approaches. Examples from the business capability set of programmes include:

- Development and piloting of a two-stage performance monitoring system for Enterprise Training which focuses on testing whether firms have learned anything from the training received, the key actions that firms undertake as a result of receiving training, and whether these actions have flow-on effects in terms of business capability;
- A simplified selection and entry process for Escalator firms to ensure that potential participants are more stringently assessed in terms of their investment readiness and also that the selection process is made more explicit by contracted providers. The pool of brokers available to assist firms to raise capital was widened to better represent the market and the balance of funding available to brokers between assessment and deal brokering was altered.

Other evaluations have recommended changes to streamline delivery or reduce product clutter. A number of stand-alone programmes have been consolidated and rolled in with other activities on the basis that operationally they were considered complementary. For example, Enterprise Networks (supporting groups of firms to attend offshore trade events) and World Class New Zealanders (bringing international experts to New Zealand) were closed as stand-alone

² The research used data on firm turnover (measured by GST figures) for the cohort of firms registered on the Statistics New Zealand Business Activity Indicator data set in 2000.

programmes given that they are increasingly being used by NZTE as tools for sector engagement and funding decisions are being determined by sector priorities.

3.2.2 Driving organisational performance

While various evaluations have highlighted the need for NZTE to more systematically monitor and manage performance of specific services, the current arrangements for assessing NZTE's overall performance (namely individual programme evaluations and analysis of detailed output information) have not produced a consistent understanding of the effectiveness of the organisation as a whole.

Over the past 18 months NZTE has been developing an organisational performance management framework with the necessary focus on outcomes and impacts. Annex 6.4 sets out the progress made by NZTE over the 2006/07 year and some preliminary results from baseline client impact research conducted in April 2007.

The objectives of the PMF are:

- To enable Ministers, NZTE and other stakeholders to better understand the impact of NZTE's activities and their contribution to economic transformation;
- To provide information for NZTE management and staff to support both strategic and operational decision making, including resource allocation, business planning, client targeting and service delivery;
- To support the accountability and reporting relationship with the government; and
- To enable all staff to see how their work contributes to the achievement of organisational goals.

The PMF is being developed to support existing accountability and reporting mechanisms between NZTE and the government. It is only one component, however, of a wider policy performance management system and will, therefore, need to be supported over time by:

- Evaluations of programme and policy effectiveness and additionality;
- Crown entity monitoring of organisational performance on behalf of responsible Ministers and the government; and
- Robust policy development processes to articulate the basis for intervention and to assess over time whether that rationale remains valid.

3.3 Other impacts of evaluation

3.3.1 Promoting debate

As discussed above, evaluation work has been the subject of much debate and discussion amongst Ministers, parliamentarians and other stakeholders. This is no doubt due to the decisions to release evaluation reports in conjunction with significant government announcements. Evaluation reports and findings have been used to discuss the performance of the Vote in the annual select committee review of the Ministry's performance and in parliamentary debate and questioning, as well as to discuss government policy priorities with key stakeholders. Much of the discussion and debate has focused on:

- What the work does or does not say about the effectiveness of government interventions;

- The government's record of delivery;
- The role for government in the industry policy area; and
- The information and accountability systems in place for programme and policy delivery.

There is always the question of whether “all publicity is good publicity” and whether it's likely that evaluation work will continue to influence wider discussion in this way. The willingness to debate evaluation findings clearly demonstrates interest in discussing what constitutes successful industry policy and what the government should prioritise in order to bring about transformative change for New Zealand. The impact that the evaluation work has had in stimulating debate should be considered a considerable success given that in other jurisdictions that evaluation work never “sees the light of day”.

Fostering ongoing debate will require evaluators to continue to:

- Look for opportunities to release and discuss evaluation work in the context of forward looking policy decisions;
- Improve the approach taken to evaluation to ensure that it is reliable evidence that is being debated;
- Challenge the types of evaluative product being delivered and the ways in which findings are communicated to ensure that as decision makers' needs change, information inputs change too; and
- Promote the value of performance information and its varied uses.

4. Recommendations

The recommendations from this review are set out below. All recommendations relating to evaluation strategy and policy processes are actionable by MED and progress will be reported in June 2008. In some cases work is already underway.

Evaluation strategy

- a. Enhance evaluation methodologies to support policy impact evaluation, and to make use of ongoing improvements in data availability (e.g. a result of collaborating with Statistics New Zealand on firm performance data). This includes using evaluation approaches both for upfront baseline research to inform new policy development, as well as ex-post assessments of effectiveness;
- b. Look for opportunities to take a more collaborative approach across innovation policy agencies to evaluation to assist in building an understanding of the full impact of the government's set of innovation policies;
- c. Further develop approaches to the communication and dissemination of evaluation findings to ensure that evaluation evidence effectively informs decision making;

Policy process

- d. Increased emphasis on developing robust policy frameworks which form the first stage of effective evaluation; help build consensus amongst stakeholders about performance expectations; and to improve the accountability for performance with Ministers. This will require formalising the approach to new policy development to incorporate evaluation requirements as well as (in some cases) reviewing existing policies in preparation for second-round evaluation; and

Delivery systems

- e. Full implementation of NZTE's PMF to support decision-making and to enhance understanding between the NZTE and the government.

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6. Annexes

6.1 Evaluation programme 2002/03 – 2006/07

Table 1: Completed evaluations

Vote policy or programme	Evaluation completed
2002/03	
Regional Partnerships Programme	June 2003
2004/05	
Industry Capability Network	September 2004
Incubator Support Programme	November 2004
Polytechnic Regional Development Fund	November 2004
2005/06	
Enterprise Development Fund	September 2005
Cluster Development Programme	September 2005
Growth Services Range	November 2005
Enterprise Training Programme	December 2005
Major Events Programme	December 2005
Brand New Zealand	January 2006
Promoting Business and Enterprise Culture	January 2006
Escalator	May 2006
Beachheads	June 2006
2006/07	
Information Services	August 2006
Sector Projects	August 2006
World Class New Zealanders	August 2006
Enterprise Networks	August 2006
GIF Industry Bodies and GIF Sector Project Fund	August 2006
Investment New Zealand	August 2006
Strategic Investment Funds and Visiting Investor Programme	February 2007
Seed Co-investment Fund (baseline review)	February 2007

Table 2: Scheduled programme evaluations

Vote policy or programme	Evaluation date
Major Events Fund	October 2007
Industry Capability Networks	September 2007
Incubator Support Programme	September 2007
Regional Partnerships Programme and Major Regional Initiatives	December 2007
Enterprise Development Grants (Market Development)	June 2008

6.2 Canadian evaluation experience

A recent study into the drivers of effective evaluations by the Canadian Treasury Board Secretariat found the following factors contribute to making evaluations useful for stakeholders (Canadian Treasury Board Secretariat, 2005):

- Senior management support for the evaluation process and results – particularly to assist in driving evaluation processes that stall, in managing difficult relationships, or in terms of gaining agreement on contentious or sensitive recommendations;
- A participatory relationship between evaluation and programme staff – to contribute to an evaluation process that runs smoothly and to ensure that results were grounded and relevant;
- Quality and experience of evaluation staff – to support the credibility of the work;
- Robust and comprehensive methodology;
- Independence and objectivity in evaluation findings;
- Focused and balanced recommendations – evaluations that made practical and non-prescriptive recommendations and presented alternatives for implementation were viewed favourably; and
- Stakeholder involvement in the evaluation process.

Similarly, the Canadian International Development Agency provides the following reasons why, in their experience, evaluation work has been “shelved” and consequently had little or no utility for stakeholders:

- The commissioning agency can become disenfranchised with the evaluation, typically as a result of limited communication between the evaluators and the commissioning agency;
- The evaluation methodology may be ill-conceived and the appropriate corrective action not taken;
- Recommendations may not be sufficiently practical given the financial and other constraints operating on the commissioning or implementation agency;
- Over the course of the evaluation significant changes in context render the evaluation irrelevant; and
- Disagreement between stakeholders can mean that the necessary buy-in to the work is not achieved.

6.3 Evaluation impact

Impact on policy design

Programme	Impact	Description
Polytechnic Regional Development Fund	Y	Programme closed
Industry Capability Network	Y	Policy review of objectives and delivery mechanisms
Enterprise Development Fund	Y	Scope changed
Cluster Development Programme	Y	Programme closed
Enterprise Training Programme	N	Policy review on role for government recommended
Growth Services Range	Y	Policy review of objectives and scope/size
Major Events Programme	Y	Programme closed
Brand New Zealand	N	Although change recommended
Escalator	N	Policy alignment review recommended
Beachhead	Y	Scope of programme/funding changed
Sector Facilitation	Y	Strategic policy defined/agreed
World Class New Zealanders	Y	Standalone programme closed
Enterprise Networks	Y	Standalone programme closed
Business and Enterprise Culture	Y	Programme component closed
Sector Projects	N	Strategic policy defined/agreed (not complete)
GIF Industry Bodies, GIF Sector Project Funds	N	Funding framework under development
Information Services	Y	Funding scope change
Investment New Zealand	N	Changes not yet made but recommended

Impact on programme delivery

Programme	Impact	Description
Industry Capability Network	Y	Service quality and awareness
Incubator Support Programme	Y	Performance monitoring and reporting
Polytechnic Regional Development Fund	Y	Programme closed
Enterprise Development Fund	Y	Client selection criteria/process Project monitoring
Cluster Development Programme	Y	Programme closed
Enterprise Training Programme	Y	Performance system developed
Growth Services Range	N	Performance system and project monitoring (not complete)
Major Events Programme	Y	Incorporated into wider sector activity (not evaluation recommended)
Brand New Zealand	Y	Incorporated into wider marketing activity
Escalator	Y	Entry/assessment processes Delivery and funding structure Information systems and sharing
Beachhead	Y	Performance targets developed/implemented
World Class New Zealanders	Y	Incorporated into wider sector activity
Enterprise Networks	Y	Incorporated into wider sector activity
Business and Enterprise Culture	Y	Programme component closed

Sector Projects	N	Criteria redefinition recommended (not complete)
GIF Industry Bodies, GIF Sector Projects	N	
Information Services	Y	Funding revision Revision of delivery strategy and focus
Investment New Zealand	N	Action to be considered alongside SIF, VIP

6.4 NZTE PMF progress and results

PMF component	Description	Progress
Impact	What impact has NZTE had on firms, sectors, regions and on wider economic performance?	<p>In progress. Development and implementation of impact measurement tools for high-growth potential and Enterprise Training clients. Baseline year impact data on high growth clients reported to Cabinet in June 2007.</p> <p>Introduction of a net economic benefit calculator to estimate the expected results from NZTE activities where the working relationship is not with an individual firm and for other areas of significant investment.</p>
Clients and costs	<p>What client needs must be met in order to achieve expected outcomes?</p> <p>What questions related to costs of operation does NZTE need to answer for internal and external purposes?</p>	<p>Complete. Client and stakeholder value survey operating annually.</p> <p>In progress. Baseline costing exercise completed October 2006 and fiscally neutral adjustment resulted – follow up survey to be completed in August 2007. Commitment to carry out costing survey on a six monthly basis.</p>
Internal processes	What internal processes must NZTE have in place to meet client and stakeholder expectations?	<p>In progress. Piloting of performance measures in the Americas region business unit. Planning in place to stage roll out to all business units.</p> <p>Improving the quality of project management capability and grants administration process. Completing engagement plans for all high-growth potential clients.</p>
Learning and growth	To achieve organisational goals, how must NZTE learn, innovate and invest in itself?	Not yet underway.

Preliminary client impact results

Client profile

- NZTE has 659 high-growth potential clients grouped into the following sectors: food and beverage (27%), specialised manufacturing (19%), biotech (18%), ICT (16%), creative (8%), education (6%), wood (4%), un-coded (2%);³
- The majority (51%) were established in the last 10 years and almost a quarter (23%) is more than 20 years old;

³ Of the total population of 659, 597 were surveyed. Reasons that clients were excluded from the survey included ongoing revisions to client segmentation (a current process of client segmentation means that the population of high-growth firms was still being finalised at the time of surveying) or client contacts were overseas for significant periods at the time the survey was conducted.

- 2005/06 total revenues range from zero to \$51 million; 46% of clients have total revenues of \$3 million or less, 42% generate revenues between \$3-20 million, and 12% of firms have revenues greater than \$20 million;⁴
- Almost all clients (91%) are making sales in offshore markets. For 42% of clients, revenue generated offshore comprises more than 50% of total revenue;
- Although Australia/Pacific is the most common overseas region of operation (71% clients made sales in this region in 2006), only 9% of firms were operating solely in New Zealand and Australian markets;

NZTE funding accessed

- 30% of high-growth potential firms have received a Growth Services Fund (GSF) grant, 22% have received a Market Development (EDG-MD) grant, 30% have participated in an Enterprise Network, and 11% have received an Enterprise Development – Capability Building grant (EDG-CB). These grants are typically used to access specialist services and complement the advice/information supplied by NZTE staff;

Impact

- Most clients work with NZTE to improve their results in offshore markets (71%), followed by improving access to business relationships and networks (50%), innovation of products or processes (45%); improving business practices (38%); and accessing external finance (21%); and
- The majority of survey respondents (83%) considered their engagement with NZTE had had a positive or very positive impact on their business.

⁴ For those clients that NZTE has 2005/06 financial data (46%) – provided through grant applications or survey.