

PHARMAC WORKPLACE CULTURE: A FIVE YEAR HORIZON



INDEPENDENT EXTERNAL REVIEW

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EXECUTIVE SUMMARY

The Pharmac model is unique. There is no other country in the world in which a single agency both assesses which medicines and devices to purchase and makes the associated procurement decisions. Despite this innovative model, New Zealand is ranked 32nd out of 32 OECD countries for access to modern medicines. It is not surprising, then, that Pharmac has become the subject of criticism.

The starting point for assessing Pharmac's performance is its statutory objective which is *"to secure for eligible people in need of pharmaceuticals, the best health outcomes that are reasonably achievable from pharmaceutical treatment and from within the amount of funding provided"*.

While its statutory objective has remained unchanged since Pharmac was established, Government and stakeholders expect the agency to evolve and be agile to meet the growing health needs of New Zealanders in a landscape in which new and more targeted drugs are constantly being developed and in demand. Specifically, the latest Letter of Ministerial Expectations for 2024/25 called for changes in organisational culture, roles and responsibilities, and methods and processes to meet these new challenges.

Through the course of this review, it became clear that meeting these expectations will require a fundamental change in strategy and culture. Staff at all levels of the organisations expressed a degree of scepticism as to whether such a shift will be possible.

VISION

Pharmac staff need a clearer articulation of what their mission is. Pharmac's current vision - *He Rongoā Pai, He Ahu Pae Ora* – is vaguely expressed and, in any case, is often displaced by a focus on managing costs within the Combined Pharmaceutical Budget. A mission to manage costs is unlikely to inspire staff or drive the behaviours now being asked of Pharmac.

Of course Pharmac must remain within its appropriated budget, but the community, the health sector and government all want to see a wider, more positive focus on improved health outcomes for New Zealanders.

The pressures on Pharmac to change are considerable. Pharmac needs a new, compelling and more sophisticated vision that captures the deepest meaning of the work and from which clear, results-based measures can be cascaded.

STRATEGY

Pharmac needs a set of measurable strategic objectives. Unless its current strategy is reset, Pharmac's people will continue to focus on cost at the expense of articulating and being able to measure their wider contribution to New Zealand.

The process by which strategy is developed within Pharmac also needs redesign. The strategic framework is largely a top down exercise conducted in the context of developing the Statement of Intent. It does not appear to be produced on the basis of wide engagement or co-creation with staff and stakeholders.² In addition, staff expressed a lack of confidence that current leadership would either listen or adapt, even as they acknowledged that adaptation was required.

² The Chief Executive however reported that the Statement of Intent developed in July 2023 followed the 2021-22 Pharmac Review which had its own engagement with external stakeholders.

In addition to the strategy reset, Pharmac should consider the establishment of a small internal acceleration unit or innovation team to help it forecast and respond to trends in medicines and other priority matters. Ideally, this unit would work in partnership with other industry and health system players.

Pharmac should monitor its strategy execution on an ongoing basis so that the Board has the information it needs to actively challenge whether the agency's overall approach to achieving the vision and delivering the strategic objectives is appropriate .

CULTURE AND VALUES

This is a consistently passionate and committed team, from front-line staff through to senior leaders. However, it is clear there is scope to improve culture at the organisation.

Pharmac has developed a set of values, and, on the basis of interviews conducted, this exercise appears to have been partially successful. However, high staff turnover has frustrated progress. Some respondents mentioned a level of inconsistency in senior leaders' reference to and modelling of the values in practice. Others volunteered that cultural change was required but doubted the willingness of current leaders to introduce and / or guide it

As a part of the vision and strategy reset, there is an opportunity to reconfirm the desired values and reanimate internal discussion about them.

Leaders need to reflect on how they can best shape culture. They will need to continue to think carefully about how to explicitly design the new culture being sought by stakeholders and underscored by the Government's expectations.

OPERATING MODEL

Pharmac's current operating model is not fit for purpose to deliver a new vision and strategy with appropriate efficiency, effectiveness and urgency.

In refreshing the operating model, Pharmac should consider the entire agency. Transforming the operating model should also be treated as a single, integrated project and not as a series of one-off sequential changes. This Report makes suggestions in a number of areas, as follows:

- *The Board:* The Board currently takes an interventionist approach to governing the agency, which has proven necessary. The Board should institute a quarterly challenge to test whether such an approach is still justified or whether it can revert to a more conventional approach to governance.
- *The Senior Leadership Team:* Interviewees described the members of the Senior Leadership Team as well-intentioned, approachable, hardworking, passionate and technically skilled. But there is room for improvement to ensure the team works better as a unified collective, and works at the right level. Effort should be made to delegate more work to tier three managers, so senior leaders can focus on leading. This will allow Pharmac to be an effective, efficient and agile system leader in a fast-changing environment with increased expectations of its role and relationships.
- *Core systems and processes:* Core processes must be changed to reflect the performance pivot Pharmac needs to undertake. It is clear that the current assessment and decision making processes are not fit for purpose. It must address these matters with urgency, good faith and openness.

- *Collaboration and partnerships:* Pharmac appears to have a transactional approach to collaboration and partnerships. It is clear partner agencies in the health system appear to see Pharmac as problematic to partner with. There are opportunities for relationships to be more strategically and proactively managed. Work is already under way to improve relationships.
- *Delivery to the public and consumers:* Pharmac's many talented people care deeply about their work and are consistently passionate about securing good outcomes for New Zealanders. However, this caring approach is not consistently visible to the external stakeholder communities and expert bodies with whom many staff and leaders engage. There are clear opportunities to improve in this space. There are also opportunities to consider the best configuration and operating model of the Pharmacology and Therapeutics Advisory Committee, as well as the composition and ways of working of the Consumer Advisory Committee.
- *People management:* Pharmac will need to continue to modernise its people management practices to support this programme of change.
- *Corporate support:* It appears there has been insufficient investment into Pharmac's corporate functions and supporting IT systems, which are there to enable the broader work of the agency. Issues in this space may not have arisen if the Pharmac strategy contained an organisational investment outcomes component. It is recommended a refreshed strategy contains such an element.
- *Organisational design:* It is worth reflecting on whether Pharmac's current organisational design is fit for the future. That thinking should be done with a view to ensuring Pharmac can deliver on its new vision and strategy efficiently and effectively, and can adapt to changes in its operating environment on an ongoing basis.

PROGRAMME OF CHANGE

It is possible for Pharmac to pivot to meet changing expectations, but it will require inspiration, tenacity and commitment from leadership. The key will be for the agency to implement an end-to-end change programme rather than incremental changes. That programme should start with a reset of vision, strategy and the operating model. New strategic priorities would then be executed over a longer timeframe.

It will be important to drive the change programme in conjunction with consumers and other partners, as well as with staff. Inclusive, open processes that involve staff in planning and delivering the reset will pay huge dividends for Pharmac. From greater engagement will come greater discretionary effort and improved impact and results.