the Front Project

What is system stewardship?

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> *Complex problems require nuanced and adaptable responses. System stewardship is potentially a powerful way to address the modern realities of volatility, uncertainty, complexity and ambiguity.*

This section outlines general aspects of system stewardship and explores the conditions required for a stewardship model to be successful. Building on the foundations laid out in the previous two papers (*What is systems thinking? and ECEC in Australia*), this paper explores the conditions for effective implementation and considerations for application specific to the Early Childhood Education and Care (ECEC) sector in Australia.

Defining system stewardship

System stewardship is a holistic approach to governance. It acknowledges the complex and adaptive nature of developing policy and delivering human services in a systems context. At its core, it involves a steward or collection of stewards steering all system participants, including service providers and users, towards high quality, long-term outcomes.

The concept of system stewardship developed from recognising the complex environment in which policy plays out – from designing policy through to providing varied services to a range of people with unique needs and preferences. The systems approach recognises that a system is made up of actors, interconnections and purpose, and that all parts of the system have a role to play in creating better outcomes.

What does stewardship mean?

A broad definition of stewardship involves responsible management and supervision, exercising care and consideration. In a policy context, all models of stewardship involve taking responsibility within a context of constrained resources and for a set of defined beneficiaries (Moon et al. 2017). However, there is less consensus on the activities that make up stewardship and the decision-making processes which determine who should take the role of the steward, how the steward should operate, and what it should achieve (Ibid.).

The concept of stewardship is closely related to that of responsibility. A steward internalises the responsibility for a given remit, combining accountability and duty. A steward provides a form of leadership while working to build trust and capacity with other actors in the system. The goals of a steward must involve a long-term vision. This allows the ultimate purpose of the system they steward to inform the parameters which guide the everyday behaviours of actors within the system.

Market stewardship

Market stewardship refers to the role of governments 'shaping' markets in the provision of public services. This approach focuses on inputs, such as funding and resources, and outputs, such as profits and service availability (Meltzer et al. 2021). This differs from a system stewardship approach which measures performance based on the outcomes which impact the system's beneficiaries. System stewardship takes an active responsibility for system outcomes and steering the system towards these outcomes if appropriate.

The system stewardship role

The literature on system stewardship suggests that it is a collective effort. Each actor is aware of their own unique but complementary stewardship role and carries this out in a way which best contributes to the overall health and performance of the system. In practice, achieving this ideal vision may require a larger oversight role to be ascribed to one or a small number of stewards. However many stewards are active in a system, there are several clear and vital roles they must fulfil.

In a departure from the linear approach to policy design and implementation that has existed previously, stewardship is cyclical and iterative. Stewardship requires constant redefinition and rearticulation of the purpose of the system it is overseeing. By defining their purpose, stewards determine the goals the system must work towards. It is then the responsibility of the stewards to ensure that the system achieves this purpose (Institute for Government 2011; Lowe & Plimmer 2019).

By prioritising purpose, the role of stewardship can be conceptualised as a continuous cycle of three phases: design, delivery, and improvement (Productivity Commission 2017).

Design

Stewardship requires stewards to design the system and articulate the rules which govern it, so that it meets the needs of the end users of the system. This involves developing policy and internal regulations that identify and address the needs of the community.

As most ECEC policy making mechanisms take place far from the families and children that they ultimately affect, effective stewardship must incorporate co-design principles that keep users at the centre of the process by embedding a place for their feedback.

From this foundation, effective design must ensure that:

- resources are allocated effectively with scope to evolve over time
- equitable access is achievable for users who live with complex needs and in remote areas
- roles and responsibilities are clearly articulated between actors, particularly to aid effective communication between different levels of government.

A system steward or collection of stewards will develop the performance frameworks for a system which can assess performance against system goals. These frameworks should be focussed on achieving outcomes and designed and measured with data. Performance feedback should be provided regularly, to drive improvements by providers.

The iterative design process relies on adequate data to make improvements. By setting out specific goals at the beginning of the design process, a steward can monitor progress and ensure data collection is embedded within the system from the outset.

Rules define how different actors within the system will interact. They may consist of:

- incentives
- principles
- minimum standards.

In complex systems, rules are best used to guide actors and set boundaries, rather than be prescriptive (Institute for Government 2011). Rules should also be used to ensure that active participation is afforded to all.

Delivery

The delivery of services must be able to adapt to changing needs over time. Effective stewardship promotes quality service delivery through flexible policy frameworks that enable actors to incorporate condition-specific changes across different jurisdictions.

Stewards play a key role in disseminating information to the public and to service providers. This allows for demand to be appropriately met by supply. It also helps users make informed choices on what will meet their individual needs.

Effective stewardship must coordinate actors across all levels of the system so that services are delivered efficiently. This includes ensuring the different levels of government, service providers and others are aware of their individual roles within the system and that all these actors are working towards a common goal.

Delivery is an iterative process. It should continue to provide feedback to the stewards on the overall performance of the system. Stewardship involves monitoring the system to identify how it can be realigned towards desired outcomes.

> **A stewardship model requires constant feedback** that provides information on whether the system is meeting its goals.
>
> This information should be used to understand how the system is evolving. If feedback indicates undesirable outcomes, this information should be incorporated to re-design the system where necessary.

Improvement

System stewardship is a learning process and consistently seeks to improve the design and rules of the system. This is enabled by the feedback and data that has been incorporated into the system design and collected during delivery.

To drive improvement in service quality, timely evaluation and feedback to providers is essential. These assessments should be based on outcomes which are most important for the beneficiaries of the system and that align with the overall purpose of the system, rather than just compliance.

> If the system is not achieving its goals, a response is needed to steer the system back towards the desired outcomes (Institute for Government 2011). This may include:
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> - signalling and advocacy
> - changing rules and incentives
> - capacity building
> - direct intervention.

Conditions for successful stewardship

For a system stewardship approach to be successful, several conditions need to be in place. The following conditions have been identified in the existing literature. Ensuring these are in place provides the greatest chance of success for a stewardship model in Australia's ECEC sector.

A clear and unified purpose

Identifying clear objectives is essential for success. This begins with outlining the purpose of system stewardship and the goals it seeks to achieve. The stewards must also have a clear picture of the benefits and beneficiaries of the system. Broad objectives may be set to allow for consistency across many different types of services. Specific objectives must be set to guide service design and delivery (Moon et al. 2017; Productivity Commission 2017).

Rich and transparent information

Information is essential for a healthy functioning system (Meadows 2008). Data informs critical decisions made at all points in the stewardship cycle – from service design and targeting to outcome assessment and improvement. Effective system stewardship embeds data collection from the outset which is both comparable and able to be shared across jurisdictions.

Strong governance

Dysfunctional system outcomes are likely to stem from a lack of communication about the roles and responsibilities of different actors. Large systems are likely to have multiple stewards fulfilling different roles.

These may include different levels of government as well as private and not-for-profit service providers. Successful stewardship depends on these roles being appropriately coordinated and stewards accepting the responsibility to act when system goals are not being met.

Appropriate devolution

System stewardship recognises that decentralisation – the delegation of decision-making responsibility from a central government to another level of administration – is not always the best solution to a policy problem (Institute for Government 2011). Stewardship seeks a balance between decentralisation and a more regulated top-down delivery model which recognises the strengths of different actors by empowering them in targeted roles.

Previous attempts to create choice and drive efficiency in public services have seen many government-provided services decentralised through markets to private provision (Le Grand 1991). Despite its potential to create choice and efficiency, the use of markets in this way has led to problematic outcomes for many human services systems users (Carey et al. 2020).

The challenge is to determine the level of system that is best suited to managing a problem, because different actors across a system have different strengths. Central governments, for example, have significant funding and resources, while organisations and services have specific knowledge of market conditions and relationships with local communities.

Agility and adaptability

Due to the inherent system uncertainty, stewardship must be flexible enough to adapt to changing needs and situations. This capacity is enabled by a continuous learning approach, which allows stewards to steer the system in a more responsive and dynamic fashion (Lowe and Plimmer, 2019).

A collective effort

System stewardship is a collective effort carried out at all levels of a system. It is achieved through the recognition of all actors that they are jointly responsible for the health and performance of the system. As such, true system stewardship requires these responsibilities to be distributed across multiple stewards, rather than a single entity.

In nation-wide markets such as health and education, the research on implementation suggests bringing on board a national level steward to address funding, policy setting and regulatory decisions. Where national markets consist of a collection of interconnected local markets, stewardship at the local level is just as important. For example, Malbon et al. (2020) found that local disability markets in the National Disability Insurance Scheme (NDIS) functioned significantly better as a result of knowledge about local market conditions being informally disseminated by local area coordinators. Local authorities are also likely to have a better understanding of the need in their community.

Case study – Increasing stewardship in the NDIS

The NDIS is an ambitious reform in Australian social policy. The design and implementation of the scheme followed the findings of the Productivity Commission's Disability Care and Support report, released in 2011. The scheme was designed as a market-driven policy with private businesses providing disability support services to promote competition and innovation.

Participants in the NDIS develop unique plans to support their individual needs. The NDIS then allocates a budget to this plan, which can be spent by participants on any private or not-for-profit service providers of their choosing. The scheme aims to support individual needs by facilitating greater choice and control in disability services.

The National Disability Insurance Agency (NDIA) is the market steward, which acts as the statutory agency responsible for the implementation of the NDIS (NDIS 2016). Its role is to 'create an efficient and sustainable marketplace through a diverse and competitive range of suppliers who are able to meet the structural changes created by a consumer driven market' (Ibid.) The NDIA's stewardship responsibilities were particularly important during initial rollout of the scheme, as they pursued specific goals to 'minimise market failures, information gaps, and perceived regulatory risks' while the marketplace matured (Ibid.).

The NDIS currently supports over 500,000 people with permanent or significant disability and has provided over $17 billion of paid support so far in the 2021–22 financial year (NDIS 2022).

While its stewardship role is recognised in NDIA documents, the Productivity Commission designed the scheme so that the NDIA would only need to intervene when there had been a clear market failure. However, the original design did acknowledge the need for greater stewardship functions in remote areas. As the market was expected to eventually self-regulate, the Productivity Commission forecasted that this role would diminish over time (Productivity Commission 2011).

The scheme has faced a range of implementation challenges including thin markets and market gaps. These challenges are particularly acute for participants in remote areas or with less common needs. In these instances, there are either not enough services to provide participants with choice and control – the key policy aim of the scheme – or there are no services at all (Carey et al. 2018b).

To date, the NDIA has performed more of a market regulation role, limited to registering providers and ensuring minimum protections by removing fraudulent providers from the market (Carey et al. 2018a). This role is more closely characterised by the similar concept of market stewardship discussed in the market stewardship textbox above.

Rather than just setting minimum market standards for service users, system stewardship is concerned with ensuring long-term outcomes and maximising public value. Recent proposed reforms to the NDIS Act demonstrate increasing consensus that human service markets require greater government involvement. The NDIS Amendment (Participant Service Guarantee and Other Matters) Bill 2021 introduces reforms clearly derived from stewardship and Human Learning Systems theory. In particular, embedding people with a disability into the co-design of disability policy is rooted in systems stewardship.

More recommendations have been made to improve the effectiveness of the NDIS market in line with system stewardship principles, particularly in the areas of information sharing, price setting and capacity building. These include:

- overseeing the collection, distribution and transparency of data on market conditions to inform service providers where market gaps exist
- allowing pricing arrangements for NDIS services to be flexible enough to respond to local market conditions, which is currently limited for providers
- bringing in the government to act as the last resort provider
- building government capacity to carry out market stewardship duties by removing staffing caps within the NDIA (Malbon et al. 2019).

Where is system stewardship most likely to be effective?

What makes the case for system stewardship so compelling is its ability to address many of the shortcomings that have resulted from the spread of market reforms against a backdrop of increasingly complex societal needs. The unique nature of human services, such as ECEC, means their system-wide management and delivery requires approaches which reflect the specific market forces at play. This is because:
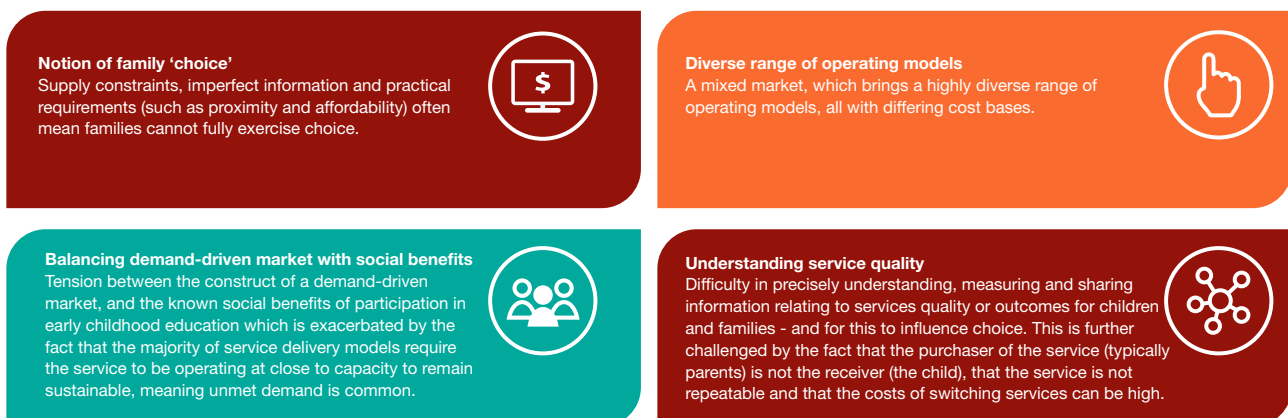
- A service is not a manufactured item but an **intangible** process. The process of how services are delivered and the impact this has on the users themselves is an important marker of quality.

- Rather than being made, sold, and then consumed, services are **co-produced**. Both the deliverer and the consumer are *part of* the production process, so its quality is influenced by each (Osborne 2013).

Taken together, these features have several important implications:

- **Competition can be beneficial, but if competition drives costs down it is likely to be detrimental to service quality.** Additionally, areas with a small number of potential users will struggle to support a viable market (Osborne 2013). In essential services such as healthcare and education where high quality and access is desired for all users, competition requires careful management.

- **Users should be kept at the centre of service design and delivery.** This is because the effectiveness of a service is dependent on feedback provided by users and the knowledge which can be gained from their experience.

System stewardship presents an opportunity to address failings of market-based human services against the backdrop of increasingly complex societal needs. In the context of early childhood, research suggests the market-based model is challenged by limitations to family choice, a highly diverse range of operating models, difficulty understanding quality or outcomes for children, and balancing a demand-driven market with societal benefits of participation in early childhood education. An overview of these failings of the market-based model is provided in Figure 1.

Figure 1: Characteristics of ECEC service challenges and opportunities

Notion of family 'choice'
Supply constraints, imperfect information and practical requirements (such as proximity and affordability) often mean families cannot fully exercise choice.

Diverse range of operating models
A mixed market, which brings a highly diverse range of operating models, all with differing cost bases.

Balancing demand-driven market with social benefits
Tension between the construct of a demand-driven market, and the known social benefits of participation in early childhood education which is exacerbated by the fact that the majority of service delivery models require the service to be operating at close to capacity to remain sustainable, meaning unmet demand is common.

Understanding service quality
Difficulty in precisely understanding, measuring and sharing information relating to services quality or outcomes for children and families - and for this to influence choice. This is further challenged by the fact that the purchaser of the service (typically parents) is not the receiver (the child), that the service is not repeatable and that the costs of switching services can be high.

These features do not rule out the possibility of market forces providing positive outcomes for actors within the ECEC system, but it becomes increasingly important to judge when and where these outcomes are unlikely to be achieved. Equally, stewards must acknowledge that the system requires careful monitoring, adjustments and in some cases intervention to reach the desired outcomes. This is one of the key components of system stewardship.

Potential risks and limitations

A system stewardship approach is a relatively new model being applied to complex systems. Accordingly, the evidence base for system stewardship is still emerging and this is one of the model's limitations. However, systems stewardship is iterative by nature and allows for changes and corrections to be applied throughout the life of the system.

Ghate et al. (2013) suggest the following as the main forces that restrict people leading systems from achieving their system's stated purpose or outcomes:

- **Operating capacity** denotes the practical feasibility of leading a more dynamic, connected system. Leaders and stewards need staff and organisations that can operate effectively within complex systems. Characteristics which flourish within these ambiguous environments include an intellectual curiosity and ability to perceive one's role and organisation within a broader system, an understanding of the importance of innovation as well as resilience, and willingness to take risks within limits. As outcomes are inherently uncertain, humility is also required to recognise where proposed solutions have not worked out as planned.

- A system's **purpose and mission** ultimately define its value to the public. Without this being clear and compelling, the case for stewardship will be limited. System stewardship aims to serve its beneficiaries and in the ECEC system, this is children. Therefore, the system's tangible benefits must be clearly communicated in order to receive adequate support from system actors.

- The **authorising environment** refers to the organisational context in which systems leadership takes place and how this reflects a systems-minded culture. This culture recognises the connectedness of organisations, is tolerant of appropriate risk, and rewards experimentation and innovation that contributes to the health of the system. If this culture does not exist, then those behaviours needed to support system stewardship will not be rewarded. For example, a system stewardship approach seeks to generate norms that value performance which contributes to the goals and vision of the system as a whole. Without an appropriate authorising environment, norms may instead value effectiveness based more narrowly on tasks performed and competencies demonstrated.

System stewardship in the current ECEC system

The paper *Early childhood education and care in Australia* provided a summary of the current, complex ECEC system, including its inherent challenges and opportunities. These include:

- **Ensuring equity in access and participation** to achieve high participation rates, particularly in regional and rural areas and for children from areas of disadvantage.

- **Ensuring outcomes for children** which support social and emotional development, alongside their education/readiness for school. Greater access and participation must be paired with high quality ECEC delivery.

- **Managing the ECEC workforce** in a way which addresses shortages, high levels of attrition, difficulties in providing professional development, regional and rural recruitment/training, and builds a diverse, culturally competent workforce.

- **Reducing system complexity** such that navigating the system, including its various forms of support and eligibility requirements, is not confusing and confronting for families.

- **Improving system coherence** to identify opportunities for early intervention. Viewing the system as a cohesive entity will improve alignment with other sectors, such as health and schooling.

Given these challenges and opportunities in Australia's ECEC sector, it is relevant, necessary and timely to consider options for reform at a system level. System stewardship provides an opportunity to improve the health, performance and efficiency of the ECEC system. The paper *Opportunities for system stewardship in early childhood education and care*, will explore how system stewardship may be applied within the ECEC system in Australia.

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