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# REORGANIZING GOVERNMENT: NEW APPROACHES TO PUBLIC SERVICE REFORM

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## INTRODUCTION

In Canada, as in other countries, politicians, public servants, academics, members of the private sector, and other citizens, are engaged in a serious examination of the function of government in society and how that function can best be performed. While similar efforts have been made in the past, various circumstances have converged to lend greater urgency to the current exercise. Debt and deficits (both public and private), changing public and private sector expectations, an altered international trading environment, new technologies, growing doubts about the capacity of state institutions to fulfil their mandates, and a multitude of other factors are more than ever pushing the redefinition of government out of the realm of theory and into that of practice.

One of the principal challenges arising from this complex process is an acutely perceived need to make governments more effective and more efficient. Simply put, there is a universal desire to see governments, in the words of a recent U.S. study, work better and cost less.(1) This has produced attempts to reduce the size of public bureaucracies, eliminate government programs, change the management processes within the administrative arm of government, or to find alternative mechanisms (other than large bureaucracies) to provide services to citizens.

This paper provides an introduction to the last two elements from a Canadian perspective. This country has witnessed attempts to change the structure and management processes of its federal public service since the 19th century. Several themes that emerged from reform efforts following the Second World War remain with us today. Thus, the paper begins by briefly discussing two of the most important of these post-war exercises, the Glassco Commission and the Lambert Commission, which dealt with similar issues and advanced a number of important proposals. Some proposals were adopted, others were not, but many of the problems discussed by these commissions still exist today.

The opening section of the paper provides background for a discussion of government reform in a contemporary context and discusses a current attempt to alter the administrative environment of the federal government (Public Service 2000) that picks up a number of the earlier themes. A feature of recent reform efforts is the search for new ways to provide services to citizens outside the traditional bureaucratic structures of the public sector. Privatization of state services has been a common and well-known response. Another solution, less familiar to Canadians, involves the use of quasi-public, quasi-private entities known as Special Operating Agencies (SOAs). In Canada, the creation of SOAs has been cautious in scope, belying the significance of this element of government reform. Because SOAs embody both the characteristics and the drawbacks of current government reform, the paper gives them particular attention and describes their use in other countries.

It is apparent that government reform in this country, especially as it involves

the structure and management processes of the public service, is not a new phenomenon. Indeed, many of the objectives of reform remain unattained, despite considerable effort. By way of conclusion, the paper will discuss why Canada's continual reform efforts have been so difficult and speculate about whether recent innovations will succeed where others have not.

This paper provides only an introductory look at a vast, complex, and vital issue whose parameters are changing rapidly as new ideas come to the fore and new participants join the exercise.

## HIGHLIGHTS OF ADMINISTRATIVE REFORM ATTEMPTS AT THE CANADIAN FEDERAL LEVEL SINCE 1962

Constitutional change is not the only major reform that has engaged the time and energies of those in public life during the post-war period in Canada. While the debates on the Constitution have occupied centre stage, a quieter, but equally intense and vital discussion has been taking place behind the scenes. This discussion has as its focus the design and implementation of reforms in the management of the federal public service. In terms of durability, this quieter, less public, exercise is the equal of its loftier counterpart, and like it, shows no signs of vanishing.(2) Thus, while terms such as "reinventing," "rethinking," and "renewing" government have recently become a staple of public administration discourse, in fact they describe a process that has been taking place in Canada for quite some time.

Over the past 30 years, the focus of government reform in Canada has been an ongoing search for improved efficiencies and reduced costs in the administration of public affairs at the federal level. This endeavour, in all its variety of forms and complexity, envisages an administrative apparatus of government (i.e., the Public Service) that is accountable for its actions while remaining flexible and innovative enough to meet the challenges thrown up by a pluralistic society subject to rapid change. Were the public service exactly the same as a private sector organization, this challenge, though considerable, would be less daunting. Too many reform attempts have erred in assuming that simple analogies could be drawn between the public and private sectors. But the administrative component of government operates in an infinitely more complex and nuanced environment that creates conflicting demands and makes reform difficult to achieve.

The search for administrative reform has taken the shape of royal commissions, task force studies and investigations internal to the public service itself. It has produced a number of changes to the structure of the public service and to its procedures. Nevertheless, the universal conclusion of those who have studied the issue is that it has not achieved its fundamental goals – as evidenced by the continuing presence of reform efforts in contemporary public administration.

Needless to say, as a consequence of 30 years of study and effort, the landscape has become littered with the remains of reform projects realized, half-realized, or abandoned.(3) To describe them all would require a more

wide-ranging discussion than is possible within the context of this paper and besides, the task has been accomplished elsewhere.(4) Thus, what follows is a summary of the salient features of the major administrative reform attempts that have taken place in the post-war period.

## A. The Royal Commission on Government Organization (Glassco Commission)

The first large-scale attempt to effect reforms to the federal administrative apparatus in the post-war period was initiated by the Diefenbaker government in September 1960, a little over midway through its second term in office.(5) This effort took the form of the Royal Commission on Government Organization, chaired by J. Grant Glassco, a chartered accountant and company executive from Toronto. The Glassco Commission's study, conclusions and recommendations represent a landmark in Canadian public administration and constitute the philosophical foundations for most subsequent reform efforts.(6)

The government's decision to launch the Royal Commission (hereafter referred to as the Glassco Commission) came in response to a variety of concerns. Principal among them was the Cabinet's worries that it was losing control over the growth of the bureaucratic apparatus and government spending. This concern was accompanied by a desire to impose a more rational form of organization – along the lines found in the private sector – on an administrative structure that had expanded in an *ad hoc* fashion during the war and afterwards. The decision to use a Royal Commission to address these concerns was inspired, in part, by the work of the United States Hoover Commission, which had reported on the management of government in that country in 1949 and 1955.(7)

For those familiar with current attempts to reform Canada's public service, the Glassco Commission's terms of reference might have been written yesterday rather than over 30 years ago. The government asked the commissioners

> to inquire into and report upon the organization and methods of the departments and agencies of the Government of Canada and to recommend ... changes ... [which] would best *promote efficiency, economy and improved service in the dispatch of public business*...(8)

The terms of reference then directed the Royal Commission to seek out ways of eliminating overlap and duplication of services, achieving efficiency and economy through decentralization, "through reallocation or regrouping of units of the public service" and through improving budgeting procedures. In interpreting their mandate, the commissioners were guided by the principle that

> the machinery of administration must be made most responsive to the wants and needs of the Canadian

> people. At the same time, the public servants of Canada must have the widest possible opportunities for developing their varied capabilities and for serving the Canadian public with their collective experience and mature judgement.(9)

The Glassco Commission released its report in July 1962. The Commissioners concluded that the Public Service had not proven sufficiently adaptable to new challenges emerging from the post-war environment. At fault were the myriad of controls and regulations emanating from the central agencies, which were inhibiting managers from doing their jobs innovatively and effectively. Furthermore, the Commissioners worried that the central agencies of government, such as the Treasury Board Secretariat and the Privy Council Office, had deprived ministers and departments of much of their authority and had thus eroded the personal accountability of ministers and their officials.

The Glassco Commission's remedy for these problems can be summarized by the phrase for which the Commission is best remembered: "let the managers manage." The Commissioners proposed that central agency controls over the day-to-day administration of departments be dismantled. In place of these controls, departmental managers would be given enhanced discretion to manage, but within a general framework of guidance and accountability established by a new management centre (essentially a revamped Treasury Board). In the absence of rigid controls, performance evaluation would be used as the principal means of ensuring accountability on the part of newly empowered managers. These changes, it was hoped, would produce greater efficiencies in program design and delivery, restore accountability, and, not incidentally, generate savings for taxpayers.

Despite the fact that several of Glassco's recommendations were implemented by government (most notably those regarding preparation of the annual Estimates, which was changed in order to disclose precise program spending within departments), the central goals of the Glassco reforms were not achieved. This was so, in large part, because the Commissioners had neglected to indicate precisely the means by which managers could be held accountable to government and through government to Parliament, while being left free to manage.(10) As a consequence, central agency controls over administrative and personnel management (rather than the guidelines envisioned by Glassco) remained largely in place. Indeed, one scholar has determined that in the aftermath of Glassco, central control agencies actually gained strength and the division of labour between them became even murkier than before.(11)

### B. The Royal Commission on Financial Management and Accountability (Lambert Commission)

Less than 20 years after the Glassco Commission had reported, the problems it had been intended to resolve not only remained but had gathered in

intensity. Government growth continued unabated, costs were rising, and accountability was even more uncertain than before. Thus, in 1976 another Royal Commission was created, this time by the Trudeau government. This was partly in response to the Auditor General's warning, in his Report for the fiscal year 1975-76, that "Parliament – and indeed the government – has lost or is close to loosing, effective control of the public purse"(12) Evidence that the hopes expressed in the Glassco Commission report had not materialized can be found in the Royal Commission on Financial Management and Accountability's terms of reference which stated (among other things) that:

> the current state of financial administration in the Government of Canada is not now adequate to ensure full and certain control over and accountability for public funds required for the expanded responsibilities and programmes;

and that it was

> essential that the government have the capacity to ensure in the Public Service that authority and accountability together ensure the most efficient use of resources, and that all opportunities to make savings, avoid waste and increase productivity are vigorously pursued.(13)

The commission was given two goals: to find ways to ensure that financial management and control was practised at all levels of the public service and to establish the effective administrative accountability of deputy ministers to government, and where appropriate, to Parliament.(14)

The Lambert Commission (named after its chairman, Allan Lambert, an executive of the Toronto Dominion Bank) in March 1979 released conclusions that were not substantially different from those of its predecessor. The commissioners determined that a breakdown had occurred in the accountability regime in government; in effect there was none. The Commissioners wrote that they had

> reached the deeply held conviction that the serious malaise pervading the management of government stems fundamentally from the grave weakening, and in some cases an almost total breakdown, in the chain of accountability, first within government and second in the accountability of government to Parliament and ultimately to the Canadian people. (15)

In short, the Lambert Commission concluded that the management of government had become fragmented, with the result that there was no coordination in planning, haphazard budgeting, and an absence of accountability, especially on the part of central agencies.

The remedies proposed by the Lambert Commission differed substantially, however, from those of the previous Royal Commission. Where Glassco had argued for a looser regime of central controls, Lambert recommended that they be strengthened. A key to addressing both the loss of financial control and the breakdown in accountability, according to the Commission, lay in the creation of a fiscal plan for government. Such a plan – covering five-year periods – would allocate the government's resources according to its priorities but within the limits set by available revenues.

The Commission recommended that such a fiscal plan be jointly prepared by the Financial Secretariat of the Board of Management (i.e., Treasury Board), the Privy Council Office and the Department of Finance, which would assume the lead role. The exercise would consist of dividing up total expenditures according to the broad functions of government. Once established, the expenditure limits assigned each function would be then further broken down into spending ceilings for departments and agencies. The completed fiscal plan would be submitted to Cabinet, and if approved, presented to Parliament well before presentation of the Estimates and the budget.

As envisioned by the Commission, the fiscal plan would serve as a key instrument in restoring the chain of accountability. In terms of the relationship between government and Parliament, accountability would be strengthened by the inclusion, in the fiscal plan, of a statement of the government's priorities and how they were to be funded. In addition, there would be an indication as to whether or not objectives set forth in the previous financial plan had been met and whether or not a balance had been struck between revenues and expenditures.

In terms of the accountability relationship between the public service and government, the Lambert Commission reasoned that the imposition of expenditure limits would provide deputy ministers with a strong incentive to manage resources effectively and responsibly. In addition, it was proposed that deputy ministers establish performance goals for their departments. Assessment of progress in the achievement of these performance goals would be made the responsibility of Treasury Board (renamed the Board of Management), in effect establishing a second accountability relationship for deputy ministers in addition to that between them and ministers.

However, the Lambert Commission went one step further: it recommended that deputy ministers be made accountable to the House of Commons Public Accounts Committee as well as to their ministers and the Board of Management. Critics argued that this proposal, if implemented, would seriously disrupt the principle of ministerial responsibility. Furthermore, the proposal was seen as fundamentally unworkable because it was based on the (artificial according to some) premise that policy and administration can be kept separate. As Douglas Hartle pointed out

> [t]o pretend that there is a clear line between managerial and advisory responsibilities of deputy

> heads, so that they and not the minister would be accountable to parliamentary committees with respect to the former function is ... hopelessly unreal."(16)

For those more familiar with the workings of government, the Lambert Commission's proposals were hopelessly naive, if well-meaning. The Commissioners had failed to take into account the nature of the decision-making processes in government and the inherently political environment in which it takes place. As James Mallory argued, the Commission's major weakness lay in the fact that it was

> unsufficiently [sic] sensitive to the fact that government is essentially a political operation. Politicians in power must constantly be aware that rational management is never enough. Political demands have to be satisfied, decisions have to be timed more to the electoral cycle that to the business cycle.(17)

These factors made adoption of the commission's proposals highly unlikely. The end result was that the proposals they put forward had little, if any, impact at all on the structure, program delivery, or management practices in government.(18)

## GOVERNMENT REFORM IN A CONTEMPORARY SETTING

There is no question that government reorganization has now become an international phenomenon on a vast and growing scale. "Knowledge sharing" spread by improved information technologies and interpersonal contacts between public sector administrators has led to a certain degree of uniformity among the government responses to a set of common problems. This section attempts first, to survey briefly the background against which this global phenomenon is taking place. It then looks at the most recent effort in Canada to reform the administrative arm of government and at attempts, in Canada and elsewhere, to change the way in which certain services are provided by the state. These cases demonstrate that the trend is toward the development of an administrative apparatus of government that mirrors the outlook and practices of the private sector. While these changes have produced some clear benefits, they have also produced problems, problems that will be highlighted in the cases that follow.

Although they bear some similarities to previous efforts – especially in terms of some objectives – current attempts to "reinvent" government are different in a number of fundamental ways from their predecessors. Reform efforts at present underway have been conditioned by major changes in the operating environments of governments everywhere. Foremost among these changes is the declining availability of resources to fulfil government mandates. In contrast to the past, governments now operate under conditions of revenue scarcity and massive deficits. Thus, fundamental change in the way

governments conduct their affairs has become an imperative.

While cutting back the services provided by government might seem like the logical response to declines in revenues (and indeed this solution still has many advocates), governments are facing pressures to do more rather than less. Changes in trading patterns and production technologies have left governments with added responsibilities for helping citizens to adjust to the altered circumstances. At the same time, the private sector is looking to governments for assistance in meeting new challenges.

These, as well as other factors, have produced a growing awareness that a simple reduction in the scope and size of government may create more problems than it solves.(19) The collapse of global trade barriers has intensified economic competition among nations. Among other things, this has led both the private and public sector to view the administrative apparatus of government in a different light. Entire economies are restructuring, a process in which government, as a significant contributor to the GNP of most countries, is inextricably involved. As a consequence, the structural reforms in the public sector of many nations are based in part on a new recognition that the public sector is "a vital agent of structural reform as well as being itself an object for reform."(20) An efficient public service is now also seen as a key element enabling nations to compete with one another in an increasingly contentious international trading environment. As the President of the Public Service Commission, recently argued:

> One factor of a nation's competitiveness is its public service. When one country competes against another, their respective public services are also competing. An effective public service is thus one of the pillars of a strong GNP.(21)

Therefore, while the reforms of the early to mid-1980s appeared to spring from a view that government in all its manifestations was little more than a necessary evil, government is now seen as a positive – and indeed necessary – force in society. Elements of the private sector have come to perceive government as a useful partner and have begun to explore ways to make it more efficient and effective.(22)

Nevertheless, this recognition comes against a background of other factors that preclude a return to a reliance on massive bureaucracies for the delivery of public services. Primary among these factors are the considerable financial constraints mentioned above. Citizens have also become sceptical about the ability of government bureaucracies to deliver services efficiently and inexpensively.(23) Collectively, these factors have helped produce a search for alternative ways in which governments can continue to satisfy expectations without incurring the associated costs.

As a result, governments have begun to seek partnership arrangements with the private sector to assist them in the delivery of services and adopt private sector solutions for restructuring their own administrative apparatus.

Governments are identifying which of their operations are analogous to private sector services and then changing their orientation accordingly. This has meant, in general, that governments are trying to separate their planning or policy functions from program delivery functions. The former continue much as before to design services (a policy function), while the latter are given greater freedom – and incentives – to deliver them (an administrative function).(24)

As governments and the private sector establish partnership arrangements and as governments restructure their operations, the traditional divisions between the public and private sectors have become fluid and in some respects are breaking down. One result has been the gradual importation into the public service of a private sector ethos that employs concepts such as "entrepreneurship," "competition," and service to "clients." Another has been for certain segments of government administrative machinery to take on the attributes of private sector entities. These changes have brought with them a mixture of benefits and problems, some of which will be discussed below. They also have some very significant implications for governance in democratic societies such as our own, implications that are dealt with in another Research Branch paper.(25)

Thus, while aspects of current reform touch on some familiar themes, these efforts to "reinvent" government have a far broader scope than past reform efforts. They are aimed at redefining the role of the state in the economy and the relationship between the public and private sectors. Essentially, this widespread restructuring constitutes nothing less than

> a radical shift from a public service whose purpose was to promote public welfare to an enterprise culture based on efficiency and economy.(26)

Although each of these efforts at public sector reorganization cites better service to citizens (or "clients"), the central impulse behind them has been the need for governments to cut costs. Of the British Next Steps program, it was observed that the new management initiatives "are important only as far as they contribute to public expenditure control"; this can be seen as the real test of the ultimate success of any of these initiatives.(27)

### A. Reorienting the Public Sector: Public Service 2000

Two analysts who studied Canada's federal public service in the late 1980s determined that, while a new management philosophy focused on results, performance, and outcome was emerging, success would require a change in the attitudes and behaviour of the public service.(28) Another observer, who conducted a survey of public servants at about the same time, concluded that serious morale problems in the public service had been hindering the efficient delivery of services to the Canadian people.(29) The most recent effort to bring about administrative change aims to institutionalize the new management philosophy and to restore morale within the public service by importing private-sector values. Thus, while similar to previous attempts, it is

different in that it aims at changing the "culture" of the public service by instilling a new entrepreneurial spirit in its employees.

In December 1989, the then Prime Minister, Brian Mulroney, announced an initiative entitled Public Service 2000 (PS2000), whose broad goal was the renewal of the federal public service. Against a background of financial restraint and rising levels of demand, the government was seeking ways of fulfilling its varied mandate through new efficiency measures and better management.

In launching this initiative, the Prime Minister referred to a central theme of previous reform attempts by indicating that a leading goal was to vest public service managers with as much authority as possible; central agency administrative controls would be reduced and Deputy Ministers given greater freedom to manage their departments accompanied by "clearer accountability" for results. For the first time, the government signalled its recognition that the public service is composed of a variety of organizational forms, a feature it sought to promote rather than discourage.(30)

PS2000 differed considerably from past reviews of the federal public service, in that it was largely conducted by the public service itself. Led by Clerk of the Privy Council, assisted by the Chairman of the Public Service Commission and the Secretary of the Treasury Board, the review was accomplished by ten task forces made up of approximately 120 Deputy and Assistant Deputy Ministers and other senior officials.(31) The task forces completed their work in 1990 and the government released a White Paper based on their findings and recommendations in December of that year.

Entitled *Public Service 2000: The Renewal of the Public Service of Canada*, the White Paper's contents reflected the objectives established by the Prime Minister in 1989. The White Paper sounded many familiar themes, occasionally dressed up in contemporary language: reduction of red tape, empowerment of staff, devolution of authority, decentralization, and the elimination of unnecessary regulations that hinder effective management. It differed from earlier attempts in that it was the first administrative review to designate the quality of service to the public as a goal of public management. In order to achieve this goal, the government determined that a change in the culture of the Public Service was required. The old or existing culture had placed an emphasis on

> administrative systems, and conformity and control to produce "error-free" government [and] ... has circumvented the initiative of public servants, sacrificed timeliness and placed insufficient emphasis on results and cost effectiveness.(32)

Thus, beyond structural adjustments, what was needed was a fundamental change of attitude on the part of public servants themselves, one that would see them adopt an entrepreneurial approach to their work. The government, in the words of the White Paper, determined that there must be

> a new outlook on the part of Public Servants, one centred on leadership, communication, consultation and client feedback within the context of deregulation and flexibility in the use of resources to get the job done.(33)

The government concluded as well that, while other reform attempts had also tried to devolve greater authority to public servants, they had suffered from the absence of "effective accountability for the use of the authorities with which people have been entrusted."(34) In essence, the White Paper proposed to implement effective accountability through the establishment of results and performance standards for managers, ideas which the government admitted were not "radical departures."(35) However, in its proposals for a cultural change in the Public Service, the government was in effect proposing a new accountability relationship between public servants and the public or clientele they serve.

A number of ways have been used to implement measures proposed by PS2000. One is legislative. The *Public Service Reform Act, 1991*, which came into effect by stages between April and September 1993, streamlines the management of resources within the public service with the aim of giving managers flexibility in the staffing process similar to that enjoyed in the private sector. Amendments to existing Acts would, among other things, give deputy ministers the authority to fill vacant posts quickly without reference to the normal competition process.(36) Another means of achieving the goals of PS2000 has been the creation of Special Operating Agencies (see below).(37) These, together with other steps emerging from PS2000, are intended to bring about a "cultural" change that will see public servants adopt values similar to those in the private sector.

## B. Delivering Government Services Differently

Apart from trying to encourage public servants to adopt a new approach, governments have also been altering the very structures that provide services to citizens. One method has been to privatize government agencies involved in service delivery. Another, perhaps more significant, method has been to create units that function relatively autonomously within government departments and whose existence depends on being financially self-sustaining. Known as special operating agencies (SOAs), these units first appeared in the United Kingdom; New Zealand also has such agencies. Experience in these countries makes it possible to identify a number of the potential benefits and drawbacks that SOAs may encounter in the Canadian context. In each country, it should be noted, the move to set up SOAs reflected a desire to instil an entrepreneurial spirit in the public service concerned and has redefined the boundaries that separate the private and public sectors.

### 1. The United Kingdom: The Next Steps Initiative (38)

As in Canada, the post-war period in Britain was marked by efforts to reform

the public service. By the 1970s, however, it was widely recognized that these efforts had largely failed to eliminate inefficiencies and weak financial controls. Thus, when Margaret Thatcher became Prime Minister in 1979, an effort was launched to change the management practices of the civil service. This initiative was led by the Prime Minister's Efficiency Unit, created in 1979 to identify and eliminate inefficiency in the public service. The unit's broader mandate was to change the culture of the civil service by making good management a valued and well-rewarded activity. An evaluation conducted by the unit in the late 1980s revealed, however, that little progress had been made. The unit issued a report (*Improving Management in Government: The Next Steps*), which stated that the public service was too large and diverse to be centrally managed, that overworked ministers paid too little attention to management issues, that public service managers were hindered by hierarchical regulation, and that little emphasis was being placed on achieving results. As a solution, the report proposed separating the public service's policy-making functions from its service delivery functions, which employed 95% of Britain's public servants. Areas of operational activity within each department would be identified; where appropriate, executive agencies would be created and given the responsibility for these functions. The new executive agencies would be headed by a chief executive who would be free to manage within policy and resource guidelines established by the departments. The position of chief executive would be filled on the basis of a competitive process open to private sector as well as public sector applicants.

In 1988, the report's principal recommendations were accepted by the Thatcher government. A small group within Cabinet Office took responsibility for encouraging departments to begin the process of identifying which of their operational activities were suitable for agency status.

At first, progress was slow; by the summer of 1989, only eight agencies had been set up. As of April 1993, however, there were 89 agencies and a further 19 candidates for agency status had been identified. Approximately 260,000 British public servants, 66% of the total, currently work in executive agencies; the goal for the end of 1993 was for 75% to do so.(39)

Advocates claim that the restructuring has been fully compatible with the demands of parliamentary government. Chief executives of agencies are accountable to ministers, who in turn are accountable to Parliament. The relationship between each agency and the department is clearly spelled out in framework documents negotiated between the agency, its parent department, Treasury and the Next Steps Unit. These documents (which are analogous to contracts, although they do not have legal status) are reviewed every three years and contain the policy and resource guidelines within which the agencies function and the objectives against which their performance can be measured. It is important to note that ministers clearly maintain an upper hand in their relationship with agencies. The targets, for example, can be changed to suit the minister's wishes and agency executives have no choice but to meet them. Apart from the framework documents, agencies must also establish a five-year corporate plan setting out their strategy for long-term development and an annual business plan detailing how they intend to meet their

performance targets.

Other innovations implemented since the advent of Next Steps include:

- performance pay, which links part of a public servant's salary to his or her annual performance;

- the Citizen's Charter initiative, under which public entities, including agencies, must provide statements of the service standards that the public can expect; and

- market testing, which requires government organizations to determine whether their services could be delivered better by the private sector.

Two scholars familiar with the Next Steps initiative argue that it demonstrates the possibility of change in large public institutions, provided that certain preconditions are met.(40) The change must be managed by a "dedicated band of change agents" and have political support from the highest levels.(41) Above all, structural change in government must be implemented in an incremental fashion that is sensitive to existing structures and procedures.(42)

Next Steps may be deemed successful in terms of its implementation and in changing the public service culture as intended; Wilson and Wright found that agency staff felt more focused on the primary purpose and business of their organizations, identified more with them and believed that there was greater freedom to manage human and financial resources. It would, however, be unwise to ignore several difficulties the program has encountered. For example, it is by no means certain that the goals of improved service delivery have been achieved.(43) It also remains unclear whether or not all agencies are able to function as free of departmental control as planned. Apart from the inherent unwillingness of departments to relinquish control over certain areas, the system of ministerial responsibility – still in force – makes the autonomy envisioned by Next Steps problematic.(44) Nor has the accountability relationship between agencies and Parliament been fully resolved. Jenkins and Gray raise some important questions in this regard. They ask to what degree an agency's operational freedom can be compatible with public sector accountability and point out that

> the fundamental issue at stake ... is that between accountability and managerial freedom. One view is that detailed scrutiny can only inhibit innovation. The response is that scrutiny is essential to the enhancement of good and responsible government. (45)

They also suggest that the initiative may produce some (unintended) consequences for the role of ministers, who, in some cases, will find themselves presiding over ministries whose functions have largely devolved to agencies. Jenkins and Gray also ask whether policy can really be separated

from delivery, and point out that, even if it can, this massive structural change is no guarantee of good governance: "the good delivery of bad policy is hardly the measure of a healthy state."(46)

In conclusion, although Next Steps has achieved some remarkable progress in restructuring the British public service, it has yet to be determined whether or not its fundamental goals have been realized.

## 2. New Zealand: State Owned Enterprises (SOEs)

New Zealand's State Owned Enterprises (SOEs) existed before they were transformed into entities resembling the special operating agencies of other countries.(47) Initially, they served as instruments for implementing public policy, for regulation, and for fulfilling social policy objectives. This combination of mandates came into question in the 1980s, however, especially in light of the waste and inefficiencies produced by the SOEs. The government's response was the introduction, in 1986, of the *State Owned Enterprises Act*, which "corporatized" the SOEs and gave them clearly stated mandates.

The *State Owned Enterprises Act* implemented many of the objectives of special operating agencies in other countries. While ministers continue to be responsible for policy, the SOEs are responsible for delivery functions. Like private sector enterprises, SOEs must now produce annual and semi-annual reports and must submit an annual Statement of Corporate Intent to ministers which can be used to assess their performance. According to legislation, these documents must contain details of the activities in which a SOE intends to engage and performance targets.

There have been several major consequences of legislated change in the structure and operation of the SOEs; staff levels have been reduced and those employees who remain work on the basis of employment contracts, like workers in the private sector. At the same time, the general output of SOEs has increased.

This restructuring, however, has not been achieved painlessly. Large numbers of public employees have lost their jobs, at considerable cost to the state in the form of compensation packages and continuing unemployment relief. As well, the basic implementation costs for the transformation were quite high.

As in the case of Britain's Next Steps agencies, there are doubts as to whether the SOEs are capable of fulfilling the objectives set. In particular, their ability to operate in a private sector environment has been called into question on the grounds that it is impossible for SOEs to function on a strictly commercial basis. Lojkine argues that this is so because SOEs receive public funding and as a consequence are subjected to a higher degree of accountability than is usually found in the private sector. As a result, this produces

the need for performance monitoring by ...

> politicians ... on behalf of ... the community – [which] opens up all sorts of possibilities for political interference with supposedly commercial enter-prises.(48)

As an example, Lojkine points to the fact that ministers can make changes to the Statements of Corporate Intent (SCIs). Furthermore, the requirement to operate within guidelines established by legislation and the SCIs subject SOEs to more stringent controls than exist for private sector enterprises. A final constraint involves the fact that the Crown is the only "shareholder" in the SOEs; as Lojkine suggests, the Crown "...is not a very useful shareholder – it has no commercial experience or ability, and no spare capital!"(49) In conclusion, Lojkine makes a point that others have made in reference to Canada's special operating agencies (see below) and Britain's Next Step agencies: they are not necessarily ends in themselves but half-way houses perched somewhere between being state enterprises and private enterprises. Lojkine suggests that their problems will drive them either in one direction or the other, with privatization being the most likely result. In either case, she writes, "...it would be best to recognize this now, and to control the process, rather than be pushed into it."(50)

### 3. Canada: Special Operating Agencies (SOAs)

Canada has also been developing special operating agencies, but on a smaller and more cautious scale than the United Kingdom and New Zealand.(51)

Beginning in 1989, certain government programs and agencies were selected for possible SOA status, primarily on the basis that they involved service delivery and had a potential to become self-financing.(52) Since December 1989, when the government first announced plans to proceed with the SOA initiative, more than a dozen of these entities have been established.(53)

As elsewhere, Canadian SOAs are expected to realize the goals of improved service delivery, improved accountability, and cost savings to government. As such, they are expected to be responsive to client needs, and function in a business-like manner. Canadian SOAs operate on the basis of a framework agreement that serves as the principal means of ensuring accountability. These documents are developed by the SOA and its parent department and include a statement of the SOA's mission, standards of performance, and a description of its relationship with its department. All framework agreements must be approved by Treasury Board and are considered public documents. As is the case with Next Steps agencies, employees of SOAs remain public servants and SOAs remain part of their departmental organization. The SOAs are headed by a Chief Operating Officer accountable to a Chief Executive Officer who is the Deputy Minister of the parent department.

The Passport Office serves as an example of the an SOA currently in operation.(54) Its activities are funded – not by government – but by the fees it collects from its clients. Although it is run like a privately owned enterprise, public service guidelines on hiring, salaries and personnel

practices still apply to its employees. Given that a primary goal in establishing an SOA is better service to clients, the Passport Office may be considered successful. Dependence on fees to fund operations has resulted in a new focus on the needs of clients; offices now are open longer hours and employees have taken steps to facilitate the process of applying for a passport. New branches have been opened in the past year, their location based on market demand rather than political considerations.

In Canada, SOAs are being viewed as means of finally reconciling the demands of accountability with managerial flexibility, as " a way to shed the old paradigm of public sector management."(55) The Treasury Board Secretariat maintains that the accountability relationship remains unaltered under the SOA model; if anything, accountability is "...strengthened and clarified..." because of the existence of the framework documents and business plans.(56) Though this may be so, it is questionable whether the other goal of enhanced authority for employees and managers can be accomplished at the same time. An important distinction between Canadian SOAs and their U.K. counterparts is that in Canada, Deputy Ministers occupy the position of CEO for SOAs; in Britain, this task is the responsibility of the agency head. One analyst suggests that this arrangement in Canada enhances the possibility that "...central control functions in a department may usurp the operations of agencies rather than nurture their success."(57) There is also the distinct possibility that such devolution of authority into the ranks of the public service may deprive ministers of some of their capacity to "steer" their departments.(58) Thus, the claim that the SOA initiative "should allow individual managers and employees greater opportunity to exercise initiative and enterprise"(59) may prove overly optimistic. One wonders whether or not this initiative may eventually encounter the same frustrations as the reforms proposed by the Glassco Commission.

The Canadian experiment with special operating agencies must be seen as only one component of a larger initiative to promote changes to the structure of this country's public service. It fits within the context of the PS2000 initiative in that it is intended to encourage the development of an "entrepreneurial" spirit among public servants. Whether or not SOAs will become the leading model for future structural change in the public service remains to be seen. The previous government announced that it was committed to extending the use of SOAs to "as many organizations as possible."(60) The present government has announced its intention to conduct reform founded on an understanding of what the broad role of the federal government ought to be; it may wish to examine the place of SOAs within the larger administrative framework of government.

## CONCLUSION

In Canada by the late 1980s, there had been considerable growth in the administrative machinery of the federal government as well as in the staffing levels at the central agencies. Yet A.W. Johnson reports that the "essentials of the management regime in place seem not to have changed."(61) The reformed management practices and structures repeatedly advocated had not

materialized in any meaningful way. In 1991, the Auditor General spoke of his impressions as a newcomer to Ottawa. "There are," he told Parliament,

> cumbersome internal rules in government, an emphasis on procedures, a complex budgeting process, and so on ... successive governments, concerned about probity and prudence, economy and efficiency, have placed pervasive, systemic reliance on central controls.(62)

Why, after 30 years of effort to change the administrative environment of the public service, had so little been accomplished? In 1988, Douglas Hartle, former deputy secretary of the Treasury Board (1969-1973) reached conclusions similar to Johnson's, explaining that

> the endless tension between consistency and central control on the one hand and flexibility and "let the managers manage" on the other will always remain. It is a dynamic process, forever in search of its equilibrium. Changes are always taking place in the process, but all of this fine-tuning still fails to achieve that elusive perfect balance. The truth is that even if an objective ideal existed, it is doubtful that anyone would recognize it as such; nor would it remain constant, as it would continue to reflect the external environmental forces shaping the process. (63)

In effect, there is a constant tension between the constraints imposed by accountability on one hand and the need for creative, flexible management on the other. As long as government is accountable to Parliament (and this is a principal cornerstone of Canada's system of government), the emphasis on central controls is likely to remain, despite occasional attempts to tilt the balance in favour of enhanced managerial freedom. Two scholars describe this phenomenon as a struggle between centralization and decentralization in federal administration and point out that a shift in favour of either extreme is unlikely to be conclusive. They write that:

> In the federal administrative system, as in all complex organizations, the pull toward centralization is inherent; decentralization, on the other hand, requires conscious and continuing efforts to tilt the organization in ways that contain, even resist, the natural tendency to rein in power at the centre.(64)

It is therefore not surprising that attempts at administrative reform in the public service that involve devolution power from the centre have never been a one-shot affair. The authors of a recent White Paper on public service reform observe that reform over the past 30 years has swung like a pendulum

between tighter central control and greater autonomy for departments.(65)

Do the proposals in the PS2000 initiative and the move to establish special operating agencies hold forth the promise of escaping the pendulum's swing? Without denying the contextual factors that make changes to the way in which government operates more compelling than ever, are recent proposals more likely to succeed than their predecessors? While this question remains a matter of speculation, a number of observations are possible. The first is that the Next Steps program shows that change of this sort is possible.

Political support from the upper levels of government, a precondition for success, has already been forthcoming from the present government.(66) Public servants, however, are less enthusiastic; at least one major public sector union has called for a one-year moratorium on the current reorganization of the public service.(67) Even with strong political and public service support, it is likely to take many years before change – especially of a cultural nature –is realized.(68)

In his most recent report to Parliament, Auditor General Denis Desautels expressed several concerns for the future of PS2000, and reported problems in its implementation. Rank-and-file public servants, who were not included in the preliminary stages, view the exercise with misgiving while some deputy ministers have not handled the proposed changes effectively or with enthusiasm. Thus, although progress has been made in many areas, it has been uneven and the initiative's future is uncertain.

In order to revitalize PS2000 and ensure that its goals are met, the Auditor General recommends a number of steps, including periodic assessments to ascertain whether "specific reform objectives are being met, to identify problems and lessons learned, and to point to new directions..." for further reforms.(69) These evaluations, he suggests, should be placed before Parliament and given to a parliamentary committee for consideration.(70)

Is reform of the sort envisioned capable of achieving the set goals? The British and New Zealand experiences suggest that caution in this respect is warranted. While these reforms may achieve benefits, they may fall well short of the claims made by their proponents. They may also bring unanticipated problems. What sort of impact will they have, for example, on a government's ability to direct its administrative apparatus? Will these reforms, rather than providing Canadians with enhanced opportunity to help public services meet public needs, in fact achieve the opposite, as some critics have warned?(71) Much thought will have to be devoted to the kind of government Canadians want, the societal mandates they want it to fulfil, and the most desirable means of achieving these goals.

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## APPENDIX

Public Service Employment, 1989-1993

| Level of Government | 1989 | 1990 | 1991 | 1992 | 1993(1) |
|---|---|---|---|---|---|
| Federal Government (2) | 403,923 | 408,885 | 418,482 | 412,914 | 411,976 |
| Government Business Enterprise (3) | 174,009 | 153,377 | 152,375 | 149,395 | 146,221 |
| Total | 577,932 | 562,262 | 570,857 | 562,309 | 558,200 |
| Provincial Government | 930,850 | 952,527 | 965,646 | 963,613 | 964,077 |
| Government Business Enterprise | 157,188 | 159,031 | 151,255 | 147,647 | 141,270 |
| Total | 1,088,038 | 1,111,558 | 1,116,901 | 1,111,260 | 1,105,347 |
| Local Government | 901,895 | 924,895 | 944,969 | 958,833 | 999,415 |
| Government Business Enterprise | 50,238 | 50,569 | 52,406 | 52,771 | 52,726 |
| Total | 952,132 | 975,464 | 997,375 | 1,011,604 | 1,052,141 |

(1) Data from 1993 for all levels of government are for the second quarter only. All other data are yearly averages.

(2) Statistics Canada defines the government component of public sector employment as including employment in departments, agencies, boards, commissions, municipalities and funds established and controlled by governments, public educational institutions, cultural facilities, hospitals and social agencies, and bodies administering universal pension plans.

(3) Statistics Canada defines government business enterprises as "organizations engaged in commercial operations. Such enterprises are similar in motivation to private business enterprises and are either in competition with private enterprises or they monopolize markets that would otherwise be serviced by the private sector."

Source: Statistics Canada, *Public Sector Employment and Remuneration, 1992*, 1993; Statistics Canada, *The Daily*, 8 December 1993.

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(1) *From Red Tape to Results: Creating a Government that Works Better and Costs Less*, National Performance Review, Washington, 1993.

(2) Indeed, V. Seymour Wilson has called the ongoing government reform effort "a Sisyphean exercise..." (V. Seymour Wilson, "What Legacy? The Nielsen Task Force Program Review," in Katherine A. Graham, ed., *How Ottawa Spends 1988/89: The Conservatives Heading into the Stretch*, Carleton University Press, Ottawa, 1988, p. 41).

(3) According to A.W. Johnson, there has been, on average, one new major push for reform every three to five years. A.W. Johnson, *Reflections on Administrative Reform in the Government of Canada 1962-1991*, Office of the Auditor General, Ottawa, 1992, p. 7.

(4) A.W. Johnson's book (*ibid*.) provides a thorough overview of administrative change in the federal government.

(5) Diefenbaker's first term had been brief, lasting less than a year.

(6) C. Lloyd Brown-John, "If You're So Damned Smart, Why Don't You Run Government Like a Business," in Katherine A. Graham, ed., *How Ottawa Spends 1990-91: Tracking the Second Agenda*, Carleton University Press, Ottawa, 1990, p. 220.

(7) Douglas G. Hartle, "The Report of the Royal Commission on Financial Management and Accountability (The Lambert Report): A Review," *Canadian Public Policy*, No. 3, Summer 1979, p. 367-368.

(8) Canada, Royal Commission on Government Organization, *Report*, Vol. I, Ottawa, 1962, p. 8 (hereafter Glassco Commission) (emphasis added).

(9) *Ibid*., p. 25.

(10) James R. Mallory, "The Lambert Report: Central Control and Responsibilities," *Canadian Public Administration*, No. 22, Winter 1979, p. 517.

(11) *Ibid*.

(12) Canada, Office of the Auditor General, *Report*, fiscal year 1975-76, Ottawa, 1976, p. 9.

(13) Canada, Royal Commission on Financial Management and Accountability, *Final Report*, Ottawa, 1979, p. v-vi (hereafter Lambert).

(14) Donald Savoie, *The Politics of Public Spending in Canada*, University of Toronto Press, Toronto, 1990, p. 128-129.

(15) Lambert (1979), p. 21.

(16) Hartle (1979), p. 382.

(17) Mallory (1979), p. 527. Mallory's assessment is echoed by Hartle (1979), p. 381.

(18) Savoie (1990), p. 145.

(19) G. Bruce Doern, "Efficiency-Democracy Bargains in the Reinvention of Federal Government Organization," in Susan D. Phillips, ed., *How Ottawa Spends 1993-1994: A More Democratic Canada?*, Carleton University Press, Ottawa, 1993, p. 204. Doern writes that one of the driving forces behind current efforts to reform government is a concern that 10 years of deregulation and privatization have deprived government of some of its essential capacities.

(20) Derry Ormond, "Improving Government Performance," *OECD Observer*, No. 184, October/November 1993, p. 4.

(21) Robert J. Giroux, "Downsizing the Federal Public Service," *Canadian Speeches: Issues of the Day*, September 1993, p. 48.

(22) See Charlotte Gray, "Civil Strife," in *Saturday Night Magazine*, 106, No. 1, January/February 1991. Gray discusses the creation of the Public Policy Forum by Sheldon Ehrenworth, a former public servant interested in having the private sector promote change in Canada's public service. Gray writes that Ehrenworth "persuaded a widening circle of business people that the fight shouldn't be for *less* government (...) but for *better* government, because better government policies and more efficient government operations could help Canadian companies elbow their way into global markets" (p. 17, emphasis in original).

(23) This is a very important change in context from that of previous reorganizations and may create a climate that facilitates the effort to find alternatives to public bureaucracies as a means of providing services to citizens.

(24) Whether or not this is a distinction in theory rather than in fact can be made has long been a subject of contention and continues to be disputed within the context of current government restructuring efforts.

(25) Gerald Schmitz, *Government Reform and Reorganization: Retrospect and Prospect*, BP-376E, January 1994.

(26) R.C. Mascarenhas, "Building an Enterprise Culture in the Public Sector: Reform of the Public Sector in Australia, Britain, and New Zealand," *Public Administration Review*, Vol. 53, No. 4, July/August 1993, p. 319.

(27) Bill Jenkins and Andrew Grey, "Reshaping the Management of Government: The Next Steps Initiative in the United Kingdom," in F. Leslie

Seidle, ed., *Rethinking Government: Reform or Reinvention?*, Institute for Research on Public Policy, Montreal, Quebec, 1993, p. 75.

(28) Peter Aucoin and Herman Bakvis, *The Centralization-Decentralization Conundrum: Organization and Management in the Canadian Government*, Institute for Research on Public Policy, Halifax, 1988.

(29) David Zussman, "Managing the Federal Public Service as the Knot Tightens," in Katherine Graham, *How Ottawa Spends 1990-91: Tracking the Second Agenda*, Carleton University Press, Ottawa, 1990, p. 247-275.

(30) Office of the Prime Minister, "Public Service 2000 ... the Policy of the Government of Canada Concerning the Measures Necessary To Safeguard and Promote the Efficiency and Professionalism of the Public Service in Order That It May Serve Canadians Effectively into the 21st Century," 12 December 1989.

(31) The following task forces were established: Administrative Policy and Common Service Agencies; Classification and Occupational Group Structures; Compensation and Benefits; Management Category; Resource Management and Budget Controls; Service to the Public; Staff Relations; Staffing; Training and Development; Work Force Adaptiveness.

(32) Paul M. Tellier, former Clerk of the Privy Council, "A New Canadian Public Service," *Business Quarterly*, Spring 1991, p. 93.

(33) Canada, *Public Service 2000: The Renewal of the Public Service of Canada*, Ottawa, 1990, p. 48.

(34) *Ibid*., p. 89.

(35) *Ibid*., p. 90.

(36) For a complete description of the content and implications of the Act, see June Dewetering, "Bill C-26: The Public Service Reform Act," LS-90E, Research Branch, Library of Parliament, Ottawa, 1991.

(37) It should be noted that creation of Special Operating Agencies was already underway when PS2000 was being conducted, but the two exercises share compatible goals.

(38) A number of the British initiatives discussed here provided the inspiration for some of the proposals for government reform advanced (January 1994) by the National Citizens' Coalition in a publication entitled *Blueprint for a Revolution*.

(39) Agency employees retain their status as public servants, but agencies have been given more freedom to recruit staff. Some examples of Next Steps Agencies are: Central Office of Information; Central Science Laboratory;

Central Statistical Office; Child Support Agency; Employment Office; Her Majesty's Prison Service; RAF Maintenance.

(40) Jenkins and Gray (1993), p. 92-93.

(41) High-level political support for public sector structural change has been crucial in other countries attempting similar programs: Ormond (1993), p. 4.

(42) Jenkins and Gray (1993), p. 80. These observations are also supported by Doreen Wilson and David Wright, "Next Steps: Inside Perspectives on Civil Service Reform in the United Kingdom," *Optimum*, Vol. 23-4, 1993, p. 46.

(43) Wilson and Wright (1993) also indicate that a basis for evaluating the Next Steps program as a whole has yet to be determined, p. 51.

(44) Doern (1993), p. 218.

(45) *Ibid*., p. 88.

(46) *Ibid*., p. 92.

(47) Susan M. Lojkine, "State-Owned Enterprises – The New Zealand Experience," *Optimum*, Vol. 22-2, 1991-92, p. 31.

(48) *Ibid*., p. 38.

(49) *Ibid*.

(50) *Ibid*., p. 39.

(51) While Canadian SOAs bear many similarities to their counterparts in Britain, the latter are supported by special enabling legislation, and have considerable public visibility; this is not the case in Canada. As the Treasury Board Secretariat acknowledges, Canada's SOAs "represent a non-legislative approach": Canada, Treasury Board Secretariat, *Becoming a Special Operating Agency*, Ottawa, July 1991, p. 6.

(52) Included among the programs thus identified are those that involve direct service to clients (e.g., income support services, Canada Employment Centres, consular services abroad), science and technology services (e.g., government laboratories that currently serve the needs of departmental and business clients), and regulatory and enforcement programs (e.g., customs, taxation, immigration, food inspection, water and air quality inspection, health and safety standards).

(53) The following are examples of SOAs currently in operation: Passport Office, Patent Office, Corcan (makes furniture in penitentiaries), Consulting and Auditing Canada, Canada Communication Group, Canada Grain Commission, Government Telecommunication Agency, Intellectual Property

Directorate, Racetrack Supervision, Canadian General Standards Board, Indian Oil and Gas Canada, Transport Canada's Training Institute, Canadian Heritage Information Network, Canadian Conservation Institute.

(54) For more on the Passport Office, please see Alan Freeman, "Passports to Profits," *Globe and Mail* (Toronto), 14 December 1993, p. B24, an article from which much of this information was taken.

(55) Jim Armstrong, "Special Operating Agencies: Evolution or Revolution?" *Optimum*, Vol. 22-2, 1991-92, p. 5.

(56) Treasury Board Secretariat (1991), p. 8-9.

(57) Armstrong (1992), p. 11.

(58) This point is raised by Mascarenhas (1993), p. 322.

(59) Treasury Board Secretariat (1991), introduction.

(60) Canada, *The Renewal of the Public Service...*, p. 24.

(61) Johnson (1992), p. 14.

(62) Canada, *Report of the Auditor General to the House of Commons*, fiscal year ended March 1991, Auditor General of Canada, Ottawa, 1991, p. 16.

(63) Douglas G. Hartle, *The Expenditure Budget Process of the Government of Canada: A Public Choice-Rent-Seeking Perspective*, Canadian Tax Foundation, 1988, p. 199.

(64) Aucoin and Bakvis (1988), p. 6.

(65) Government of Canada, *Public Service 2000: The Renewal of the Public Service of Canada*, Ottawa, 1990, p. 89.

(66) The Hon. Marcel Masse, "Getting Government `Right': The Challenge of Implementation," Notes for an address to the National Conference on Government Relations, Ottawa, 1 December 1993.

(67) Public Service Alliance of Canada, "PSAC Urges Moratorium on Public Service Reorganization in Light of Auditor General's Report," News Release, Ottawa, 20 January 1994.

(68) Kenneth Kernaghan, "Career Public Service 2000: Road to Renewal or Impractical Vision?," *Canadian Public Administration*, Vol. 34, No. 4, Winter 1991, p. 571. Kernaghan estimates that changing the culture of the public service will take at least seven to ten years.

(69) Canada, *Report of the Auditor General of Canada to the House of*

*Commons, 1993*, Minister of Supply and Services Canada, Ottawa, 1993, p. 179. As a consequence of PS2000, the Clerk of the Privy Council is already required to report annually on the state of the Public Service but not on progress in implementing PS2000.

(70) The Public Policy Forum has made a similar suggestion to the effect that a Standing Committee on the Public Service should be created that would "...be mandated to conduct public hearings on the state of the public service and to drive the process of continuous improvement...": Public Policy Forum, *Making Government Work*, Ottawa, June 1993, p. 22.

(71) See Michael Connolly, Penny McKeowen and Grainne Milligan-Byrne, "Making the Public Sector More User Friendly? A Critical Examination of the Citizen's Charter," *Parliamentary Affairs*, Vol. 47, No. 1, January 1994, p. 23-37, esp. p. 30-31.