SPECIAL OPERATING AGENCIES

OVERVIEW OF THE SPECIAL OPERATING AGENCY INITIATIVE

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Executive Summary

BACKGROUND

The Special Operating Agency (SOA) initiative was launched at the end of 1989. This overview paper briefly reviews the government's experience with the SOA concept since that time in order to assess the progress it has made and to suggest ways in which it might be strengthened. It emphasizes that the SOA approach is primarily intended to improve the delivery of services and products within a departmental structure through the mechanism of results-based accountability agreements. The paper has been developed by members of the SOA community in order to inform the debate on the future implementation of the SOA concept in the federal government.

Since many of the earlier SOAs were expected to recover a significant portion of their costs by charging fees and, in some cases, to compete with the private sector for business, the SOA concept has been viewed by some people as an attempt to introduce private sector behaviour and values into the public service. However, this paper takes the view that while SOAs may adopt some private sector approaches to management, the SOA concept is centrally concerned with improving *public* management. Although issues such as revenue generation, competition and the operation of revolving funds have been linked to SOAs, they are not central to the SOA concept and should be treated separately.

Since the announcement of the initiative, 16 federal government organizations have been designated as SOAs. In total they include about 3 percent of federal public servants. Their responsibilities are primarily operational and many were already functioning semi-autonomously prior to becoming SOAs. They are quite diverse in their activities, size and funding arrangements and also in the degree of competition to which they are exposed. Many other organizations have expressed interest in SOA status. The concept continues to be supported as one of a range of organizational options available for the delivery of government programs and services.

PROGRESS

After up to five years of experience, senior management of SOAs claim progress in a number of areas, including:

- a stronger organizational identity and an enhanced sense of purpose;
- a more strategic perspective on operations;
- better internal communications and more staff involvement in operational decisions;
- greater attention to client needs and service quality;
- more attention to revenue generation and financial performance and a greater awareness of costs.

These gains have won widespread support for the SOA concept among those with direct experience of its implementation, most of whom believe that it should not only be continued but applied to a much wider range of government operations.

LESSONS LEARNED

This progress has not been without its difficulties, however. Some of these are inherent in the SOA concept itself, while others stem from the way it has been implemented. Understandably, SOAs have made some mistakes due to lack of experience and have sometimes misjudged the limits of acceptable action.

Since SOAs remain part of the structure of their host departments, the degree of

operational autonomy they enjoy varies according to circumstances. Furthermore, they are not normally exempt from government-wide actions and policies. In effect, SOAs have been expected to take responsibility for achieving results while remaining part of a wider bureaucratic culture that is essentially risk averse. The consequent tensions have forced SOAs to play a leading role in pushing the limits of management flexibility in government.

Experience suggests that the purpose, priorities and implications of the SOA concept need to be clearly spelled out before it is implemented more widely. Furthermore, there have been difficulties in making appropriate adjustments to departmental governance mechanisms and Agency accountability frameworks. Finally, there is a need for greater emphasis on measuring results and tracking progress.

RECOMMENDATIONS FOR STRONGER IMPLEMENTATION

While SOAs have to live within the restrictions inherent in the concept, there are opportunities to strengthen its implementation. The lessons that SOAs have learned from experience have given them some useful insights into how this might be done. Recommendations in eight areas follow.

1. *Clear Direction and Support for the Concept*: There is a need for the government to spell out clearly what the SOA concept is intended to achieve and to issue a strong statement of support from the highest level. It is recommended that this statement emphasize that the SOA concept:

    .   has a legitimate place in the management of the public service;

    .   should be implemented as strongly as possible;

    .   should be applied wherever it makes sense to do so; and

    .   should be closely monitored in terms of what it achieves.

    It is also recommended that:

    .   a senior-level public service champion be designated as a focal point to encourage and oversee the implementation of the SOA concept in accordance with a comprehensive and consistent set of basic principles; and

    .   the champion should be given a clear mandate with central agency support and sufficient resources and authority to be held accountable for progress in implementing the concept. [Note: This mandate could readily extend beyond the SOA concept to encompass a range of organizational alternatives to traditional departmental bureaucracy.]

2. *Open Strategic Planning*: It is recommended that the strategic objectives of SOAs be developed through a planning process open to all with an important stake in the organizations and their work.

3. *Comprehensive and Specific Accountability Frameworks*: It is recommended that Framework Documents:

    .   describe clearly how the achievement of *each* of the strategic objectives will be

evaluated;

. clearly specify the limits of the Agency's authority (what it cannot do and what it must do), the resources at its disposal, and any other key policy and environmental assumptions upon which its performance is contingent;

. contain a clause that would allow for renegotiation of performance targets when the SOA head and the deputy minister[1] agree that any of the key contingency factors (authorities, resources, assumptions) no longer holds; and

. normally have a life of at least three years, in order to achieve some stability and promote accountability.

It is further recommended that:

. Business Plans set out specific and, where possible, objectively measurable performance targets for each objective;

. Annual reports take their intended place as essential elements in the annual accountability cycle of business planning and reporting;

. there be a clear understanding between the SOA heads and deputy ministers on what constitutes acceptable performance and on the nature of any associated rewards or penalties; and

. the replacement of either the SOA head or the deputy minister not affect either the Framework Document or the current Business Plan, except where absolutely necessary.

4. *Appropriate Governance*: It is recommended that deputy ministers, acting on behalf of ministers:

. provide direction and hold SOA heads fairly to account through freely negotiated accountability framework agreements and that they be prepared to renegotiate performance targets when circumstances change;

. be responsible for setting or approving Agency objectives, priorities and strategic directions; for establishing performance targets that are challenging but realistic; and, to the extent possible, for ensuring that Agencies have the authority and corporate service support they need to succeed;

. ensure that Agencies have systems in place to generate the information required to enable their performance to be soundly assessed and that they have processes in place to manage risk effectively; and

. consider the establishment of advisory boards, comprising senior public servants and outside experts, to assist them as necessary in carrying out their governance responsibilities.

5. *Stable and Effective Leadership*: It is recommended that, where appropriate, Agency heads be:

.   selected through a competitive process;

.   allowed to remain in office for at least three years; and given meaningful incentives to achieve results.

6.   *Prior Review and Thorough Preparation*: It is recommended that, before being granted full SOA status, prospective SOAs:

.   be subject to a prior review: (i) to ascertain whether SOA status is, indeed, the best delivery arrangement for the organization from among the range of available alternatives and (ii) to assess the appropriateness of its boundaries;

.   be given a transition period in which to prepare themselves thoroughly by ensuring that they have effective leadership; people with the right skills; fully developed business, communications and (where applicable) marketing plans; a properly functioning framework for effective governance and accountability for results; the necessary performance measurement and management control systems; and a change management plan to complete and maintain the transition to SOA status; and

.   develop a set of baseline measures of performance so that progress may be tracked from the start.

7.   *Open Communication*: It is recommended that SOAs maintain regular and open two-way communication with employees, unions, governing bodies, clients and other stakeholders both to support responsive planning and decision making within the Agencies and to provide information on any changes they are making and on how they are performing.

8.   *Ongoing Measurement and Regular Evaluation of Progress*: It is recommended that Agencies continually measure and regularly evaluate and report on the progress they have made towards achieving their objectives and that they use this information to improve their performance.

The final section of the paper identifies key implementation challenges, such as protection of public values and coordination of policy delivery. It also makes brief reference to broader issues, such as ministerial accountability and the management of human resources, that transcend the SOA initiative but could strongly influence its future.

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I   INTRODUCTION

The Special Operating Agency Initiative

Special Operating Agencies (SOAs) are discrete operational units within government departments that have been delegated some increased managerial authority down the line of command in exchange for a greater degree of accountability back up the same line for achieving specified results. They operate on the basis of negotiated agreements or "contracts" referred to as Framework Documents. They are held to account for results and performance laid out in Annual Business Plans[2] and are expected to report on their achievements each year through Annual Reports. At present, they also act as test beds for change both within their departments and government-wide, providing an opportunity to test management innovations in a low risk environment before implementing them more widely.

The first five SOAs were announced, as a "pilot project," at the end of 1989.[3] All five have revolving funds and were and are expected to recover the bulk of their costs. Four of them are government common services that compete indirectly, and in some areas directly, with the private sector. The pilot phase ended in December 1990, and since then a further eleven organizations have been designated SOAs. Many of these more recent SOAs are quite different from the first five and have significantly broadened the scope of the initiative. Among them are regulatory organizations and organizations that are wholly or partially funded through appropriations. Most of these new SOAs serve the public directly, do not face competition and are not primarily concerned with revenue generation.

While Treasury Board started by naming organizations for SOA status, it has increasingly looked for volunteers. At the time of writing about 30 additional organizations had indicated to the Treasury Board Secretariat (TBS) an interest in becoming SOAs. Thus, although the concept currently encompasses only about 3 percent of public servants, there is a clear demand for its immediate expansion.

The SOA approach follows the same logic as the Increased Ministerial Accountability and Authority (IMAA) initiative,[4] but at the sub-departmental level. Thus, it implicitly recognizes that most departments carry out a wide range of functions, making it difficult for them to develop a homogeneous internal culture.[5] Through tailored agreements, the SOA approach can accommodate and support sufficient cultural variation among discrete organizational units, within a framework of common departmental objectives and values, to enable each to focus effectively on the specific results for which it is responsible.

Context and Scope of The Paper

By 1993, enough experience had been accumulated with the SOA concept for its progress to be assessed. Accordingly, a stocktaking study was initiated under the guidance of a Steering Group, chaired by the Office of the Auditor General, that included prominent public servants and private sector experts. Many people and organizations involved in the SOA initiative contributed to this study, which was completed during the summer of 1994. In parallel with and also contributing to the study, Consulting and Audit Canada (CAC), Treasury Board Secretariat (TBS) and the Canadian Centre for Management Development (CCMD) collaborated in researching and preparing a series of papers on issues of importance to the SOA initiative that include both lessons learned from and future potential for the initiative. The authors of these papers were later able to draw upon the extensive information that was collected for the stocktaking study in order to explore the selected issues in greater detail than was possible in the study itself. TBS and CCMD, together with

most SOAs and their host departments, supported the development of these papers and have had an opportunity to review their contents. TBS also specifically collaborated with CAC to produce a review of certain international developments in order to identify possible options for the evolution of the SOA approach in Canada. A complete list of these papers is to be found in Annex A.

This overview paper is based on the key findings of the stocktaking study, the associated issue papers and the international analysis. Its main purpose is to extract lessons from the experience to date in order to make recommendations for future implementation. The SOA approach has shown signs of success in a number of areas and these are discussed first. However, there have also been a number of weaknesses in the way it has been implemented. The changes required to overcome these weaknesses have led to recommendations for stronger implementation which are presented next. Finally, some key challenges and broader issues are identified.

The nature of the first five SOAs, coupled with the initial announcement that they would "operate in a business-like manner, with flexibility necessary to achieve bottom line targets" has created the impression that the initiative is designed to further the application of private sector entrepreneurialism in government and, hence, applies only to organizations with the potential to sell their services and generate revenue. There is also a widespread view that the SOA approach is only relevant for organizations that operate fairly autonomously from their host departments. However, this paper interprets the SOA approach much more broadly, as a general model for the introduction of results-based accountability contracts into the departmental operations of the federal public service in order to improve management, service delivery and efficiency. As such, it has the potential to be applied to most line operations,[6] as similar initiatives have been in other countries, and not just to the limited number of government organizations that are capable of generating sufficient revenues to cover their costs or to those that operate essentially independently from the rest of their host departments.

In the minds of some people, the SOA concept has also become strongly associated with the issue of competition, probably because four of the first five SOAs are required to compete (directly or indirectly) with the private sector. While the paper acknowledges the important role of competition in certain common service SOAs, it sees the establishment of results-based accountability agreements and the introduction of competition as separate issues and deals only with the former.

Finally, concerns have recently been raised over the uses of revolving funds. Again, while many of the earlier SOAs have the authority to operate revolving funds, most of the more recent SOAs do not. While this paper acknowledges the importance of ensuring that revolving funds operate within a framework of parliamentary control, it takes the position that the resolution of this question and the implementation of the SOA concept are separate issues that should not be confused with one another.

II AREAS WHERE THE SOA APPROACH HAS SHOWN SIGNS OF SUCCESS

Certain factors should be kept in mind when assessing the impact of the SOA concept. The specific objectives and priorities of the SOA initiative were never clearly spelled out and there was no formal requirement to establish baseline levels of performance in order to track changes. This has resulted in a lack of hard data on progress in areas other than financial performance. Consequently, assessments of progress are based largely upon the subjective judgment of SOA management, senior officials of host departments and central agency officials involved in the SOA initiative. Furthermore, even where progress has clearly been made, it is difficult to attribute it to specific causes. Many Agencies experienced a number of simultaneous changes when they became SOAs, such as new leadership, different organizational boundaries, exposure to competition, increased management flexibility and the introduction of revolving funds. Thus, any performance changes are due to the combined effect of a range of factors. Finally, there are certainly examples of government organizations that have achieved performance gains similar to those noted here, but without the benefit of SOA status. However, the central question is not whether the SOA approach is *essential* to achieve such gains, but whether it makes it *easier* to achieve them.

SOAs and their host departments were left largely on their own to deal with the changes required by the transition to fully functional SOA status and with the subsequent requirement to maintain such status in the face of pressures for reabsorption by departmental bureaucracies. There may have been a conscious decision not to impose a specific process, thus leaving each individual Agency free to deal with these issues in a manner best suited to its own unique circumstances. While there may be merit in this hands-off approach, it has resulted both in longer transition periods and, in many cases, incomplete application of the SOA concept.

As noted, the SOA concept has been applied to a wide range of organizations. Not surprisingly, individual SOAs vary considerably both in what they have achieved and in the difficulties they have encountered. Some have seen relatively little change, whereas others, especially those facing competition for the first time, have undergone significant transformation. Therefore, the observations in this section, and in the one that follows, while generally thought to be representative of the SOA experience as a whole, do not necessarily apply to each individual SOA.

In general, the SOA approach appears to have:

.   promoted a stronger organizational identity and an enhanced sense of purpose;

.   encouraged the development of a more strategic perspective on operations;

.   fostered more effective staff communications and involvement in operational decisions;

.   focused greater attention on client needs and service quality; and

.   stimulated a search for additional sources of revenue.

In addition, those SOAs with revolving funds, and the associated requirement to employ accrual accounting, have paid closer attention to bottom-line financial performance and the management of cash flows and have achieved a heightened awareness of costs.

Stronger Organizational Identity and Enhanced Sense of Purpose

Many Agency heads claim that the most important benefit of the SOA approach is psychological and stems from the SOA designation itself. It has given their organizations a stronger sense of identity which Agency heads have been able to exploit as a catalyst for change. The SOA designation can create an appropriate context for the exercise of effective leadership. It provides an opportunity to develop a culture suited to the primary function of the organization and to infuse the organization with a sense of mission and purpose. Its members may feel that the organization has greater control over its own destiny which, in turn, promotes internal cohesion and stimulates creativity and innovation. Stable and effective leadership is crucial, however, and the SOAs that have been able to make the best use of the designation have been those whose leaders had a strong vision for the organization and a clear idea of how they were going to use SOA status to further that vision.

A More Strategic Perspective on Operations

The process of developing Framework Documents and Business Plans has encouraged most SOAs to go back to fundamentals in thinking about their organizations, their role in government and how they can best serve their clients. Defining their objectives more clearly, and often more broadly, has stimulated them to re-examine their priorities and to consider new ways of working and has encouraged them to develop a more coherent long-term strategy. For example, by focusing more on achieving objectives and less on protecting inputs, many SOAs have become more outward-looking and have sought out opportunities to collaborate with other organizations both inside and outside the public service. Viewing their operations more strategically has enabled SOAs to focus their training and development activities to support their objectives. In addition, Agencies with revolving funds have found that such funds greatly facilitate financial planning in support of a long-term strategy.

Better Internal Communications and More Staff Involvement in Operational Decisions

All SOAs have recognized the crucial role played by their staff in enabling them to attain their objectives. Most have placed a high priority on keeping staff informed of changes and seeking their input. As a result, many Agency staff and managers are identifying more closely with the organization and its mission and feel more in control of their own destiny. They are better able to see the purpose of their work. Consequently, SOA managers have reported a general improvement in ``esprit de corps."

These are general trends, however. Individual employees have differed widely in their reactions. Not all have seen an improvement in their working lives. Some have felt that little has changed. Others have noted change but have been disappointed at its slow progress, given that it typically takes three to five years to transform the culture of an organization. Still others, whether through fears of possible privatization or difficulty in adjusting to new and less structured roles, have been more negative. Those SOA heads who have really tried to transform their organizations have faced a challenging transition period during which they have had to manage through the unrealistic expectations of some employees and the fears and scepticism of others.

Greater Attention to Client Needs and Service Quality

While most SOAs claim that service quality has improved, they have not tracked these

improvements systematically. Although the supporting evidence is largely impressionistic and anecdotal, in a number of cases it is widespread enough to be quite credible. In other cases, it may be too early for tangible gains to have shown up. What can be stated with certainty is that most SOAs have taken actions that could be expected to lead to better service to clients. These include clear identification of clients in the process of developing the Framework Document, establishment of client focus groups and advisory panels with client representation, the conduct of client surveys and the development of new products in response to client needs. Some agencies have launched quality management initiatives and most have developed new material for communicating with clients. In addition, most of the Agencies that face competition have established or strengthened their marketing functions.

More Attention to Revenue Generation and Financial Performance and a Greater Awareness of Costs

The heads of SOAs with revolving funds have had to report personally on the financial performance of their Agencies. Indeed, financial performance has been the main focus of their accountability and, as such, has received close attention. Furthermore, the requirement to employ accrual accounting has given them a more accurate picture of costs, thus enhancing their ability to make sound financial decisions. These organizations have generally viewed their financial goal as one of breaking even over time. Their dominant strategy has been to increase revenues by introducing new products and expanding into new markets. Until now, they appear to have paid less attention to increasing productivity and cutting costs, although some have made investments in technology that promise such improvements in the future. Those that face competition are likely to find themselves under increasing pressure to operate more efficiently.

Most of the SOAs with revolving funds have generally been able to break even. Occasional failures to do so can generally be attributed to their being compelled to absorb the costs of externally imposed changes. Only one SOA has consistently failed to break even and that organization has since cut its costs radically in order to bring them back in line with revenues.

Many SOAs, and not just those on revolving funds, are developing spin-offs from their core technology and knowledge-base to generate additional revenue. This emphasis on revenue generation may be partly attributable to the prevalent view, described in the introduction, which held that SOAs were expected to be entrepreneurial. Another important incentive to find additional revenue has been supplied by the Work Force Adjustment Directive which has made it difficult to balance declining budgets by reducing the size of the work force.

III   LESSONS LEARNED AND RECOMMENDATIONS FOR STRONGER
IMPLEMENTATION

There is a widespread belief among most of those directly involved in the SOA
initiative to date that it has been a worthwhile investment of resources, time and energy.
This is not to say that progress has been easy. Some of the problems that SOAs have
encountered are inherent in the concept itself, while others stem from the way it has been
implemented. Understandably, SOAs have made some mistakes due to lack of experience
and have sometimes misjudged the limits of acceptable action.

Since SOAs remain part of the structure of their host departments, the degree of
operational autonomy they enjoy varies according to circumstances. Furthermore, they are
not normally exempt from government-wide actions and policies. In effect, SOAs have
been expected to take responsibility for achieving results while remaining part of a wider
bureaucratic culture that is essentially risk averse. The consequent tensions have forced
SOAs to play a leading role in pushing the limits of management flexibility in government.

Experience suggests that the purpose, priorities and implications of the SOA concept
need to be clearly spelled out before it is implemented more widely. Furthermore, there
have been difficulties in making appropriate adjustments to departmental governance
mechanisms and Agency accountability frameworks. Finally, there is a need for greater
emphasis on measuring results and tracking progress.

This accumulated experience has brought to light a number of ways in which
implementation of the SOA concept might be strengthened. Eight sets of recommendations
for stronger implementation are discussed in the following pages. In each case, the
requirements are first briefly described, followed by a supporting rationale and then by a
discussion of some implementation issues. The eight sets of recommendations relate to:

- clear direction and support for the concept;
- open strategic planning;
- comprehensive and specific accountability frameworks;
- appropriate governance;
- stable and effective leadership;
- prior review and thorough preparation;
- open communication; and
- ongoing measurement and regular evaluation of progress.

1.   **Clear Direction and Support for the Concept**

Recommendations*: There is a need for the government to spell out clearly what the SOA
concept is intended to achieve and to issue a strong statement of support from the highest
level. It is recommended that this statement emphasize that the SOA concept:*

- *has a legitimate place in the management of the public service;*

- *should be implemented as strongly as possible;*

- *should be applied wherever it makes sense to do so; and*

- *should be closely monitored in terms of what it achieves.*

It is also recommended that:

. *a senior-level public service champion be designated as a focal point to encourage and oversee the implementation of the SOA concept in accordance with a comprehensive and consistent set of basic principles; and*

. *the champion should be given a clear mandate with central agency support and sufficient resources and authority to be held accountable for progress in implementing the concept. [Note: This mandate could readily extend beyond the SOA concept to encompass a range of organizational alternatives to traditional departmental bureaucracy.]*

Rationale: Experience in countries such as New Zealand and the United Kingdom strongly suggests that civil service reforms will only take hold if they have clear and widely accepted objectives and are strongly and consistently supported at the political level. Such direction and support are needed to motivate those who must implement the SOA concept, to ensure a common understanding of what is required, to help individual Agencies and their host departments to establish relative priorities among potentially competing objectives, and to provide a consistent basis for evaluating progress.

Many SOA practitioners have expressed the need for a senior public service champion to ensure consistent and purposeful implementation of the concept. Experience in other countries also supports the designation of a high-level central champion. Thus, the Next Steps Office in the United Kingdom played a pivotal role in promoting the creation of Executive Agencies, while New Zealand has identified "a core of unified, highly motivated, experienced and imaginative senior public servants, provided with sufficient resources and discretion to manage implementation"[7] as one of the key elements of a successful reform process. The champion is needed to help keep the SOA concept on the government's agenda for public service renewal, to ensure that it is implemented in a manner consistent with its intended purpose, that its progress is monitored and regularly evaluated and that Agency requirements for support and guidance are met.

Extending the champion's mandate beyond SOAs to include other organizational arrangements might help to support an integrated and comprehensive central perspective on the delivery options available to a specific organization. This broader mandate would enable the central champion to support the option that makes most sense for the individual organization rather than supporting the implementation of a particular model. However, if the mandate becomes too broad, it could diffuse and weaken the champion's ability to play a pro-active promotional role with respect to SOAs or any other specific form.

Implementation Issues: In order to garner the necessary political support, the SOA concept needs to be clearly tied to one or more aspects of the broader national agenda, such as cost savings or revenue generation in support of deficit reduction or better and more responsive service to promote Canada's economy, its international competitiveness and the wellbeing of Canadians. Specifically, the government would need to issue a clear and unequivocal statement of support for the concept that clearly sets out its aims and rationale and would need to reiterate this message at regular intervals.

To be effective, a central champion would require a small secretariat staffed with people who are enthusiastic about the concept and committed to its success. This secretariat could facilitate networking and the exchange of best practices among SOAs, act as a focal point for communications on the initiative, and issue guidelines on such topics as the development of Framework Documents, Business Plans and Annual Reports, performance measurement and evaluation and the establishment of appropriate governance structures (including departmental advisory boards). The secretariat could also be used to support complementary initiatives. Finally, implementation risks would be reduced if an agreed-upon set of practices with respect to politically sensitive activities, such as competitive or collaborative relations with the private sector, were clearly spelled out.

2. **Open Strategic Planning**

Recommendation: *It is recommended that the strategic objectives of SOAs be developed through a planning process open to all with an important stake in the organizations and their work.*[8]

Rationale: As government organizations, SOAs exist to serve a public purpose and are required to be fair and consistent in their dealings with others. This obliges them to consider the interests of all their stakeholders when setting their strategic objectives and developing strategies to meet those objectives. This open process has the added advantage, especially in the political environment within which Agencies operate, of providing them with a clearer understanding of the factors that are critical to their success.

Implementation Issues: The first step is to identify all those, both inside and outside government, who have a material interest in what the Agency does and in how it does it. Stakeholder input can then be secured through one or more of many available consultative mechanisms, such as focus groups, surveys, consultative committees, etc. A number of Agencies have found that advisory panels can be a useful forum for both stakeholder consultation and for obtaining business advice from external experts. Since it is impossible to satisfy fully all stakeholder requirements, especially as these often conflict with one another, Agencies will then be compelled to establish priorities among potential strategic objectives. Governing bodies can play an important role in ensuring that these priorities are consistent with the government's strategic direction and with the need to coordinate policy delivery with other government organizations. Finally, in keeping with the recommendation for openness and transparency in stakeholder relations, the basis for decisions on strategic priorities should be communicated to all key stakeholders.

3. **Comprehensive and Specific Accountability Frameworks**

Recommendations: It is recommended that Framework Documents:

. *describe clearly how the achievement of **each** of the strategic objectives will be evaluated;*

. *clearly specify the limits of the Agency's authority (what it cannot do and what it must do), the resources at its disposal, and any other key policy and environmental assumptions upon which its performance is contingent;*

. *contain a clause that would allow for renegotiation of performance targets when the SOA head and the deputy minister[9] agree that any of the key contingency factors (authorities, resources, assumptions) no longer holds; and*

. *normally have a life of at least three years, in order to achieve some stability and promote accountability.*

It is further recommended that:

. *Business Plans set out specific and, where possible, objectively measurable performance targets for each objective;[10]*

. *Annual reports take their intended place as essential elements in the annual accountability cycle of business planning and reporting;*

. *there be a clear understanding between the SOA heads and deputy ministers on what constitutes acceptable performance and on the nature of any associated rewards or penalties; and*

. *the replacement of either the SOA head or the deputy minister not affect either the Framework Document or the current Business Plan, except where absolutely necessary.*

Rationale: Comprehensive and precise information on objectives and results is needed both for effective internal management and external accountability. Spelling out the factors upon which expected results are contingent, renegotiating "contracts" when conditions change, clarifying the limits of acceptable performance and specifying associated consequences are all basic requirements for fair accountability. Finally, preserving existing agreements when either of the principals change will help to maintain the stability necessary to transfer accountability and maintain performance.

Implementation Issues: The possibility of developing comprehensive and precise accountability frameworks is largely a function of the governance regime (discussed next) under which the Agency is required to operate. However, there are also a number of measures that Agencies can, and should, take on their own to strengthen their ability to track and account for performance. These include seeking stakeholder input and external expert advice (possibly through the appointment of an advisory panel) on an ongoing basis; establishing performance measurement systems as an aid to better management; clarifying roles and lines of accountability within the organization; and attempting to bring as much stability as possible to external relations by signing memoranda of understanding with suppliers, corporate support groups and others who can influence the Agency's ability to achieve results.

4.   **Appropriate Governance**

There are two main aspects to effective governance: (i) providing direction and support, and (ii) monitoring and evaluating performance.

Recommendations: *It is recommended that deputy ministers, acting on behalf of ministers:[11]*

· *provide direction and hold SOA heads fairly to account through freely negotiated accountability framework agreements and that they be prepared to renegotiate performance targets when circumstances change;*

· *be responsible for setting or approving Agency objectives, priorities and strategic directions; for establishing performance targets that are challenging but realistic; and, to the extent possible, for ensuring that Agencies have the authority and corporate service support they need to succeed;*

· *ensure that Agencies have systems in place to generate the information required to enable their performance to be soundly assessed and that they have processes in place to manage risk effectively;[12] and*

· *consider the establishment of advisory boards, comprising senior public servants and outside experts, to assist them as necessary in carrying out their governance responsibilities.*

Rationale: Since the SOA initiative tends to increase diversity and reduce the application of uniform rules, it needs to be balanced by stronger governance capabilities within host departments, as well as at the centre. Like other organizations, SOAs will respond to the signals sent by those who govern them. Thus, a governance regime can exert a strong positive influence on Agency performance if it closely monitors and evaluates results, thereby indicating their importance, and if it is both demanding and fair in holding Agencies to account for achieving such results. Furthermore, a smoothly functioning governance process should enable Deputies to spend more time on strategic issues and less on dealing with operational problems and should enhance the ability of both deputy ministers and ministers to account for the performance of the SOAs in their departments. Finally, experience with SOAs might also provide deputy ministers with a governance model for other parts of their departments.

Implementation Issues: Deputy ministers need appropriate support to enable them to govern individual Agencies in an effective and results-focused manner, while at the same time ensuring strategic coordination across the department as a whole. While traditional functionally specialized staff groups are generally ill-equipped to provide such support, departmental advisory boards[13] are a promising alternative. By selecting an appropriate mix of inside and outside expertise, the composition of departmental advisory boards can be tailored to the specific governance needs of each Agency, providing balanced advice in which both strategic opportunities for innovation and the requirements of democratic administration are recognized. In addition, departmental advisory boards can help ensure continuity of governance when there is a changeover of deputy ministers.

Deputy ministers can also conduct audits and evaluations to support the accountability process and to help them discharge their governance responsibilities. In keeping with the spirit of the SOA initiative, audits should focus more on the adequacy of the Agencies' control systems for both performance tracking and compliance with administrative policy requirements, rather than on direct assessment. Once Agencies have demonstrated the necessary capacity for self-assessment, audits can focus on attesting to the reliability and completeness of such assessments. In addition, deputy ministers should conduct periodic strategic reviews of their Agencies, including

evaluations of their effectiveness in fulfilling their public policy purposes.

The art of governance is to know when to intervene and when to stand back. Too much intervention will cause delays and stifle initiative, while lack of attention may put performance, policy integrity and public standards at risk. The idea is to provide strategic guidance as much as possible by setting targets and performance standards, rather than becoming enmeshed in operational details. In practice, modes of governance are likely to evolve over time, becoming less interventionist as Agency performance improves.

5. **Stable and effective leadership**

Recommendation: It is recommended that, where appropriate, Agency heads be:

. *selected through a competitive process;*

. *allowed to remain in office for at least three years; and*

. *given meaningful incentives to achieve results.*

Rationale: Experience to date suggests that effective leadership is the single most important determinant of Agency success. This makes it all the more important to ensure that the person selected to head the Agency has the necessary skills and capabilities and is given appropriate incentives to do a good job. A competitive selection process from as wide a pool of talent as possible (including those already working in the Agency) offers the best chance of finding the right person. Effective leadership would be further encouraged if Agency heads were to remain in office for a number of years. This would allow them time to build trust both inside and outside the Agency, to implement some longer term strategies and to be held more fairly to account for performance.

Implementation Issues: Among the desirable qualities for an SOA head are a good appreciation of the culture and functions of the organization and the ability to identify and focus on its critical tasks, to communicate a vision and sense of purpose, to earn loyalty, inspire enthusiasm and stimulate innovation. Such a person is likely to have a deep concern for staff welfare, an ability to use the skills of individual staff members to best advantage, and a willingness to involve staff in decision making and to give them sufficient autonomy and flexibility, within a framework of clear objectives and policies, to get on with the job. As senior public servants, SOA heads, must also be able to maintain positive relations with all of the organization's key stakeholders. Finally, SOA heads must believe in the SOA concept and be prepared to defend it if necessary.

Possible incentives include rewards for superior performance in the form of bonus pay, greater management flexibility or, where possible, permission to reinvest surplus revenue or cost savings in Agency development. There may also have to be credible sanctions in the case of failure, such as reductions in flexibility or, in some cases, removal from the position.

6. **Prior Review and Thorough Preparation**

Recommendations*: It is recommended that, before being granted full SOA status, prospective SOAs:*

.   *be subject to a prior review to (i) ascertain if SOA status is, indeed the best delivery arrangement for the organization from among the range of available alternatives[14] and (ii) assess the appropriateness of its boundaries;*

.   *be given a transition period in which to thoroughly prepare themselves by ensuring that they have effective leadership, people with the right skills, fully developed business, communications plan and (where applicable) marketing plans, a properly functioning framework for effective governance and accountability for results, the necessary performance measurement and management control systems and a change management plan to complete and maintain the transition to SOA status; and*

.   *develop a set of baseline measures of performance so that progress may be tracked from the start.*

Rationale*: The review of alternatives is needed in order to ensure that SOA status is, indeed, the organizational arrangement that enables the Agency to serve its policy purposes most cost-effectively. The boundary review is needed to ensure that the work of the Agency does not overlap unnecessarily with that of other organizations and that it is capable of developing an internal culture that operates on the basis of a consistent set of common values and principles. Thorough preparation prior to the granting of full SOA status provides a tangible demonstration of leadership and decreases the risk that the Agency will remain stuck in a transition mode. It also provides some assurance of stability since the Agency's structure, processes and systems will have evolved to the point where they can withstand future changes in leadership and reporting arrangements.

Implementation Issues*: The prior review should follow a logical progression. For example, the functions carried out by an organization under consideration for SOA status might first be subject to a strategic review to determine their continued relevance to government. This could be followed by a review of the boundaries of the organization to see if it should be combined with other units (including those in other departments) that are doing related or similar work. Alternatively, if the unit contains a mix of incompatible functions, it might be possible to divide it into separate units each of which is capable of developing shared objectives and a homogeneous internal culture. Issues such as regional versus centralized delivery should also be addressed. Most important, the costs and benefits of SOA status should be compared with those of alternative organizational arrangements before a final decision is taken to move towards SOA status. While SOA status is normally a stable state, it can be used as a transition phase to a more arm's length relationship with the government, or as a prelude to divestiture, devolution or privatization. If applicable, such transition status must be spelled out explicitly in the Framework Document, since this may well affect the management, accountability and governance of the Agency and is vital to constructive relations with unions and employees.

If SOA status is seen as the best alternative then the organization could be granted transitional or provisional status on the basis of a Framework Document and a transitional Business Plan, developed in collaboration with its host department, that

sets out the steps it will take to prepare thoroughly for full SOA status. Full status would then be granted following a review of the maturity of the business planning process, the appropriateness of the accountability and governance arrangements and the effectiveness of the necessary measurement and control systems.[15] Finally, to maintain the credibility of the concept, Treasury Board might consider entering into an agreement with deputy ministers to withdraw the SOA designation from any of their Agencies that stray too far from the intended modus operandi.

7. **Open Communication**

Recommendation: *It is recommended that SOAs maintain regular and open two-way communication with employees, unions, governing bodies, clients and other stakeholders both to support responsive planning and decision making within the Agencies and to provide information on any changes they are making and on how they are performing.*

Rationale: A timely flow of pertinent information is the very essence of accountability. Without it, governing bodies cannot maintain effective oversight or provide informed direction. Furthermore, the experience of existing SOAs, noted earlier, has demonstrated the importance of open communication in securing employee commitment and building esprit de corps. Open communication with employees and unions also plays an essential role in smoothing the transition as Agencies move to new organizational structures and job requirements in order to improve their performance. Finally, open communication with clients and stakeholders is essential to the ultimate success of any Agency, especially in the politicized environment of the public service.

Implementation Issues: Information technology has a vital role to play in facilitating regular and open communication. However, open communication depends on attitudes as well as technology. The SOA concept, with its focus on results rather than narrowly defined roles, should encourage greater openness and transparency. This paper has already stressed the importance of opening up the development of Framework Documents and Business Plans to all key stakeholders. Each should feel involved in the processes of learning and change within the Agency. Agency advisory panels with stakeholder representation can be an effective means of furthering such involvement. As well as strengthening accountability, Annual Reports can prove effective in broadening communication, especially if they are made publicly available (as in the U.K.). If necessary, an essential minimum of confidential information could be edited out of the public versions. Because of its importance, communications should be viewed as an integral part of Agency business, requiring the development of a formal communications plan with its own performance measures and targets.

8. **Ongoing Measurement and Regular Evaluation of Progress**

Recommendation: *It is recommended that Agencies continually measure and regularly evaluate and report on the progress they have made towards achieving their objectives and use this information to improve their performance.*

Rationale: Ongoing measurement and evaluation of progress are required to enable Agencies to learn systematically from experience and to make necessary changes in a timely manner. They are also needed to provide an objective assessment of the benefits of the SOA approach in order to inform the process of public service renewal.

Implementation Issues: It follows that a performance measurement and evaluation framework has to be established for the initiative as a whole as well as for each individual Agency. Ensuring that the relevant data are gathered, analyzed and communicated should be seen as an essential component of the governance function both at the centre and within each host department, as well as a specific Agency responsibility. Annual Reports can play an important role in communicating progress. In practice, day-to-day Agency management will focus mostly on outputs and service quality. Evaluation of the contribution of outputs to outcomes (overall effectiveness in contributing to public policy goals) would be carried out periodically. While Agency management might not be required to conduct these evaluations themselves,[16] they would still be responsible for ensuring that the data necessary to support the evaluations are readily available.

IV   SOME KEY CHALLENGES AND BROADER ISSUES

Bureaucracy is not designed to achieve results. If SOAs are to focus effectively on results, they will have to operate less bureaucratically. This will inevitably bring them face to face with the challenge of finding methods other than detailed controls and across-the-board standardization to do what bureaucracy does well, namely to promote parliamentary control and the coordinated delivery of government policy and to enforce adherence to public values. Furthermore, government has traditionally resorted to uniform conditions of employment to promote consistency in the treatment of employees, to maintain the unity of the public service and to protect the merit principle. This will also present a challenge to SOAs in that they will need to develop a more flexible approach to the management of human resources while respecting the legitimate interests of employees.

Preservation of Public Values

It has been suggested that making government organizations accountable for achieving results, especially when they are subject to fewer detailed controls, might cause them to neglect public values, such as prudence, probity, fairness and consistency. As government organizations, Agencies must continue to embrace such values, but without resorting to detailed rules, procedures and internal controls. Open communication and increased transparency[17] will play an important role, especially if adherence to public values is included explicitly in the Agency accountability framework. Public values should also be emphasized in training programs for Agency personnel.

Coordination of Policy Delivery

There is some concern that allowing government units to operate more autonomously might make it harder to coordinate policy delivery within departments and across the government. This will challenge governing bodies to find non-bureaucratic ways of coordinating policy delivery. A promising approach is to address requirements for coordination through the recommended open strategic planning process.

Ministerial Accountability

A key challenge is to develop a more realistic and practical interpretation of ministerial accountability. Under such an interpretation, ministers would not be accountable for every detail of Agency operations. Instead, the availability of comprehensive information on results would enable ministers to account for what is really important, namely what taxpayers are actually receiving in return for their investment in government operations. Furthermore, this type of performance information and accountability should lead to more meaningful parliamentary control, although governing bodies will have to ensure that such control is maintained in practice.

Human Resources Management

Lack of flexibility in the area of human resources management is widely recognized in government as an impediment to better performance. There is no doubt that moving to results-based accountability contracts encourages greater job specialization within the public service and creates pressure to abandon uniform rules, classifications, pay and other terms and conditions of employment that impede flexibility and limit management's ability to create appropriate incentives.[18] The challenge is to find a way of allowing greater flexibility

while protecting the legitimate interests of employees.[19] The answer is likely to involve a more collaborative relationship between management and unions: one that is driven by a set of common principles rather than by a set of standardized rules. Indeed, Agencies could be used as test beds for the rest of government in more effective human resource management and union consultation. While these changes may spell the end of across-the-board uniformity within the public service, they need not spell the end of a public service that is unified with respect to a common set of public values and standards of conduct.

In the longer term, consideration could be given to opening up the competition for certain Agency head positions to outsiders (as is done in the U.K.) in order to increase the chances of attracting the right person. Outside appointees would work under contract for a specified number of years. However, this option has significant implications for public service staffing policy which would first have to be examined carefully.

V   GENERAL CONCLUSIONS

The SOA concept can be viewed as part of a world-wide movement to obtain better value for money from government organizations, by motivating them to focus more on what they are trying to achieve and on how much it costs, thereby encouraging them to innovate in order to become more efficient and effective. However, this approach will not realize its full potential for change unless external incentives are consistently aligned to support it and are matched by internal cultures that are oriented to service and achievement of results. Unless the achievement of results supplants avoidance of error as the primary determinant of success in government organizations, it will be very difficult to achieve permanent change.

While the SOA concept has shown definite promise in a number of areas, it has been constrained by a number of factors from realizing its full potential. The recommendations for strengthening implementation of the concept are aimed at removing or mitigating these limiting factors. The paper is aimed at securing agreement on the general areas in which changes are required. Thus, until such agreement is reached, it would be premature to develop an action plan for implementation or to address such questions as the need for legislative change to secure action.

This paper maintains that the SOA concept has the potential to be applied much more widely across government. To signal this potential, it might be desirable to drop the term "special" (which marginalizes the concept in the eyes of some people) and refer to the entities simply as "operating agencies." The concept can be applied not only to existing departmental units but also to functions that cut across departmental, or even governmental, lines. At the same time the SOA model is but one of a range of organizational alternatives for government units. In any given case, the best option will depend on the specific objectives and operational imperatives of the organization in question. Although the recommendations in this paper were developed for SOAs, the bulk of them would apply, at least in principle, to any non-bureaucratic organizational arrangement for delivering public policy.

The challenges are many: finding less controlling ways of managing risk to public values; allowing greater managerial flexibility while protecting legitimate employee interests; devising appropriate performance measures for organizations with ambiguous, and sometimes conflicting, objectives; designing the systems necessary to track performance and manage risk; and developing new governance structures and accountability frameworks. For managers of operational units and those who govern them, the new system would be both more rewarding and more demanding than the old. Its success will ultimately depend upon the leadership qualities of those in positions of authority and upon their determination to make it work.

APPENDIX 1

LIST OF SOA ISSUE PAPERS

1. Special Operating Agencies: Autonomy, Accountability and Performance Measurement
   (David Wright)

2. SOA Status as a Vehicle for Organizational Change
   (David Wright)

3. Special Operating Agencies: Issues for Parent Departments and Central Agencies
   (Alti Rodal)

4. Business Plans and Annual Reports
   (Doreen Wilson)

5. Special Operating Agencies: Financial Issues
   (John Dingwall)

6. Special Operating Agencies: Human Resources Management Issues
   (Betty Rogers)

7. Marketing Issues for Special Operating Agencies
   (John Dingwall)

8. Audit and Evaluation of Special Operating Agencies
   (Mike Thomas)

9. Issues for Common Service SOAs
   (Alti Rodal)

10. Management Advisory Boards for SOAs
    (Jane Newcombe)

11. Institutional Analysis of Recent Machinery-of-Government Reforms in Australia, United Kingdom, France and New Zealand
    (Denis St-Martin and Michael Collins)

APPENDIX 2

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Canada Communication Group **(Public Works and Government Services Canada)**
Canadian Centre for Management Development
Canadian Conservation Institute **(Canadian Heritage)**
Canadian Forces Housing Agency **(Department of National Defence)**
Canadian General Standards Board **(PWGSC)**
Canadian Grain Commission **(Agriculture and Agri-Food Canada)**
Canadian Heritage Information Network **(Canadian Heritage)**
Canadian Intellectual Property Office **(Industry Canada)**
Canadian Pari-Mutual Agency **(AAFC)**
Consulting and Audit Canada **(PWGSC)**
Citizenship and Immigration Canada **(Foreign Affairs and International Trade Canada)**
CORCAN **(Correctional Services Canada)**
Government Telecommunications Agency **(PWGSC)**
Indian Oil and Gas Canada **(Indian and Northern Affairs Canada)**
Passport Office **(FAIT)**
Physical Resources Bureau **(FAIT)**
Surveys, Mapping and Remote Sensing Sector/Geomatics Canada **(Natural Resources Canada)**
Training and Development Canada **(Public Service Commission)**
Translation Services **(PWGSC)**
Treasury Board Secretariat
Transport Canada Training Institute **(Transport Canada)**

1. In practice, the Heads of many of the smaller SOAs report to Assistant Deputy Ministers or equivalent. These recommendations apply in principle regardless of the level of the reporting relationship.

2. Each plan covers the upcoming three-year period and includes specific performance targets for the first year.

3. These were: Canada Communication Group, Consulting and Audit Canada, Training and Development Canada, the Passport Office and the Government Telecommunications Agency.

4. The IMAA initiative, which was launched in 1986, sought to give line departments greater freedom from detailed central agency direction, in exchange for enhanced accountability for the achievement of results, especially the efficient and effective use of resources, within a broader policy framework.

5. For example, many departments simultaneously play regulatory and service delivery roles that have quite different objectives and require different organizational cultures to ensure effectiveness.

6. The SOA concept is based on the premise that it is possible to separate government operations from policy functions. Clearly, it is easier to make such a separation in some areas of government activity than in others. In practice, many operational decisions in government affect the distribution of costs and benefits in society and, hence, do have a policy dimension. Therefore, any decisions to separate operations from policy should take into account the potential risks and benefits for both policy and operations.

7. *New Zealand's Reformed State Sector,* State Services Commission, Wellington, New Zealand, 1994, page 17.

8. Stakeholders might include the host department and its minister, central agencies, parliamentarians, employees, unions, immediate clients, the general public, suppliers, partners and other government organizations with related mandates or with a policy interest in the Agency. Stakeholders' requirements may well conflict with one another, so that it may be necessary to strike some compromise among them.

9. As noted earlier, the heads of many of the smaller SOAs report to assistant deputy ministers or equivalent. Although this lower level reporting relationship could affect the amount of managerial flexibility available to the SOA heads concerned, the recommendations for strengthening the initiative described in this section apply to all SOAs regardless of reporting level.

10. Specific targets might well differ from year to year in response to changing performance expectations and shifting strategic priorities.

11. Since governance decisions are ultimately ministerial, it is important that ministers become directly involved in approving the strategic priorities of the Agencies in their departments. This would also help Agencies to maintain stable long-term plans in the face of changes in deputy minister. However, it should be noted that changes of minister are also quite frequent and could also disrupt the strategic continuity of Agencies.

12. Risk management issues are discussed briefly in Section D.

13. Ideally, Departmental advisory boards should be distinguished from Agency advisory panels. The former would assist deputy ministers to exercise their responsibilities for governance and oversight, while the latter would provide management and operational advice to the Agency head. Although it is currently common practice to have a single board, it is not easy for such a board to play both roles, since this, in effect, requires it to objectively evaluate the impact of its own advice.

14. Possible alternatives include, among others, tailored IMAA agreements, Separate (statutory) Agency, Institute (Lortie) Model, Departmental Corporation, Special Statute Corporation, Crown Corporation, Mixed Enterprise, Government-Owned Contractor Operated arrangement and other forms of contracting out, Private Not-for-Profit Organization and full privatization.

15. Treasury Board might consider funding the development of any necessary performance tracking systems during the transition period.

16. These would likely be carried out by the department's review group at the request of the deputy minister.

17. Recent developments in information technology have the potential to promote much greater transparency.

18. This has already happened in New Zealand where each department effectively sets its own conditions of employment. It is also happening in the United Kingdom to some degree, in that individual departments and some Executive Agencies now have greater flexibility to establish conditions of employment in accordance with their performance needs.

19. Two of the existing SOAs have Separate Employer Status (SES), which gives then somewhat more authority in areas such as classification and pay. However, the advantages of SES are limited and, for many SOAs, are likely to be outweighed by the additional costs, such as the requirement to conduct their own collective bargaining.