
SPECIAL OPERATING AGENCIES
AUTONOMY, ACCOUNTABILITY AND PERFORMANCE
MEASUREMENT

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Annex: List of SOAs Approved By Treasury Board as of January 1, 1994.

EXECUTIVE SUMMARY

Introduction

On December 15, 1989, the Government of Canada announced the creation of the first five Special Operating Agencies (SOAs). SOAs are discrete operational units within departments that have been given some increased managerial autonomy in exchange for greater accountability for results and performance. Although, the initiative has since grown to include some fifteen organizations, it remains small in scale. Currently less than three percent of federal public servants work in SOAs.

This paper deals with the fundamental elements of the initiative: increased autonomy, enhanced accountability and a focus on performance and results. It describes the mode of operation and intended effects of each of these three elements. It then discusses how far the SOA initiative has progressed in relation to these three elements, what barriers have been encountered and what might be done to remove the barriers and strengthen the implementation and design of the approach.

The paper first places the SOA initiative in context in two ways. First, it sees the initiative as part of an international trend to encourage a more management-based approach to public administration, one that is more cost-effective than traditional bureaucracy. Under such an approach, managers are held to account more for the results they achieve (such as responsiveness, effectiveness and efficiency) and less for compliance with detailed rules and mandatory procedures. Second, the SOA initiative is viewed as the latest stage in an evolutionary process of reform in the federal public service that can be traced back at least to the Glassco Commission. It followed the Increased Ministerial Accountability and Authority (IMAA) initiative, launched in 1986, which granted increased authority to departments in exchange for greater accountability for results, especially the effective and efficient use of resources. The SOA initiative is also consistent with, and reinforces, the Public Service 2000 initiative, which was launched in the same year.

Although the first five SOAs are funded mostly through user fees, many of the following ten are funded partially or completely through appropriations. Collectively, they encompass a wide range of activities and objectives. Indeed, by enabling government organizations to manage their affairs in a manner that best suits their function and environment, the SOA initiative both recognizes and supports this diversity of objectives.

The initiative is intended to be incremental and experimental. Treasury Board Secretariat (TBS) has chosen not to articulate a detailed vision of where the SOA approach might lead in favour of allowing it to evolve in response to the individual circumstances of each Agency.

Autonomy

The formal basis for the increased autonomy of an SOA lies in the Framework Document that lays out, among other things, the specific authorities the Agency will be given in areas such as finance, human resources and administration. In practice, with the possible exception of revolving funds where these have been introduced, the amount of additional management flexibility or formal autonomy has been quite limited, especially in the important area of human resources management.

An SOA remains a part of its host department. The deputy minister (DM) or assistant deputy minister (ADM) to whom it reports remains accountable for the Agency's actions.

Thus, much of the autonomy of SOAs is informal and depends upon the willingness of senior management in the host department to avoid intervening in the daily operations of the Agency. The amount of informal autonomy that an SOA enjoys is likely to depend on a number of factors, such as preferences and management style of the DM/ADM, the need for coordination with other units of the department, the political sensitivity of the Agency's work and the amount of confidence the DM/ADM places in the Agency in general and its Head in particular. Clearly, the DM can increase or decrease the amount of informal autonomy that an Agency enjoys at any time.

One of the key determinants of the overall performance of an SOA is how well it is governed. Effective governance requires setting or approving the strategic direction of the Agency in accordance with government priorities and the need for co-ordinated policy delivery; managing the Agency through challenging but attainable performance targets (as opposed to direct intervention in operations) and ensuring that control systems are in place to guard against risks to such public values as prudence, probity, fairness and consistency. Thus, in sum, the autonomy of an SOA is limited, conditional, unstable and directed.

As noted, SOAs have been given relatively little formal autonomy. This is consistent with the careful and incremental nature of the SOA initiative. Those Agencies that had, or have been given, revolving funds now have significantly greater flexibility in the area of financial management, which has given them a greater ability to plan ahead. Three SOAs have been given the authority to compete directly with the private sector. There has also been some delegation of corporate services and procurement authorities from departments. However, departmental delegations are capped by what is available to the DM. For legal reasons, it has not been possible to give Agencies significantly greater authority in the key area of human resources management. A partial exception to this are the two SOAs with separate employer status. Finally, SOAs have not been exempt from government-wide measures such as delayering, staffing and wage freezes, and cuts to the appropriated portions of their budgets.

In contrast, many Agencies do enjoy a significant degree of informal autonomy. To some extent this reflects the fact that the mandates of many of them are somewhat peripheral to the core mandates of their host departments. The SOA label has given them a greater feeling of autonomy or separate identity. In the view of some Agency heads, SOAs are

essentially a "state of mind". The SOA designation has helped them to focus more on a long-term strategy and to develop a more client-oriented culture.

Accountability

As noted, the *quid pro quo* for greater autonomy is greater accountability for results and performance. However, SOAs remain accountable for compliance with any central agency or departmental policy from which they have not been specifically exempt. Thus, the accountability of SOAs is for a mix of results and compliance. The principal accountability instruments are the Agency's Charter, Annual Business Plan and Annual Report. The Charter sets out the accountability framework, while the Annual Business Plan and the Annual Report are intended to form an accountability loop between the Agency and the DM/ADM for setting performance targets and reporting on their achievement. This formal accountability mechanism is supplemented by less formal communication between the Agency head and the DM/ADM.

In practice, the accountability process is driven by the nature of the information required for governance purposes. Meaningful accountability for results and performance will only occur if the DMs or ADMs to whom Agency heads report clearly indicate that they intend to govern the Agencies primarily on that basis and then demand the information from the Agency that enables them to do so. Ideally, an Agency could be directed strategically through the process of setting targets for different aspects of performance. Although this arrangement is not without risk, it does free the DM/ADM to concentrate on strategic rather than operational issues. The impact of performance targets on Agency behaviour is likely to be enhanced if the targets are arrived at through negotiations between the Agency and those who govern it. Furthermore, both parties should be prepared to renegotiate such targets if there is a material change in any underlying assumptions.

While an Agency is formally accountable to the DM/ADM to which it reports and to the central agencies whose policies it must follow, it is also informally accountable to a number of other groups. These may include immediate clients, the public at large, parliamentarians, corporate groups within the host department, advisory boards, unions, employees, suppliers, external partners and various other public service stakeholders. Many of these are relationships of mutual interdependence, and strengthening them can play an important role in improving the operation of the SOA model.

To date, SOAs have made more progress in areas that support their ability to account for results than they have in mechanisms of accountability themselves. Thus, at least in some cases, there has been an increased emphasis on strategic planning, greater use of advisory boards (for strategic advice and client input), a heightened awareness of costs, clarification and stabilization (through memoranda of understanding) of external relationships that can influence Agency performance and better communication with clients and staff.

However, these improvements have not been matched by a corresponding change in the basis for governance. Thus, information on aspects of performance other than financial has not been demanded. Although all the Agencies produce business plans, very few produce annual reports and the proposed accountability loop of business planning and annual reporting has yet to replace the traditional cycle of MYOPs and Main Estimates. Reasons for this may include lack of clarity concerning roles and responsibilities, lack of recognition by departments of the need to demand appropriate performance information, and the unwillingness of Agencies to develop systems or devote resources to capturing information that is not being demanded. A further factor may be that most SOAs, being quite marginal to the core mandates of their host departments, rarely engage the attention of their DMs. This forces reliance on corporate staff who tend to apply uniform departmental accountability processes. However, some DMs are addressing this issue by appointing advisory boards to assist them in governing their Agencies.

Performance Measurement

Performance measurement serves two purposes, namely to guide internal management decisions and to provide information for purposes of external accountability and governance. The choice of measures is crucial since "what is measured gets noticed". Thus performance measures must be driven by the strategic objectives of the Agency and not simply by what is easy to measure. A comprehensive set of measures should normally include measures of financial performance, output, efficiency and service quality, in addition to measures of effectiveness in achieving strategic objectives.

Measures may be direct or indirect (indicators) and may be objective or subjective. To be useful for management purposes, they must be relevant to decision making in terms of form, content and timeliness. To be useful for accountability purposes they must be amenable to the setting of quantitative targets and performance standards. They must collectively cover all important aspects of performance and must strike a strategically determined balance between aspects of performance, such as response time and accuracy, that may be in conflict.

Implementing performance measurement so that it drives internal management and external accountability is a fundamental challenge facing SOAs. Certain SOAs, especially those that are revenue dependent and have revolving funds, have improved their ability to track costs and financial performance. While some progress has also been made in other areas of performance measurement, this tends to diminish as one moves from output measures, through efficiency, productivity and service quality measures, to measures of effectiveness. It appears that any progress that has been made has been driven mostly by internal management requirements. For reasons given in the section on accountability, results measures (with the exception of financial performance in certain cases) have yet to be incorporated into the accountability process.

Strengthening the SOA Initiative

There are many ways in which the operation of the SOA concept could be strengthened. These involve actions by: (i) the government and central agencies in relation to the initiative as a whole; (ii) host departments on the issue of governance; and (iii) the Agencies themselves in the areas of management and accountability.

Actions in relation to the initiative as a whole might include clarifying the aims and scope of the initiative; spelling out criteria for success; determining an appropriate pace for implementation that enables progressive learning to take place; promoting consistency of implementation; designating a central champion to promote the initiative and support its implementation; defining the boundaries of prospective SOAs to ensure that their functions are sufficiently compatible to enable them to develop a homogeneous culture and to exploit opportunities to bring similar functions together; and clarifying the roles and responsibilities of key players.

Host departments could strengthen the initiative by adopting governance practices that focus on providing strategic, rather than operational, direction; by placing greater reliance on departmental advisory boards; by demanding enhanced accountability from Agencies; by emphasizing the importance of the target setting process, and being willing to renegotiate targets when circumstances change materially; by promoting stable and clearly accountable Agency leadership; by limiting the demands made on the time of the Agency head for departmental purposes; by providing support in areas such as the development of performance measurement systems; and by cultivating a relationship of mutual trust.

There are a number of actions that the Agencies themselves can take to strengthen the operation of the SOA concept. Among these are making effective use of sources of external advice (such as advisory panels); developing the required performance measurement systems and systematically tracking progress; clarifying internal roles and lines of accountability; establishing performance agreements with providers of inputs and support services; improving accountability to and communication with both clients and staff, by producing annual reports; and by strengthening the business planning process and opening it up to all key stakeholders.

Although the actions identified in this section might strengthen the application of the current SOA concept, they would still come up against its inherent limitations. Among these are the restrictions imposed by the departmental accountability framework of deputy ministers; the (at least theoretical) accountability of ministers for the minutiae of Agency operations; current legislation in the area of human resources management; continued funding of non-revenue-dependent organizations on the basis of inputs; the inherent limitations of the process for selecting Agency Heads and the absence of meaningful performance incentives.

Conclusions

To date, the SOA concept has achieved only modest gains in the areas of increased formal autonomy and enhanced accountability. SOAs have received only limited additional flexibilities and authorities. Many do enjoy considerable informal autonomy in that the DM or ADM to whom they report rarely intervenes in their day-to-day operations. However, such informal autonomy is inherently unstable, since it depends upon the attitudes and management style of the individuals involved and not on changes to the structural framework within which they operate.

The limitations and uncertainty of Agency autonomy are matched by a corresponding weakness in accountability for results. In particular, it has proved difficult to change the governance role to one of strategic oversight. To play such a role, those who oversee the Agencies have to understand the key success factors for each SOA and to evaluate and direct it on the basis of performance targets and results information related to those factors. So far, only financial targets have been recognized in this way.

Nevertheless, SOAs have become more focused on results in a number of ways that have been noted in this paper. In spite of its limited implementation, the SOA concept continues to demonstrate potential. While this paper suggests a number of actions which central agencies, host departments and the Agencies themselves could take to strengthen the implementation of the concept, its effectiveness ultimately depends upon the determination of the political level to make it work.

SPECIAL OPERATING AGENCIES: AUTONOMY, ACCOUNTABILITY AND PERFORMANCE MEASUREMENT

INTRODUCTION

Rationale

On December 15, 1989, the Government of Canada announced the creation of the first five Special Operating Agencies (SOAs)¹. SOAs are discrete operational units within departments that have been given some increased managerial autonomy in exchange for greater accountability for results and performance. In 1993, it was felt that enough experience had been accumulated to carry out a stocktaking study of the SOA initiative in order to assess the progress it has made, to identify the impediments it has encountered and to suggest ways in which it might be strengthened. This stocktaking study was conducted under the guidance of a Steering Group, chaired by the Office of the Auditor General (OAG), and including prominent individuals from the private sector as well as senior officials from Treasury Board Secretariat (TBS), The Canadian Centre for Management Development (CCMD), SOA host departments and the SOAs themselves. The Steering Group was supported by a project team led by the OAG with the collaboration of many people with experience of the SOA initiative, from central agencies, host departments and individual SOAs. The findings of the stocktaking study were based on in-depth self-assessments by six of the earliest SOAs,² interviews with many of the leading players and a literature and documentation search on SOAs and on experiences with related initiatives in other jurisdictions.

In parallel with the stocktaking study, Consulting and Audit Canada (CAC) and CCMD were asked to prepare a series of papers on issues of importance to the SOA initiative. Drawing upon the same information base as the collaborative study, these papers are intended to explore the selected issues in greater detail than was possible in the main report. This is the first of these following the overview paper and sets the stage for the others. It deals with the fundamental elements of the initiative: increased autonomy, enhanced accountability and a focus on performance and results. It describes the mode of operation and intended effects of each of these three elements. It then discusses how far the SOA initiative has progressed in relation to these three elements, what barriers have been encountered and what might be done to remove the barriers and strengthen the implementation and design of the SOA approach.

Background

¹These were CCG, CAC, GTA, TDC and the Passport Office. Full titles are listed in Appendix 1.

²These consisted of the first five Agencies, together with CORCAN.

Global competition and fiscal pressures are compelling many governments to try to find ways of getting better value from the increasingly limited public resources at their disposal. This has encouraged a search for alternatives to the traditional bureaucratic model of public administration. These alternatives must be capable of delivering better service at lower cost, in a manner that responds more quickly to changing needs and opportunities. Better service is being demanded both by a public that is increasingly concerned by the impact of the quality of public services on its welfare and convenience and by governments that are coming to recognize the impact that public service quality can have on national economic performance. Lower costs are required to bring public debt under control and reduce the burden on taxpayers. More responsive service is needed to deal with the growing complexity and volatility of the demands being made on governments and in order to exploit the opportunities being offered by the rapid evolution of technology.

In this search for more cost-effective alternatives to bureaucracy, many governments are encouraging a more management-based approach to public administration. The idea is to give public managers sufficient flexibility to exercise a degree of independent judgment and initiative in the deployment and use of public resources in order to help them find ways to improve service quality, enhance efficiency and productivity and respond quickly to changing demands. This more trusting regime also allows for the dismantling of some of the costly apparatus of bureaucratic control. Managers are held more to account for results they achieve and less for compliance with rules and mandatory procedures, although they must still conform to a reduced set of fundamental rules that are intended to preserve public values, such as probity and fairness, and to maintain the democratic imperative of effective parliamentary control.

The SOA Initiative

The operational areas of government, rather than those whose primary concern is policy development, are likely to benefit most from this management-based approach. Recognizing this, a number of governments have identified discrete operational units that can be given sufficient autonomy to be effectively led and managed and to enable them to develop a distinct culture tailored to their primary function, within a framework of public values and departmental priorities. In Canada, this approach is found in the SOA initiative. The announcement on December 15, 1989 was part of the then government's Federal Expenditure Reductions and Management Improvements Initiative. In announcing the initiative, the President of the Treasury Board described the SOAs as follows:

“...an innovative concept of management in government ... (SOAs) are a pilot project to improve the delivery and cost-efficiency of services offered by the government. They will operate in a businesslike manner, with flexibility necessary to achieve agreed bottom-line targets. Some of these

agencies will compete with the private sector as suppliers of services to the government."

The first five agencies have since been followed by another ten (see Appendix 1), while many further potential candidates have been identified. Currently about three percent of the employees of the core federal public service work in SOAs.

The SOA approach consists of three basic elements, as follows:

- (i) the identification of discrete operational units (within government departments) whose overall performance and ability to achieve results might be enhanced by SOA status;
- (ii) the granting to these units of greater autonomy in day-to-day decision making by exempting them from certain administrative rules and reducing the amount of external involvement in detailed operations; and
- (iii) the negotiation of performance agreements that hold the units to account more for overall performance and results and less for compliance with detailed directions and administrative rules.

Prior Evolution³

The SOA initiative did not spring out of thin air. It is part of an evolutionary process of public service reform and management innovation that can be traced back at least to the Glassco Commission. A significant element of this process has concerned the appropriate balance of power between the centre and line departments. Driven by the collective accountability of its ministers for the overall performance of the public service, the centre has sought to maintain control, provide overall direction and maintain consistency. On the other hand, the accountability of individual ministers for the operation of their line departments has driven those departments to seek reductions in central controls in the interest of better management. In the sixties, the Glassco Commission, with its now famous plea to "let the managers manage" succeeded in bringing about a reduction in ex-ante controls by Treasury Board (TB) and having them replaced by general standards and policies. This represented the first major step in changing the focus of central control. It was reinforced by the Lambert Commission in 1979, which emphasized increased powers for deputy ministers but balanced this by strengthening the Treasury Board and increasing the accountability of deputy ministers for "performance of delegated or assigned duties"⁴. The ambiguities created by this

³Much of the information on which this section is based was taken from: Johnson, A.W. *Reflections on Administrative Reform in the Government of Canada: 1962-1991*, Office of the Auditor General of Canada, 1992.

⁴Quoted in Johnson, op. cit. p.12.

arrangement led to a proliferation of TB policies, in both number and detail. In response to this situation, the Increased Ministerial Accountability and Authority (IMAA) initiative was launched in 1986. IMAA attempted to introduce a second major step in changing the focus of central control. It sought to reduce the amount and detail of central policy ~~direction in exchange for enhanced accountability by line departments for the~~ achievement of results, especially the efficient and effective use of resources, as well as for the implementation of a broader framework of TB policies. IMAA was to be implemented by means of three-year memoranda of understanding (MOUs). The accountability regime included the development of an Operational Plan Framework (OPF) and a manageable number of important indicators and targets for key program and policy areas. This stage in the evolution of the public service is far from complete. So far, the amount of flexibility available to departments under IMAA has been quite limited and, probably for this reason, only ten MOUs were signed during the first five years of the initiative.

The granting of increased authority, in exchange for strengthened accountability for results which characterizes IMAA, provided a structural precedent for the introduction of SOAs. However, there is no guarantee that departments that have become somewhat more autonomous from the centre under IMAA will relate to their constituent organizations in the same way, as intended by the SOA initiative. Indeed, it would be somewhat ironic if increased *departmental* authority under IMAA were to become an impediment to the creation of SOAs—that the intellectual predecessor of the SOA initiative should become a major impediment to its success.

The logic of the IMAA/SOA approach is also consistent with a key trend in management thinking, which has been gaining ground in the private sector, towards decentralization of decision-making authority within organizations and the creation of semi-autonomous business units, within a framework of corporate priorities. In the right circumstances, this is thought to encourage innovation, improved service and greater efficiency. PS 2000, with its intent to devolve decision-making authority as close to the front line as possible and to make "each level of management...accountable for results achieved, and for the probity and economy with which...resources have been used"⁵ clearly endorsed this approach to management. Although the SOA initiative was launched independently of PS 2000, the two are mutually reinforcing. Thus, the PS 2000 White Paper included a commitment to "extending the use of SOAs to as many organizations as possible, particularly those that are involved in providing routine services to the public and to departments."

Recognition of Diversity

The first five SOAs had to recover most or all of their costs from user fees and were given, or already had, their own revolving funds for the purpose. This, coupled with

⁵Quoted in Johnson, op. cit. p.19.

the use of the word "businesslike" in the original announcement, reinforced the impression that the primary purpose of the SOA initiative was to encourage the development of an entrepreneurial and commercial spirit within the organizations concerned. Taken literally, this would limit the initiative to those federal government organizations that have a significant potential for direct revenue generation and a largely "bottom line" focus.

However, the potential of the basic model to be applied much more widely is being increasingly exploited. The ten organizations that have become SOAs since the first group include a number that operate on the basis of partial cost recovery and even full appropriation. Most of these are expected to achieve a range of results that encompass both financial and non-financial objectives. Consequently, a wide range of SOA types is emerging. The operation of the SOA model and the issues that come into play will depend upon the nature of the organization in question. Thus, optional, revenue-dependent SOAs will inevitably have a focus on the bottom line and may well be concerned with issues such as competition with the private sector, whereas other SOAs will focus on outputs that are explicitly linked to specific policy objectives and may emphasize collaboration, rather than competition, with the private sector.

By enabling government organizations to manage their affairs in a manner that best suits their function and environment, the SOA initiative both recognizes and supports the incredible diversity that exists within the public service. Finally, although SOA status is primarily intended for organizations that are expected to remain within the public service, it could also be an intermediate stage in the road to privatization or devolution.⁶

An Incremental Approach

TBS, with the backing of Treasury Board ministers, has been the main force behind the creation of SOAs thus far. Like IMAA, the SOA initiative is intended to be incremental and experimental. TBS has chosen not to articulate a detailed vision of where the approach might lead, in favour of allowing it to develop in response to the individual circumstances of each SOA. Since SOAs operate within a departmental accountability framework, the positive support of deputy ministers is regarded as essential to their success. Consequently, TBS has not tried to force the question and has chosen to react to issues as they emerge, rather than to anticipate issues beforehand and risk limiting options unnecessarily.

The nature of the first five organizations selected is illustrative of this careful, incremental approach. Prior to SOA status, each was already operating fairly independently and did not interact closely on a day-to-day basis with other organizations.

⁶For example, the Canada Communications Group (CCG), one of the original SOAs, is under consideration for possible privatization, while Indian Oil and Gas (IOG) was given SOA status in part to facilitate its devolution to Aboriginal governments.

In a sense, being recognized as SOAs moved them from a state of autonomy by default to one of autonomy by design. All but one were amenable to performance measurement based on ``bottom line''⁷ results and all but one had internal clients, thus minimizing the political risks involved. Some subsequent SOAs already had legislation specific to their operations which gave them a degree of formal operational autonomy to start with.⁸ Others, such as the Pari-Mutuel Agency, were, like the Passport Office, involved in activities that were quite peripheral to the core mandate of their departments. There are exceptions, however. For example, CORCAN, although it has a commercial orientation, is closely bound up with the other activities of Corrections Canada.

Following the recent restructuring of government departments, Public Works and Government Services Canada (PWGSC) found itself with four existing SOAs and a number of potential SOAs. Taken together, these existing and potential SOAs would account for a significant proportion of the department. As a result, PWGSC is faced with the difficult task of striking the right balance between managing the department as a unit while allowing its constituent SOAs to remain relatively autonomous.⁹

The following three sections deal with each of the main elements of the SOA model: autonomy, accountability and performance measurement—including, in each case, a brief assessment of progress to date.

⁷Three of the five were already optional common services prior to being designated SOAs and one became optional at that time. Only the Passport Office retained monopoly status, although it was expected to cover all its costs through centrally regulated user fees.

⁸Examples include the Canadian Intellectual Property Office (CIPO) and the Canada Grain Commission (CGC).

⁹This issue and others related to the concerns of departments and central agencies are discussed in a companion paper entitled ``Implications of the SOA Initiative for Central Agencies and Host Departments''

AUTONOMY

The Nature of Autonomy

An organization can be considered autonomous to the extent that it is empowered to take decisions in response to its real needs and those of its clients and stakeholders. Being autonomous will also equip it to play an active role in the negotiations that define its methods of operation and what it is expected to achieve and how that achievement is to be measured and reported on. Therefore, autonomy is both a source of power and, in the SOA model, a source of accountability for results.

The Extent of SOA Autonomy

The formal basis for the autonomy of SOAs lies in the Charter or Framework Document. The Charter:

- sets out the Agency's public sector mandate, mission, strategic objectives, values and guiding principles;
- identifies the services provided by the Agency and the clients it serves;
- establishes the Agency's accountability framework, how its performance will be monitored, to whom it will report, what results will be expected of it and how these will be measured;¹⁰
- describes the Agency's organizational framework, and
- specifies the authorities, in areas such as finance, human resources and administration, that the Agency will be given.

The Charter is the product of a tripartite negotiation involving TBS, the host department and the Agency. The Agency's formal autonomy is set out in the specification of authorities. In practice, some of these authorities, such as permission to operate a revolving fund, come directly from Treasury Board while others are delegated by the deputy minister (DM) of the host department.¹¹ The latter are, of necessity, limited to the

¹⁰ The results expected of the agency are sometimes only spelled out in general terms in the Charter, leaving the detailed specification of performance measures and indicators to be developed in the business plan. TBS will not approve the Charter unless an initial business plan is attached that indicates how the Charter is to be operationalized.

¹¹ Throughout the paper, we will assume that the Agency Head reports directly to the DM and has ADM status within the department. In practice this is not always the case. The Heads of some smaller SOAs report to ADMs and in one case (IOG) directly to the Minister.

authorities already vested in the DM. In practice the authorities available from the centre, whether to SOAs directly or to DMs, as noted earlier in the discussion on IMAA, have been quite limited, especially in the crucial area of human resources management. Furthermore, a number of the authorities that were sought by prospective SOAs, such as person-year decontrol and freedom from foreign travel restrictions, have since become available generally throughout the public service. Thus, the formal autonomy of SOAs is quite limited.

There is, however, an informal side to autonomy which depends not on formal authorities but on the willingness of the host department in general, and the DM in particular, to maintain an arm's length relationship with the Agency, avoiding as much as possible any involvement in its day-to-day operations. A number of factors can influence the extent of this informal autonomy, including:

- the extent to which the Agency's operations have to be coordinated with those of other parts of the department;
- the political sensitivity of the Agency's work;
- the amount of confidence that the DM places in the Agency and its head;
- the general level of acceptance within the department that the Agency should be managed differently from other departmental units; and
- the personal preferences (for policy versus operational work, for example) and management style (interventionist versus laissez faire) of the DM.

It is clear that much of this informal autonomy depends upon the attitude of the DM. Furthermore, given the DM's ultimate accountability for the agency's operations, such autonomy can be taken back at a moment's notice. In the words of one DM who was interviewed for this project, "I can kill an SOA,...almost with a look". Furthermore, SOA status does nothing to protect an agency from the exercise of ministerial prerogatives in areas such as the location of facilities. Thus, the informal autonomy of SOAs is both conditional and unstable.

Finally, Agency autonomy is directed; it is intended to be used for a purpose clearly defined in the Charter. Its strategic objectives are set, or at least approved, by the minister and the DM. Thus, in sum, the autonomy of SOAs is limited, conditional, unstable and directed. Significantly, the word "autonomy" has no official place in the lexicon of the SOA initiative. The term "flexibility" is used instead. In the words of one senior official who played a major role in the development of the SOA initiative:

"Deputy Ministers are probably uncomfortable with the idea of autonomy, but many would like to manage by results through appropriate contracts and relationships."

However, in spite of all these caveats, Agency autonomy can be quite real if the conditions are right. Furthermore, the SOA approach is a step in the direction of replacing the old hierarchical command and control system of public administration with one based on negotiated agreements. Clearly, such agreements do not have the force of legal contracts, nor are they negotiated between people with equal power. Nevertheless, if the negotiation process is taken seriously by all concerned, it can inject a sense of realism and common purpose into the public service.

The Risks Associated with Greater Autonomy

There are certainly good reasons to be cautious in allowing public service organizations to operate too autonomously. Given sufficient autonomy, they may become over-powerful, independent fiefdoms, operating in response to their own agenda rather than the public interest. They may violate such public values as prudence, probity, fairness and consistency by spending extravagantly (especially if they are funded directly by their clients), circumventing the rules in such areas as hiring, treating their employees unfairly, failing to be even-handed in their dealings with the public and other clients and failing to coordinate their work with other stakeholders or to collaborate with other groups in the public interest. Departments, in particular, are concerned that more autonomous units will undermine departmental unity, hamper coordination and encourage duplication. Clearly, these risks are likely to be greater if the autonomy is established through legislation,¹² rather than, as is the case with most SOAs, through administrative action.

There is also no guarantee that an autonomous organization will extend the same principles of decentralized decision making to its own components. By breaking up sections of departments into more autonomous units, there is a risk of replacing a large bureaucracy with a number of smaller bureaucracies. If this happens, the hoped-for performance gains will be less likely to materialize and effective departmental coordination will be harder to achieve.

To counteract these risks, it is necessary to maintain effective oversight of autonomous units. This oversight has two principal components. The first component addresses the risks of deviation from the national interest and public values and requires the organization to demonstrate that it has an effective and readily auditable control system to minimize such risks. The second oversight component addresses the risk of lost opportunities to develop more effective management in order to enhance the

¹² However, the increased risk associated with legislated autonomy might well be offset by the gains from a more stable relationship.

organization's performance. It requires the setting of challenging but attainable performance targets, while holding the organization to account for meeting those targets.

In the Westminster system of government, the maintenance of effective parliamentary oversight of the public service is of paramount importance. Given its nature and scale, the SOA initiative has yet to be seen as a threat to such oversight. However, concerns have been raised in the United Kingdom that Executive Agencies might reduce the information being made available to Parliament. There, the issue has been addressed by having Agency chief executives answer directly to Parliament on operational matters. To quote Sir Peter Kemp:

"Are members of Parliament getting the sort of information they need about the Agencies and their activities? The arrangement whereby the Agency Chief Executive replies in the first place to Members of Parliament on matters which have been delegated to him is working pretty well on the whole and, in practice, Members are getting better and more effective replies than they got previously."¹³

Progress to Date

In discussing the amount of increased autonomy experienced by SOAs, it is important to distinguish between formal and informal autonomy. As befits a careful, incremental initiative, the gain in formal autonomy has been quite modest. Those Agencies that went onto revolving funds when they became SOAs have acquired a certain amount of additional flexibility in the area of financial management,¹⁴ including greater ability to plan ahead. In addition, Agencies that operate on an optional, revenue-dependent basis were given authority to set their own rates in response to market conditions. Three internal common service SOAs (TDC, CCG and CAC) were also given authority to compete directly with the private sector for federal government business. Some minor additional financial flexibilities were also forthcoming. A number of host departments have delegated additional authority to their SOAs in administrative areas such as procurement, and some SOAs were also given permission to provide their own corporate services in areas such as finance, administration and personnel.

Some key flexibilities that have since been implemented across the public service, such as the replacement of detailed financial and person-year controls with single operating budgets, were first given to SOAs. While this is consistent

¹³Quoted in: Sylvie Trosa "Next Steps: Moving On: An Examination of the Progress to date of the Next Steps Reform against a Background of Recommendations made in the Fraser Report (1991)", February, 1994, p.25.

¹⁴For specific details, see the companion paper: "Financial Management Issues for SOAs".

with the notion of the SOA initiative as a 'pilot project', it is not clear if any systematic effort was made to learn from SOA experience in these areas prior to government-wide implementation.

There are many areas in which SOAs have been denied additional flexibility. For example, they have not been exempted from government accommodation standards. However, it is in the crucial area of personnel that the lack of flexibility has been most keenly felt. SOAs have not found it any easier to hire or redeploy staff, reward good performers or get rid of poor performers than they did before. This is partly due to the fact that significant changes in the personnel area would require changes to existing legislation, something that the SOA initiative has sought to avoid. However, SOAs have generally not been exempted from more discretionary actions either, such as government-wide delayering, limits to the size of the Total Executive Complement and staffing freezes. On the financial side, the appropriations component of SOA funding has not been exempt from across-the-board budget cuts.

So far, departments and central agencies seem to have been hesitant to treat SOAs much differently than other units of government when it comes to across-the board actions. This may be due to:

- philosophical opposition to the SOA concept on the part of certain key decision-makers;
- lack of understanding of the concept and the basis upon which it is supposed to operate; or
- concerns over the reaction of other organizational units to special treatment of SOAs.

In matters that affect the department as a whole, DMs do not generally distinguish between SOA heads and other members of the departmental management team. However, in matters pertaining to their own operations, many Agencies appear to enjoy considerable informal autonomy. The heads of a number of Agencies have stated that they see an SOA as a "state of mind" and have focused on making the best use of the flexibilities that were already available to them.¹⁵ They have sufficient informal autonomy to enable them to make many of the changes to the management and organization of their Agencies that they consider necessary. However, as noted earlier, many of these organizations already operated fairly autonomously prior to SOA status, so that any changes that have taken place may be due more to the use they were able to make of their existing autonomy than to any significant change in the level of autonomy itself.

¹⁵For a more detailed discussion of this question, see the companion issue paper "SOA Status as a Vehicle for Organizational Change".

ACCOUNTABILITY

Since the idea of making SOAs accountable for performance and results is so central to the initiative, and since the concept of accountability is so prone to misinterpretation, it will first be necessary to provide a brief theoretical overview of the topic of accountability. This will serve as a reference point for the subsequent discussion.

The Nature of Accountability

While there is no universal consensus on what is meant by the term "accountability", a useful definition is as follows:

Accountability is the obligation to answer for the discharge of responsibilities that affect others in important ways.¹⁶

Thus, responsibility is the obligation to act, while accountability is the obligation to answer for an action. Also, accountability should not be confused, as it often is, with the assignment of blame or praise. These may follow accountability reporting but are not part of it.

Within an organization, formal lines of accountability trace a series of relationships between "principals" who delegate responsibilities and "agents" who carry out those responsibilities. These accountability relationships may be non-empowering or empowering. Figure 1 illustrates the essential features of these two alternatives. Thus a non-empowering accountability relationship involves a transfer of responsibility accompanied by specific instructions as to how that responsibility is to be discharged. There is no accompanying transfer of decision-making authority. In this case, accountability requires agents to report on how well they have been able to comply with the instructions they were given. We will refer to this as compliance-based accountability.

In an empowering accountability relationship, the transfer of responsibility is accompanied by the transfer of a degree of decision-making authority. In other words, the agent is given some latitude or autonomy in determining how best to discharge the responsibility. If the responsibility is significant (the management of an SOA, for example) then there is usually a negotiated agreement as to what results are to be achieved and what standards are to be met and how frequently and in what manner the results are to be reported. We will refer to this as results-based accountability.

Clearly, there is a continuum of possibilities in such accountability relationships. The relationship becomes more empowering as the number of constraints placed on the

¹⁶This definition is based on one found in the Report of the Independent Review Committee (Wilson Committee) on the Mandate of the Office of the Auditor General of Canada (Ottawa: Information Canada, 1975), p.9.

actions of the agent decreases and as the number of items subject to negotiation increases. In a results-based accountability relationship, reporting shifts away from the minutiae of specific actions, towards the achievement of broad results. To put it another way, in a results-based or empowering relationship, the principal exercises control by specifying performance targets that the agent is expected to meet, rather than by specifying rules, procedures and instructions the agent is expected to follow.

There is a degree of empowerment in most accountability relationships at the senior levels of the federal government. However, by focussing accountability more explicitly on results, the SOA initiative is attempting to move the Agencies further along the empowerment continuum. In the case of SOAs, this requires action on the part of two sets of principals, central agencies and host departments.

3.2 The Rationale for Results-Based Accountability

Figure 2 illustrates the difference between compliance-based and results-based accountability in terms of their effectiveness in promoting results, such as efficiency, service quality and effectiveness. The inner circle (point A) represents the basic level of results to be expected under a control regime based exclusively on mandated procedures and detailed instructions, without the exercise of any further initiative. By improving the procedures and instructions, it may be possible to increase the level of results achieved to point B. Only by shifting the locus of control to the achievement of results, while allowing the agent freedom to innovate in order to achieve those results, does it become possible to reach point C.

Charles Handy draws the following distinction between the two types of accountability, which he refers to as type one (compliance) and type two (results):

“Groups and individuals therefore live within two concentric circles of responsibility. The inner circle contains everything they *have* to do or fail - their baseline. The larger circle marks the limit of their authority, where their writ ends. In between is their area of discretion, the space in which they have both the freedom and the responsibility to initiate action. This space exists for them to fill; it is their type two accountability.”¹⁷

Thus, by focussing accountability on results, the intention is to:

- encourage the innovation necessary to improve efficiency and service quality;
- facilitate the achievement of strategic objectives by removing some of the detailed operational controls that impede progress;

¹⁷Charles Handy, “Balancing Corporate Power: A New Federalist Paper”, Harvard Business Review, Nov.-Dec., 1992: p.70.

- enable reasoned judgments to be formed concerning the overall performance of the organization in order to exercise strategic oversight; and
- provide hard evidence of the relative effectiveness of alternative organizational arrangements, delivery mechanisms and management practices in order to evaluate progress and learn from experience.

Figure 2

An Appropriate Accountability Regime for SOAs

The total performance of any public service organization, including SOAs, is a function of both the results it achieves and the manner in which it achieves them. As we have seen, a degree of autonomy, coupled with results-based accountability, can help to promote the achievement of results, while certain compliance requirements are necessary to ensure that the means used are appropriate. Consequently, the accountability of SOAs should be for a mix of results and compliance.

The impact of the degree of autonomy on the total performance of an SOA is illustrated in Figure 3. As we gradually remove compliance requirements, thereby increasing autonomy, we raise the potential for achieving results (economy, efficiency, service quality and effectiveness). However, as discussed in the section on autonomy, as we do this we may also increase the risk to policy integrity and public values (prudence, probity, consistency and equality of treatment). For each individual SOA, there is a point of optimal autonomy at which overall performance is maximized. To the left of this point, compliance requirements are excessive and stifle innovation and adaptability. To the right, the benefits of increased autonomy are more than offset by the increased risk to public values and policy integrity. There is no simple way of locating this optimal point. It can be found only through controlled experimentation, and has to be worked out separately for each SOA.

Other things being equal, the optimal autonomy point is likely to lie further to the right (i.e. allowing for greater autonomy) for those SOAs:

- whose work is neither politically sensitive nor carried out in a politically sensitive environment;
- whose tasks remain relatively consistent over time;

- whose important objectives are all amenable to control on the basis of measurable results;
- whose clientele is internal to government, rather than the general public; and
- whose managers and employees have established a past track record of solid performance and effective risk management.

Figure 3

Accountability Mechanisms

As noted earlier, SOAs have two sets of principals, central agencies and host departments. The Charter, already discussed, backed by the initial business plan, is the key instrument of direct accountability to central agencies. To the extent that they have granted an SOA specific flexibilities under the Charter, central agencies will require assurance that the SOA has exercised those flexibilities in a responsible and effective manner, with due regard for public values and policy requirements. Currently, the estimates process and the annual reports (where these exist) are the main vehicles for providing this assurance.

In addition to the Charter, the primary instruments of accountability to the DM are supposed to be business plans and annual reports that together form an accountability loop.¹⁸ This does not preclude the use of other instruments, such as individual accords between the DM and the Agency head, provided these are supplementary to, and do not supplant, the primary instruments. The companion issue paper on business planning and annual reporting discusses these topics in greater detail. Its main conclusion is that the business planning/annual reporting cycle has yet to achieve its intended status as the primary vehicle for the discharge of SOA accountabilities.

In addition to these formal instruments, there will always be a requirement for less formal accountability through face-to-face meetings and other channels of communication, as warranted by circumstances and by the extent to which the DM requires reassurance that all is well. However, if the SOA model is working as it should, such meetings should be fewer and farther between than before, as problems that formerly would have gone to the DM get resolved within the Agency itself.

Recognizing the Need to Renegotiate

¹⁸ SOAs that compete directly with the private sector have noted that some of the information in their business plans and annual reports should be kept confidential in order to protect their competitive position.

A recent OECD study¹⁹ suggests that the acid test of whether the locus of control and accountability has moved from compliance to results is the recognition by all parties involved of the need to renegotiate the accountability instruments when circumstances change. This renegotiation may be triggered by changes in policy, resource levels, flexibilities or key external factors that have an impact on the unit's ability to achieve results. Ignoring the need to renegotiate or leaving the situation unresolved is a sure indication that the relationship is still partly operating according to the old model.

An example of this principle in action is to be found in the performance agreements of chief executives (DMs) in New Zealand, which contain a contingency clause, such as the following:

“This agreement may be amended with the concurrence of both parties, if at any time during the term of this agreement the work/or environment of the department is so altered (whether as a result of Government or management decision or otherwise) that the contents of the agreement are no longer appropriate, in whole or in part, to the work required or to the performance of the chief executive. Where an agreement is to be changed, discussions will take place to consider the proposed changes.”²⁰

Governance or Strategic Oversight of SOAs

The force that really drives the accountability process is the nature of the information demanded by the principal or governing body. Effective governance or strategic oversight of an SOA requires an understanding of the factors that are critical to its success and the ability to clearly identify the information necessary to form a reasoned judgment of its performance in relation to those factors. The ideal would be to get to the point where strategic direction can be given to an Agency by shifting the emphasis placed on targets related to different aspects of performance. Ideally, the information demanded should be all that is necessary, but no more. Excessive demands for information for oversight purposes simply distract the Agency from productive work and could be seen as intervening unnecessarily in its affairs and undermining its accountability.

This arm's-length strategic oversight delegates operational accountability to the Agency head. Although there are certainly risks involved for DMs in this type of arrangement, since they remain ultimately accountable to their ministers for SOA operations, there are also potential benefits. Under such an arrangement, the DM should

¹⁹Organization for Economic Co-operation and Development, *Autonomy and Control*, background document for a meeting on ‘Performance, Accountability and Control: Negotiating Managerial Autonomy’, Public Management Service”, O.E.C.D., Paris, 1993.

²⁰From ‘Guidelines for Preparing Chief Executives Performance Agreements’, Government of New Zealand, 1991.

have to spend less time approving specific activities or dealing with operational matters, since decisions related to these can be made within the agency. Furthermore, if the information required for effective strategic oversight of the Agency is readily available, the DM will get far greater leverage from the time that *is* spent on oversight. Finally, if greater operational autonomy does result in improved service, then Ministers will receive fewer complaints from dissatisfied citizens and will get more in the way of positive feedback.

Directions of SOA Accountability

The discussion to this point has focused on the formal aspects of the SOA accountability regime, namely the relationship between the Agency head, on the one hand, and the central agencies and the DM on the other. Figure 4 identifies a number of additional possible relationships that may have accountability implications for the SOA head. As we will see later, strengthening these relationships can play an important role in improving the operation the SOA model. In the diagram, the solid lines represent formal relationships that derive from either legislation or central agency policy. The dotted lines represent other relationships that are either completely informal or are formalized through memoranda of understanding (MOUs). In general, the relationships become stronger and the accountabilities or reciprocal obligations become more stable as we move from the completely informal, to MOU, to central agency policy, and finally, to legislation.

Under the current SOA model, the Agency Head is not strictly accountable in a direct sense to the public (1),²¹ Parliament (2) or the minister(3). In practice, SOA heads may be required to answer before Parliamentary committees from time to time, but it is understood that they are answering on behalf of the minister. Also, while SOA Heads will have occasional meetings with ministers, this is usually at the behest of the DM.²²

Many departments or SOAs have advisory boards that can play a variety of possible roles, including assisting the DM to oversee the Agency, providing strategic advice to the agency or acting as a forum for input from clients and stakeholders. However, since most of these boards operate within the departmental structure,²³ they can only play an advisory or support role and not one of formal oversight or accountability (4).

With the possible exception of the chief financial officer, the relationship between the SOA head and corporate groups within the department (6) is usually a matter of departmental rather than central policy. In practice, some SOAs (such as CCG) provide

²¹The Charter document is made public, however.

²²The Canadian Grain Commission is an exception, in that its head reports directly to the minister.

²³The Board of the Canadian Grain Commission is an exception.

these services for themselves, while others obtain them from the host department under an MOU.

Since Treasury Board, not the SOA, is the employer, the direct relationship between the SOA and the unions (8) is normally an informal one. An exception to this is when the SOA has status as a Separate Employer,²⁴ in which case there is a formal contractual relationship between the SOA and the unions.

SOA staff are accountable to the SOA head (9). Increasingly, this is being seen as a two-way relationship, with the SOA head being informally accountable to staff for those aspects of Agency management that directly affect their interests. While SOA heads and their staff often feel accountable to their clients (10) for various aspects of service quality, this accountability is largely informal.²⁵ There may also be informal accountability relationships between the SOA and other government stakeholders both inside and outside the host department (11), as well as with external partners (12). Finally, the Agency may act as the agent of the Crown in contractual relationships with external entities (13).

Progress to Date

The SOA initiative appears to have strengthened results-based accountability, at least indirectly, in a number of areas. In general, there has been more progress in the areas that support the ability of SOAs to account for results than in the mechanisms of accountability themselves. These two aspects are discussed below.

Stronger Support for Results-based Accountability

Perceived Accountability: A number of SOA heads (for example, CIPO, CCG) report that they *feel* more accountable for the performance of their organizations and the results they achieve than they did prior to SOA status. Some (such as CORCAN and Pari-Mutuel) find that their conversations with the DMs or ADMs to whom they report are focusing more on results and less on technical details than before.

Strategic Planning: In some cases SOA status is reported to be encouraging strategic and business planning resulting in a longer-term perspective and a clearer sense of direction (e.g. IOG, Passport).

²⁴Currently, only two SOAs, CCG and IOG, have Separate Employer Status.

²⁵In the United Kingdom, the Citizen's Charter serves as an example of formalized accountability to clients.

*Advisory Boards:*²⁶ Many SOAs and their host departments have established advisory boards. These boards play a number of roles, all of which can support the accountability process. Thus boards may support the Agency by:

- providing practical business advice (CORCAN, Passport);
- providing a forum for client input (GTA, CAC); and
- providing input from policy groups and other stakeholders (Passport).

Boards have also been established to help the DM oversee the Agency more effectively, mainly by reviewing business plans and annual reports. These can be particularly useful when aspects of Agency business are not directly relevant to the core mandate of the department. For example, CORCAN reports to an advisory board in relation to its business objectives and to the Commissioner of Corrections in relation to its corrections objectives.

Financial Accountability and Cost Awareness: A number of Agencies report increased financial accountability and cost awareness through the use of revolving funds, especially when combined with optionality. Financial accountability has also been improved in some Agencies by the appointment of comptrollers (e.g. TDC and CAC).

Clarification and Stabilization of Key Relationships: To support their ability to account for results, a number of SOAs have sought to clarify and stabilize relationships with external entities whose activities can influence the Agency's performance. For example, CORCAN has signed exchange of service agreements with other parts of its host department and with PWGSC, while CGC reports that SOA status has helped to clarify some of the accountabilities of the Grain Research Laboratory.

Greater Accountability to Clients: A number of SOAs have conducted client surveys, some for the first time. This information can then be used to help develop the business plan (e.g. CHIN). A number of SOAs have also established account executive positions to focus on and improve accountability to specific client organizations (e.g. GTA, CAC). In the words of one SOA head:

“The real advantage of SOAs is that they enable you to be clear about your business, who your clients are and how you are going to serve them.”

Internal Accountability: It is difficult for an SOA head to develop the ability to account for results unless the lines of accountability within the Agency support this. A number of Agencies have restructured themselves in ways that promote accountability for results at

²⁶For a more detailed discussion of advisory boards and the roles they can play, see the accompanying issue paper on “The Role and Operation of SOA Advisory Boards”.

the Agency level. Examples include CIPO, which has restructured on the basis of product lines, and CCG, which restructured to provide a corporate focus and eliminate internal competition. In some cases (TDC, Passport), Agency status has also encouraged clarification of the roles and responsibilities of key players, thus further supporting accountability.

Accountability to Staff: Keeping staff informed of key issues related to Agency performance and seeking their input and support helps to strengthen accountability within the Agency and to instil a sense of purpose that can support its external accountability. Agencies have used various means to accomplish this end, including an employee advisory board (CCG), local area networks (CAC) and newsletters, such as GTA's "Teleinfo", which was also distributed to customers, suppliers and other external stakeholders.

Mechanisms of Accountability

While Agencies have taken a number of actions that indirectly help to strengthen their ability to account for results, this has not always been matched by a corresponding change in the basis for governance or even by an ability to measure all pertinent aspects of performance. Thus, although all the Agencies produce business plans and some produce annual reports, these have yet to become the primary instruments of accountability, as originally intended.²⁷ In some cases (for example, CIPO) the business plan is being used as input to the MYOP process, while in other cases the two processes run in parallel.

There appear to be a number of impediments to moving to a more appropriate governance regime. The most fundamental is a lack of clarity with respect to the roles and responsibilities of those involved²⁸ and lack of recognition of the need by departments to identify and demand appropriate information on the performance and results of their SOAs as a basis for governance. In addition, many Agencies have yet to develop the capability to provide all the information necessary to support strategic oversight, in part because it is not being demanded, but also for technical reasons, such as lack of the necessary skills, experience and resources (See Section 4 for a discussion of performance measurement). Another impediment lies in the fact that the activities of some SOAs are viewed as quite marginal to the core mandate of their host departments and, consequently, rarely engage the attention of their DMs.²⁹ In any event, DMs have

²⁷For further discussion of this point, see the companion issue paper "Business Planning and Annual Reporting for SOAs".

²⁸One of those interviewed pointed specifically to the need to clarify the role and responsibilities of the department's senior financial officer with respect to the SOA.

²⁹Some Agencies in this category report to ADMs, rather than DMs. Some of these find the additional link in the chain of accountability to be inhibiting.

too little time to fully interpret SOA performance information themselves and tend to rely on departmental corporate staff, who then apply normal departmental accountability procedures. As noted previously, some DMs are addressing this issue by appointing advisory boards to assist them to oversee Agencies.

Given these difficulties, it is not surprising that the need to renegotiate accountability agreements (such as Charters and business plans) in response to changing circumstances has yet to be widely recognized. However, at least one Agency (CORCAN) has recognized the need to renegotiate in mid-year.

PERFORMANCE MEASUREMENT

This section is a brief overview of what can be a complex and technical subject. At the heart of the SOA concept is the ability to measure important aspects of performance in order to manage an Agency more effectively and hold it to account for achieving specified performance targets. Thus, performance measures serve two broad purposes. One is to enable DMs to maintain effective oversight and provide strategic direction; the other is to serve as a tool for internal management and accountability, one that also enables the organization to learn systematically from experience. Performance information for internal management purposes will necessarily include measures of process as well as results and is likely to be much more detailed than that required for external accountability. This section focuses only on measures related to external accountability.

Choice of Measures

The choice of measures is crucial to the success of an Agency, since "what is measured gets noticed". Of fundamental importance is the need to provide the DM and the minister with the information they need in order to make informed judgments about the performance of an Agency and how this information will be used to exercise effective strategic oversight. Thus, performance measures must be clearly related to the strategic objectives of the Agency developed during the planning process, and progress in achieving *each* strategic objective must be measured. The temptation to concentrate only on those things that are easy to measure must be strongly resisted, since this easily leads to a concentration on detailed aspects of performance that have little governance value. There are those who maintain that the failure of attempts to introduce management by objectives (MBO) into government was attributable to precisely this problem.

Aspects of Performance that should be Measured³⁰

A comprehensive set of performance measures will normally include:

Financial Measures: The proportion of costs recovered through user fees or specific targets for revenue generation are examples.

Output Measures: Where output is reasonably uniform it can be measured directly in units. Otherwise, it is sometimes possible to use proxies, such as sales levels or productive professional days. A further possibility is to provide project planning and control information for each activity.

³⁰Further useful information on performance measurement and target setting can be found in: H.M. Treasury, *Executive Agencies: A Guide to Setting Targets and Measuring Performance*, HMSO, London, 1992.

Efficiency Measures: These include unit costs (cost per unit of output). Decreases in unit cost can result from greater staff productivity (output per employee), reduction in overhead costs or reduction in input costs (economy).

Service Quality Measures: These are of two general kinds, those that relate to the intrinsic quality of the output (such as accuracy) and those that relate to the process of producing the outputs (such as timeliness, turnaround time and interpersonal factors). A common mistake is to make assumptions about what is important to clients, instead of finding out what their priorities are by such means as surveys and focus groups.

Effectiveness Measures: The effectiveness (also referred to as outcome or impact) of an Agency's programs or services is a measure of the extent to which its policy objectives are being met. Consequently, measures of effectiveness are unique to each Agency. An Agency can be fairly held to account for effectiveness only to the extent that it has control over contributory factors. More often than not, many of these factors are beyond the control of the Agency. Also, the impact of its activities may take a long time to show up. However, to support the development of an effective strategy the Agency may need to conduct research in order to better understand the linkage between its immediate outputs and their intended impacts. Its ongoing service experience often makes it a valuable source of policy advice, which can be viewed as another Agency output. While the formal assessment of effectiveness is a task of evaluation, the Agency's research can be a key input to the evaluation process.

The effectiveness of common service agencies (a category to which a number of SOAs belong) lies in the value they add to the operations of their government clients. This value-added results from a combination of the relevance of the service to client needs, service quality and price.

The Government of New Zealand has attempted to make a clear distinction between the accountabilities of its departmental chief executives (DMs) and its ministers. Chief executives are accountable for the volume, cost and quality of outputs, while ministers are held to account for policy outcomes. The ministers, in effect, purchase the mix of outputs that in their judgment will best serve their policy goals within the limits of the resources at their disposal.

Forms of Measurement

Performance can be measured in a number of different ways, depending upon the nature of the work and the aspect of performance under consideration. There are two basic options:

- (i) Direct performance measures, which may be objective (such as the number of units of output produced per year) or subjective (such as overall client satisfaction ratings).

- (ii) Performance indicators are statistics that provide some indirect information about performance. They often take the form of proxies, such as the use of the percentage of repeat business or the number of complaints received as indicators of client satisfaction. Indicators are useful in situations where direct measures are too costly or difficult to obtain. However, they can sometimes be misleading and should be interpreted with caution. For example, the percentage of repeat business would not be a reliable indicator of client satisfaction in a situation of changing services or markets. Similarly, the number of complaints received would be misleading in the face of changes in the ease or difficulty of lodging a complaint.

Interpretation of Performance Information

Most performance information is difficult to interpret on its own. For accountability purposes there has to be a target level of performance. These targets can be set in relation to:

- pre-established performance standards (for example, 95 percent of claims will be processed within three days, 75 percent of total costs to be recovered);
- previous levels of performance; and
- performance relative to that of other organizations doing similar work (benchmarking).

An Agency should not be judged solely on the extent to which it achieves, or fails to achieve, its performance targets. It is also necessary to consider how far the results can be attributed to the actions of management and to what extent they are influenced by other circumstances, such as changes in demand and in resource costs that are beyond Agency control.

The Agency itself has most of the information required to develop its performance measures and indicators and to determine realistic targets. However, to oversee the Agency effectively, DMs and ministers need to be able to relate specific targets to overall policy requirements. They will also need to strike an appropriate balance between certain aspects of performance that may be in conflict, such as response time versus accuracy or security. Furthermore, they must ensure that all important aspects of performance are covered and are assessed in a balanced way. For example, an Agency whose core services are funded through appropriations may be requested to generate additional revenue from the sale of related value added services. If too much attention is devoted to the pursuit of revenue targets, core services may suffer, since the management capacity of any organization is limited.

Implementing Performance Measurement

Implementing performance measurement so that it drives both internal management and external accountability is among the most fundamental challenges facing SOAs. An Agency cannot measure its performance unless it has the necessary systems and information management infrastructure. The establishment of the necessary performance measurement systems (PMS) should be recognized from the outset as a legitimate and necessary Agency cost. Inadequate funding in this area ultimately jeopardizes results-based accountability. At the same time, it may be possible to reduce PMS costs by using sampling techniques and by developing linked systems that require common data elements to be input only once. In addition, linking financial management systems with other PMS also makes it easier to attribute costs to specific activities.

Because of the importance of the PMS to the accountability of the SOA as a whole, it is best if the Agency head personally champions its development and maintains effective oversight at all stages. In addition, certain crucial questions must be answered before a PMS can be successfully implemented. Among these are: Who is responsible for its development and accountable for its performance? How will information flows be controlled and who will store and analyse the data? Will the data be centralized or decentralized? Will new positions and new skills be required? What technology is most appropriate? How much will it cost to develop and maintain the system?

Responsibility for Performance Measurement

For the purpose of accountability, performance should be measured by the Agency itself (which it will have to do anyway for internal management purposes) and not by an outside body, such as an audit or evaluation group. The DM and the minister will certainly want some assurance from time to time that the performance information they are getting from the Agency is accurate. This assurance can be obtained in one of two ways. Auditors may be sent in to verify that the systems and methodologies in place are capable of producing accurate, balanced and comprehensive performance information. Alternatively, they can measure performance directly. The first approach supports results-based accountability, while the second undermines it. In audit terminology the appropriate role for audit is one of attestation. This applies both to the PMS and to management control systems that the Agency has put in place for the purpose of ensuring compliance with central agency and departmental policies.

Progress to Date

Financial Performance: Most SOAs have made at least some progress in addressing the issue of performance measurement. For many Agencies, the predominant focus has been on financial performance. This emphasis may reflect the perception, noted earlier, that SOAs were selected on the basis of their ability to generate revenue. The importance of

revenue generation has been most keenly felt by optional, revenue-dependent SOAs, which have seen it as the key to survival. Financial performance has also been emphasized because it is easier to measure than many other aspects of performance. This emphasis on financial performance has also been noted among the U.K. Next Steps Agencies, where financial targets tend to dominate the evaluation of Agency performance at the expense of other targets, such as those related to service quality for example.³¹

This focus on financial performance has been beneficial in giving SOAs a better picture of costs, especially Agencies on revolving funds which must practice accrual accounting. However, if financial aspects are given too much prominence, there is a danger of underemphasizing other aspects of performance, such as efficiency and service quality and of deflecting attention from the effectiveness of the Agency in supporting its policy rationale as an organization within government.

Outputs: Many SOAs have some form of output measure. Some measure output directly. Examples are Passport (number of passports issued) and TDC (number of courses, course days, participants, etc.). Others, such as CAC and GTA, use revenue generation as a proxy for output.

Efficiency and Productivity Measures: Some Agencies have made progress in the development of efficiency and productivity measures, although not to the same degree as financial measures. For example, GTA can track unit cost by product, CORCAN uses "revenue per offender hour" as a proxy measure for productivity and TDC has developed productivity standards for each of its major activities. However, much of the potential for the development of unit cost measures has yet to be realized.

Service Quality: As noted, one of the main purposes of the SOA initiative, as originally announced, was to improve delivery or service quality. Consequently, SOAs have taken a number of steps to enhance and account for service quality. Many have undertaken client surveys, some for the first time. These surveys have been used for two major purposes, including:

- generating information on client satisfaction levels (e.g. CAC, CHIN); and
- identifying client priorities with respect to service characteristics (e.g. TDC, GTA).

Some SOAs have developed the ability to measure and monitor objective aspects of service quality. For example, Passport keeps track of the speed and precision with which passports are issued. Other Agencies obtain routine feedback following completion of the service (e.g. TDC) or use proxy measures, such as repeat business, as an

³¹Sylvia Trosa "Next Steps: Moving On: An Examination of the Progress to date of the Next Steps Reform against a Background of Recommendations made in the Fraser Report (1991)", February, 1994.

indicator of service quality. However, there is still much potential for further development in the ability of SOAs to measure and keep track of important aspects of service quality.

Effectiveness: Most SOAs have not attempted to develop hard measures of effectiveness. There are several possible reasons for this. First, a number are common service organizations whose policy purpose may not be universally understood. Second, there may be a perception that too many of the variables that influence effectiveness are beyond the control of the Agency. Third, effectiveness assessment is thought to be an evaluation, rather than a management responsibility. There are some partial exceptions, however. Passport monitors detected rates of fraud, GTA measures savings to government and CORCAN carries out research to determine the contribution of its program to the ability of offenders to find employment on release and on the impact of such employment on recidivism rates.

Balance: Like other government organizations, many SOAs have to attempt to strike an appropriate balance among competing objectives. For example, Passport has to balance security concerns against turnaround times for passport applicants, CORCAN has to balance commercial and corrections objectives, and CAC has to balance financial viability against broader service to government.

In general, although SOAs appear to have made some progress in the area of performance measurement, many still have quite a long way to go, especially in the areas of efficiency and service quality. It appears progress in this area has been driven more by the internal needs of management than by demands for the purpose of strategic oversight. In other words, with the notable exception of financial performance, results measures have yet to be fully incorporated into the accountability process.

STRENGTHENING THE SOA INITIATIVE

There are many ways in which the autonomy, accountability and performance measurement aspects of the SOA model could be strengthened. Some of these involve fairly radical measures to overcome the structural weaknesses inherent in the model. Such measures may require changes in the law and these will be touched on briefly, later. However, we will first discuss some actions that could be taken to strengthen the implementation of the current SOA model.

There are, in fact, many things that could be done to strengthen the capacity of the existing initiative to promote more effective results-based accountability. However, given that the current model has few teeth, these actions require the willing participation and active support of those involved in order to succeed. It is apparent from the earlier discussion that some of those involved in the SOA initiative, in central agencies, host departments and the Agencies themselves, are already taking some of the actions identified.

Most of the actions identified below are intended to *clarify* the scope, purpose and key elements of the model and the roles and responsibilities of those involved and to *stabilize* factors that influence Agency performance in order to promote accountability. They deal with: (i) actions related to the SOA initiative as a whole, (ii) actions related to governance, and (iii) actions at the Agency level.

Actions Related to The SOA Initiative as a Whole

Defining the Scope³² of the SOA Initiative

While it is generally understood that the purpose of the SOA initiative is to produce better and more responsive government services at lower cost to the taxpayer, its scope and the criteria for its success are not nearly so clear. With the passage of time, the original concept of SOAs as units with "bottom-line targets" has been progressively broadened to encompass an increasingly diverse set of organizations. This immediately raises the question of whether the SOA initiative has now gone beyond the "pilot project" phase and, if so, how far it should be encouraged to proceed. There is, in effect, a continuum of possibilities with respect to the scope of SOA initiative. At one end of this continuum, the initiative could continue to be restricted to common service organizations and those operating at the margin of the public service. At the other end, it could be a model for the reorganization of the entire public service, or at least its operational components, along the lines of the Next Steps initiative in the U.K.

³²The term "scope" is used here in the sense of how widely the initiative is implemented across the public service. The term could also refer to the extent of the authorities given to individual Agencies and of the concomitant requirements for accountability. However, significant progress in this latter sense would require the more radical measures discussed in the last section of this chapter.

Clearly, this question can be resolved only at the political level. This will require two things: (i) a clear understanding and agreement as to how various options might contribute to issues on the national agenda, such as debt reduction and increased international competitiveness and (ii) how the various options would fit into an overall plan for public service renewal. Strong support at the political level becomes ever more vital as the model becomes broader in scope.

Determining an Appropriate Pace for Implementation

As noted in the last section of Chapter one, the current SOA initiative is incremental in nature. If the intention is truly to base progress on what has been learned from past experience and to use this information to move ahead judiciously, then the appropriate pace of implementation becomes an issue. Specifically, the time required to generate enough information to forge a consensus on how best to move ahead would have to be balanced against the need to maintain momentum in the face of potential opposition.

Promoting Consistency of Implementation

The SOA model is more likely to succeed if it is implemented in a consistent fashion, although admittedly this cannot be totally guaranteed in an environment of ever-changing political priorities. As noted, there have already been several situations in which Agencies found that flexibilities they thought they had were subsequently undermined in various ways. Such double messages not only weaken accountability for results, but they breed cynicism and sap the resolve of those whose efforts are essential if the initiative is to deliver the results expected of it. In any event, continued and consistent progress would likely not only require continuous support from the political level, but would also benefit from a strong central champion within the public service.

Designating a Central Champion

A number of current SOA heads have urged the designation of a senior level central agency champion to promote the initiative. Such a champion could:

- help to keep the initiative on the public service renewal agenda;
- ensure that any resulting benefits are measured and publicized;
- promote a clear vision and consistent implementation of the initiative;
- support individual Agencies by acting as a focal point for the exchange of knowledge and experience related to the initiative and as a centre of expertise in areas of common interest (such as PMS development), while respecting the autonomy of each Agency.

The value of such a champion would depend upon the ultimate scope of the initiative and the level of political support it receives. Even if its present scope were not considered broad enough to warrant the designation of a senior champion, this could easily change in the future. However, to play this role effectively, the champion would need to have a high degree of credibility with all key players. While continued TBS support is vital to the success of the initiative, opinion is divided as to whether it is best positioned to provide a senior champion. There are concerns that TBS may find itself in a conflict of interest situation in relation to its control responsibilities. Other possibilities which have been suggested include the Privy Council Office and a separate unit reporting to the minister in charge of Public Service Renewal.³³ Finally, no matter where the location, the champion would require the support of staff who are enthusiastic about the initiative and committed to its success.

Spelling Out the Criteria for Success

SOAs are often required to do many things that are inherently contradictory or unclear. Thus, they are expected to become more entrepreneurial within a government environment that is inherently risk averse. They are expected to become more efficient and more responsive to clients, within a framework of rules that promotes equity and consistency. Many are expected to emphasize the "bottom line" while simultaneously supporting public policy. In the last analysis, SOAs are government organizations that exist for reasons of public or administrative policy. These policy purposes are not always clearly spelled out, and even when they are, they run the risk of being de-emphasized in the context of the SOA initiative with its focus on efficiency and service.

These uncertainties and contradictions could be dealt with by clarifying the criteria by which the success of SOAs will be judged, striking an appropriate balance between contradictory objectives. These success factors, which would vary from Agency to Agency, could then be written into their Charters as clearly and unambiguously as possible. This process would be helped if ministers and government organizations with policy interests in the Agency were to articulate their expectations as clearly as possible, so that these might be built into the Agency's performance objectives.

A particular situation arises in the case of optional revenue-dependent Agencies. If their policy purpose is not spelled out and built into their performance objectives, then they will almost inevitably focus their time and energy on revenue generation rather than on policy support. This may be appropriate if their SOA status is a transitional state to a more arm's-length relationship with government. However, if a transitional state is intended, it would be preferable to spell this out clearly in the Charter. Finally, the rules governing competition with the private sector might also be made conditional on whether SOA status is intended to be "permanent" or transitional.

³³ Discussion of the relative merits of these various options is beyond the scope of this paper.

Selecting Appropriate Units for Agency Status

Boundaries: The more self-contained units are, the more readily they can be held accountable for results. From this perspective, it would be preferable to select units that do not have to rely too heavily on the actions of external players in order to achieve their objectives. This would require drawing up the boundaries of SOAs in such a way as to encompass as many as possible of the key activities that give rise to the results for which they are to be held accountable. In some cases, this may require some initial restructuring within, or even between, departments in order to bring these key activities together.

Functions: One of the principal advantages of the SOA approach is its potential to facilitate the development of the specific structure, management and culture that best help each individual Agency to achieve the objectives for which it is accountable. Such heterogeneity is only possible in a regime of accountability for results in which the uniqueness of each organization is recognized and supported. An Agency will find it easier to develop a coherent and integrated culture if it delivers a compatible and complementary set of services, thereby minimizing the potential for conflict among its goals. For this reason, it may not be advisable to include both service and control functions within a single SOA.

Clarifying the Roles and Responsibilities of Key Players

There is an increased possibility of holding SOAs fairly to account for results if the roles and responsibilities of key players are spelled out clearly and understood by all. This pertains especially to the oversight role played by Parliament, ministers, DMs and central agencies and to the management and accounting responsibilities of the Agency head. However, it also extends to interested policy groups, departmental corporate groups, common service agencies and audit and evaluation groups. For example, the accountability of SOAs is better preserved if audit groups concentrate on attesting to the accuracy and completeness of the Agencies reports and to the adequacy of its management control systems, rather than playing what is, in effect, an accounting role by measuring results directly.

Actions Related to Governance

Exercising Strategic Oversight

In keeping with a key premise of the SOA concept, DMs and others who hold SOAs to account could devote the limited oversight time at their disposal to the overall strategic direction and performance of SOAs rather than to the details of their operations.

DMs might play this role more effectively if they were to articulate clearly the specific success factors (including the policy objectives) by which the performance of Agency

would be judged and its future direction set, and if they were to specify as precisely as possible the nature of the information they would require from the Agency to enable them to exercise these responsibilities. Ideally, the information demanded from the Agency should be kept to the minimum necessary so as to avoid taking too much Agency time away from productive work. Furthermore, it would be preferable to specify information requirements as far as possible in advance so that they might be systematically incorporated into the Agency's workplans.

Strategic oversight cannot be rigidly defined in terms of an annual cycle. It has to be flexible enough to take account for both long-term and short-term factors. For example, it may be necessary to adopt a perspective on results that extends over several years. Some Agencies may experience cyclical demand,³⁴ while others do R&D work which may not show results for several years. There is also a need to consider such factors as efficiency and service quality from a long-term perspective, allowing for investment in quality systems and R&D that will lead to long-term gains in these areas. At the same time, it is unrealistic to expect to deal with all aspects of strategic oversight through formal mechanisms. There will always be a need for informal channels of accountability to supplement the formal in order to deal with pressing issues that cannot be addressed within the Agency itself.

Establishing Departmental Advisory Boards

DMs cannot exercise effective strategic oversight unless they have the capacity to set challenging, yet realistic, performance targets for their Agencies and to evaluate their performance with respect to those targets and the strategic options available to them. Given the pressures on their time, they will not be able to do this without help. Departmental corporate groups are one possible source of help, but they may lack the necessary expertise and they may well be inclined to push for a degree of uniformity and standardization that fails to take adequate account of the unique characteristics of each Agency.

An alternative is to establish an advisory board consisting of individuals with the knowledge and expertise to support the DM effectively. Such a board can review business plans and annual reports on behalf of the DM, help to ensure that the strategic and operational objectives of the Agency are sound and compatible with those of the host department and assist in the target-setting process. While such a board would normally be chaired by the DM and would include senior departmental managers with a functional, policy or operational interest in the Agency, it might also include stakeholder representatives from outside the department as well as outside experts with relevant skills and knowledge. Unless it has a legislative basis (for example, the Canadian Grain Commission (CGC)) an advisory board operating within a departmental structure is not

³⁴For example, CCG's business tends to fall off in election years due to a decline in the volume of work on Hansard.

the same as a board of directors. Although the SOA may provide information directly to the board, within the department it remains formally accountable only to the DM.

A departmental advisory board plays a different role from an Agency advisory board (discussed in the next section), in that the former supports the DM in fulfilling his/her oversight responsibilities, while the latter provides business and strategic advice to the Agency. To avoid a conflict of interest, these two roles are better kept separate. For oversight purposes a single board covering all SOAs in the department³⁵ is likely to be better able to ensure coordinated and compatible objectives, whereas each Agency is likely to need its own advisory board with skills and knowledge tailored to its specific operations and clientele.

Enhancing the Standards of Accountability

The implementation of the SOA model could be strengthened by establishing enhanced standards for accountability. Figure 5 illustrates an extended accountability loop, consisting of five elements,³⁶ that provides a richer source of information than the basic results-based accountability model. This information has value for the purposes of governance, accountability and internal management.

These enhanced standards could be readily accommodated within the business planning/annual reporting cycle. Thus, the business plan would include element 1 (stating the rationale behind the selection of strategic objectives and the information on which it is based), element 2 (specifying the objectives and expected results) and element 3 (stating the standards against which both the results and the management control systems will operate). The annual report would include element 4 (stating the results achieved, together with explanations of variances to ensure fair assessment) and element 5 (describing what was learned in the process and how it was applied). This last element supports learning from experience for the benefit of the Agency itself as well as other SOAs and serves to inspire the confidence of those who oversee the Agency that future efforts will build systematically on the past and that mistakes will not be repeated. In short, this enhanced accountability loop would help to support effective management of the risks associated with SOAs that were identified in Chapter 2.

Recognizing the Need to Renegotiate

³⁵ An example is to be found in the Department of Administrative Services the Australian federal government. This department, which is not unlike PWGSC, includes a number of quasi-autonomous business units, not unlike SOAs. For the purposes of oversight, its Deputy Minister is supported by a single board that includes departmental, government stakeholder and private sector representatives.

³⁶ For further information see: McCandless, H. and Wright, D "Enhancing Public Accountability", *Optimum*, Vol 24-2, Autumn, 1993, pp.110-118.

As noted in Chapter 3, recognition of the need to renegotiate performance agreements (such as the Charter or business plans) when circumstances change materially sends a clear signal that results-based accountability is being taken seriously. The requirement to renegotiate can be formally recognized by including contingency clauses in performance agreements. Circumstances that could trigger a renegotiation, include a change in the nature of the work to be performed and its associated objectives, a change in factors that affect the organization's ability to achieve the intended results and a change in the people involved in the negotiations.

Building Trust

The relationship between the Agency head and the DM (or ADM) is vitally important to the successful functioning of the SOA model. The intention of the SOA initiative is to encourage innovation in the pursuit of results, such as service quality and efficiency. Since innovation inevitably entails risk, it is important that the DM have some tolerance for error and be willing to defend the Agency (up to a reasonable point) against criticism for honest mistakes. At the same time, the Agency head has to recognize the responsibility of the DM for managing the entire department and should be willing to support him/her accordingly. Attitudes such as these will help to build the trust without which the SOA model cannot work as intended.

Promoting Leadership Stability

It takes time for a DM and Agency head to build the mutual trust and confidence necessary to foster informal autonomy, limit oversight to essentials and promote effective accountability for results. It follows that the SOA model is likely to work better if Agency heads are given sufficient tenure in office to enable such a relationship to develop.

Limiting the Use of the Agency Head as a Departmental Resource

Since the Agency is part of the department and since the DM is ultimately accountable for its performance, it is understandable that the Agency head (especially one that reports directly to the DM) should be viewed as part of the departmental management team. Nevertheless, since SOA heads are also accountable for the results achieved by their Agencies, it is important that they have enough time to devote to Agency management. Thus Agency heads may find themselves in a position of conflict between the requirement to be a departmental team player on the one hand, and the requirement to be an effective manager on the other. The DM can make this situation somewhat easier by recognizing this conflict and requiring the Agency head to become involved only in departmental matters that significantly affect the interests of the Agency.

Favouring Direct Reporting to the DM

Although about half of the current SOAs report to an ADM, there are definite advantages in having Agency heads report directly to the DM. Direct accountability to the DM helps to protect the Agency from the kind of unwarranted interference and control by other groups in the department that might otherwise undermine results-based accountability. It also gives the SOA head a seat at the departmental management table when matters concerning the Agency are being discussed. Reasonable exceptions are very small Agencies and those that perform functions that are quite remote from the core mandate of the department and that, consequently, are seldom on the DM's agenda. In such cases, the greater freedom from corporate departmental responsibilities that comes with reporting to an ADM, rather than to a DM, and the extra time this allows for managing the Agency might more than offset the disadvantages of a longer accountability chain.

Establishing a Single Source of Authority within the Agency

To be fully accountable for results, the Agency head should be the single ultimate source of decision making within the Agency and should have authority to use all of the resources available. This may prove to be an issue in a regionalized department when a particular set of services acquires SOA status. In such cases, adherence to this principle would require SOA personnel in the regions to report to the SOA head and not to a departmental Regional Head.

Promoting Choice of Inputs

The ability of SOAs to account fairly for the results they achieve will be strengthened by giving them the freedom to choose among alternative sources of inputs, be they external suppliers or government/departmental support services. Again, the challenge is to strike the appropriate balance between autonomy and compliance as discussed in Chapter 3. If the Agency selects its own suppliers, it will need to

demonstrate that it has the necessary control systems in place to ensure fairness and probity. Also, given the DM's accountability for the entire department, the SOA would be expected to take departmental interests into account when making decisions on corporate support services. The extent to which an Agency would willingly go along with this is likely to be influenced by the nature of the results for which it is accountable. Thus, an Agency that offers optional services on a competitive basis and is expected to cover all its costs is more likely to put its own interests ahead of the department or the government than one in which performance targets are more broadly based and less absolute.

Choosing Appropriate Nomenclature

Given its departmental context, there is a certain amount of ambiguity as to who makes the key strategic decisions for an SOA. There is an inherent tension in this area between the responsibilities of the department to set performance targets and ensure compatibility between Agency and departmental strategy and the responsibilities of the Agency to adopt a strategy that best enables it to fulfil its mission. In this situation, who is the Chief Executive Officer (CEO) of the Agency? Is it the DM or the Agency head? One model sees the DM as being roughly equivalent to the Chairman of the Board and has the Agency head as the CEO. The alternative is to consider the DM to be the CEO and the Agency head to be the Chief Operating Officer (COO). The first option conveys the impression that the Agency head has broader decision-making authority than does the second and presents a stronger version of the SOA model. As a final point, in departments with many SOAs, the DM simply does not have the time to play an effective CEO role in each individual Agency.

Funding PMS Development

As noted in Chapter 4, Agencies will require appropriate performance measurement systems in order both to manage for results and to generate the necessary performance information for accountability purposes. Making funds available to newly established SOAs to enable them to develop the necessary PMS would help to place them on a sound footing by facilitating and encouraging a stronger focus on results on the part of both the Agency itself and those who oversee it.

Actions at the Agency Level

While many of the actions required to strengthen the implementation of the present SOA model relate to oversight and governance, there are a number of measures that the Agencies themselves can initiate. These include making effective use of advisory boards, developing the ability to measure results, clarifying internal roles, responsibilities and lines of accountability, and establishing service agreements with organizations that provide support services and other inputs that affect Agency performance. A number involve the clarification and stabilization of the various relationships illustrated in Figure

4, in particular those with corporate service groups, suppliers, clients, employees, unions, partners and other stakeholders. By strengthening these relationships, the Agency gains greater control over its total performance and enhances its ability to forecast future performance and to account for results.

Making Effective Use of Agency Advisory Boards

In contrast to departmental advisory boards, Agency advisory boards are there to provide strategic and business advice to the Agency head and not to evaluate its performance.³⁷ The composition of the board should reflect the nature of the advice sought. Some, such as GTA's Telecommunications Advisory Panel, provide input from clients. Others (such as the CAC board) consist of individuals with the knowledge or position to provide a "window on the world" that can inform the strategic planning process. Still others (such as the CORCAN board) provide private sector expertise to assist with business development and marketing strategy. Finally, some (such as that at Passport) include representatives from government organizations with a policy interest in the Agency. Advisory boards may be structured to provide advice in more than one of these areas. Although the SOA head is not in any way formally accountable to an Agency advisory board, at least one has stated that having such a board made him *feel* more accountable by "imposing a mental discipline of accountability for managing the organization".

³⁷Some advisory boards, such as GTA's, do evaluate business plans and progress against them, but they do so in an advisory capacity rather than as a governing body.

Developing the Ability to Measure Results

If an SOA is to be held accountable for results it must be able to measure those results. The requirements for doing this were discussed in Chapter 4. While the ability to measure results is necessary for accountability and management purposes, it can also, provided the results are positive, help to protect the autonomy of the Agency. Clear and tangible evidence of success can provide a convincing counter-argument to those who might seek to reimpose external controls.

Clarifying Internal Roles and Lines of Accountability³⁸

An Agency will be better able to account for overall results and to meet specified performance targets if:

- each person in the Agency is assigned a role and a set of responsibilities that clearly contribute to the overall performance of the Agency;
- the accountabilities in relation to these roles and responsibilities are well articulated and clearly understood; and
- internal lines of accountability are clear and as short as possible, consistent with the need for effective management control.

A number of existing Agencies (such as CCG and TDC) have attempted to clarify the roles, responsibilities and accountabilities of key staff members. However, it has been observed (in CORCAN, for example) that, because of the diminished level of control, it is harder to focus accountability on results further down in the organization than it is at the top. With respect to the third point, it is advisable to avoid situations of dual reporting and one-on-one accountability. A number of SOAs (for example TDC, CORCAN, Passport) have moved to flatter structures to reduce the amount of internal control and improve the potential for results-based accountability.

Establishing Agreements with Input Providers

An SOA may require inputs from a variety of sources to help it deliver its services. These may include support services from the host department, services from government common service organizations, and inputs from policy groups and external partners. Wherever possible these relationships should be clarified and stabilized through specific agreements or memoranda of understanding (MOUs). These MOUs should spell out the roles and responsibilities of the Agency on the one hand and the service provider on the other, and, where appropriate, should specify expected standards of service and

³⁸For a useful treatment of this topic, see: Jaques, E. *Requisite Organization: The CEO's Guide to Creative Structure and Leadership*, Cason Hall and Co., Arlington, 1989.

costs. Agreements such as these can help to reduce some of the uncertainty faced by the Agency over the cost and quality of inputs, thereby providing it with greater control over some of the factors that affect its performance.

Improving Accountability to Clients

Of the various dimensions of performance, an Agency's immediate clients are likely to be most concerned with the various aspects of service quality and, where applicable, with the cost of the services provided. Making Agencies dependent upon their ability to generate revenues and making their services optional, thereby requiring them to compete, can be a powerful inducement for them to perform well in these areas.

While SOAs are not formally accountable to their clients, there is often a strong feeling of accountability.³⁹ There are various measures that SOAs can take to strengthen this accountability. Like other accountability relationships, the relationship with clients is a two-way street. First, the Agency should set up processes to enable clients to provide input to help it determine what strategy to follow, what new services are needed and what its priorities should be with respect to the various attributes of service quality. Second, the Agency should inform clients about its strategic objectives, the services it offers and plans to offer, the standards of service clients can expect, the price of those services, any available guarantees,⁴⁰ whom to contact for further information, and so on. An important part of this second element is the need to inform clients as to how their input was used. Among the various mechanisms used to promote accountability to clients are meetings and focus groups, surveys, client representation on advisory boards, the appointment of account executives, and the internal restructuring of the Agency to pair integrated service teams with specific client groups.

Improving Accountability to Staff

Improving accountability to staff is seen by many Agency heads as a vital first step in establishing an SOA. After all, the ability, enthusiasm and dedication of its staff constitute the most important single factor enabling the Agency to achieve its performance goals. One Agency head stated that he felt personally accountable to employees for the success of the Agency. As with accountability to clients, accountability to staff involves a two-way flow of information. The first is to enable staff to provide input to the Agency's strategic and operational planning process and any other matters that affect their working lives. The second is to provide staff with information on Agency objectives and their rationale, performance targets, planned activities, results

³⁹This may be reflected in formal mechanisms, such as GTA's Government Telecommunications Council which GTA's Framework Document stipulates must be consulted to ensure that compatible plans are developed.

⁴⁰One SOA actually offers a money-back guarantee for dissatisfied clients.

achieved and any other matters of importance to their work, including appropriate feedback on their earlier input. Mechanisms that can be used include employee advisory boards, staff meetings, focus groups, task forces, surveys, newsletters and electronic networks.

Improving Accountability to Stakeholders through the Business Planning Process

In a government setting, the value of the business planning process can be greatly enhanced by involving as many interested parties as possible. In addition to clients and employees, these might include unions, suppliers, host department organizations and other government organizations with a policy or operational interest in the Agency, external partners, politicians and citizens' groups. This can help the Agency to develop a widely supported strategy and provides it with an excellent opportunity to build relationships with key stakeholders. Clearly, there is a need to balance the desirability of broader participation against the need to ensure timely completion of business plans at a reasonable cost.

More Radical Measures

This section has focused mainly on ways in which the current SOA initiative might be strengthened and the existing model made to operate more effectively. The discussion of more radical measures that require legislation or significant structural changes to the model itself is beyond the scope of this paper and will be found in the main report of the stocktaking study. However, a few will be mentioned briefly.

Since SOAs operate within the accountability framework of DMs they may be subject to a variety of restrictions related to departmental, rather than Agency, interests. One way around this would be to adopt the U.K. approach in which the Agency head is accountable to the minister, and not to the DM, on operational matters. DMs remain accountable to the minister for providing policy advice and for supporting their Agencies. A further step would be to make Agency heads formally accountable to Parliament, thereby limiting ministerial accountability to policy matters. In the U.K. Agency heads are already *de facto* accountable to Parliament on routine operational matters, although the principle of full ministerial accountability continues to exist in theory. It should be noted that these changes in accountability relationships would require the development of the necessary capacity to oversee the Agencies on the part of either ministers or Parliament respectively.

Another option would be to make changes in personnel legislation to provide Agencies with a greater degree of autonomy in this crucial area. This would require the introduction of management control mechanisms at the Agency level to ensure fair and equitable treatment of employees and protection of the merit principle and could not be done without the cooperation of the unions.

A further set of options would be to strengthen the incentives for Agencies to perform. This could involve allowing successful Agencies to retain a proportion of "profit" or cost savings for reinvestment. In some cases, unsuccessful agencies might be closed down or privatized. Financial pressure can be applied to agencies by requiring full funding through user fees and encouraging competition. In monopoly situations, such pressure can be applied by funding on the basis of outputs rather than inputs. The position of Agency head could be subject to open competition every three years or so, coupled with substantial financial rewards for superior performance. A further incentive is direct public accountability for performance, as found in the U.K. under the Citizen's Charter, with appropriate penalties for non-performance.

It is not the intention of this paper to take a position for or against any of these options. While each of them, and others that were not mentioned, might strengthen the SOA model itself or create stronger incentives to make it work, there are also risks involved in each case that would require careful consideration before any position could be taken.

CONCLUSION

The SOA initiative has expanded steadily in scope from its modest beginnings in 1989. Some, however, still consider it to be a marginal exercise limited to units far removed from the core activities of government, while to others it is one of the keys to public service renewal. Some focus on the potential risks that greater autonomy poses for public values, policy integrity and departmental coordination. Others point to its potential to improve the quality and responsiveness of public services and to save taxpayers' money by enhancing efficiency and productivity and by leveraging alternative sources of funding.

The initiative was conceived as a pilot project to be implemented incrementally. The purpose of a pilot project is to provide hard information that can be used to inform future courses of action. Unfortunately, only a limited amount of hard information has been gathered to date, thus limiting the value of the SOA initiative as a pilot study. Although there are some data and a considerable body of anecdotal evidence to suggest that net gains have been made in some Agencies at least, the evidence is far from conclusive.

While the autonomy enjoyed by SOAs is limited, conditional, unstable and directed, it can nevertheless be quite real if conditions are right. Indeed, many of the Agencies were already operating fairly autonomously prior to becoming SOAs. The key lies not so much in the specific flexibilities and authorities that the SOAs have received (which are quite limited) but in the degree of informal autonomy which they enjoy. This informal autonomy is a reflection of the willingness of the DM or ADM to whom the Agency reports to leave it alone to get on with the job.

The limitations and uncertainty of Agency autonomy are matched by a corresponding weakness in accountability for results. In particular, it has proved difficult to change the governance role to one of strategic oversight. To play such a role, those who oversee the Agencies have to understand the key success factors for each SOA and to evaluate and direct it on the basis of performance targets and results information related to those factors. So far, only financial targets have been recognized in this way.

This is not to say that no progress has been made in the area of accountability. Many SOAs have taken steps to reinforce their ability to be held fairly accountable for results by defining their strategic objectives; developing a greater awareness of costs; establishing advisory boards; clarifying internal roles, responsibilities and lines of accountability; improving accountability to clients and staff; and clarifying and stabilizing key relationships with other organizations that provide inputs to, or otherwise influence, the Agency's performance.

Thus, in spite of its limitations, the SOA approach continues to demonstrate potential. Many actions are available to strengthen the implementation of the existing

model, although most rely on the voluntary co-operation of key players. A clear statement of support from the political level might help to secure such cooperation. Further measures could be taken to strengthen the SOA model itself, by such means as legislation and adjustments to accountability relationships. These measures would have to be accompanied by a strategy for managing the associated risks.

ANNEX

List of SOAs Approved by Treasury Board as of January 1, 1994

The First Five SOAs: Announced in December 1989, approved between April and December, 1990.

Canada Communication Group (CCG). Host department was originally Supply and Services Canada and is now Public Works and Government Services Canada.

Consulting and Audit Canada (CAC). Host department was originally Supply and Services Canada and is now Public Works and Government Services Canada.

Training and Development Canada (TDC). Host department is the Public Service Commission.

Passport Office (Passport). Host Department was originally External Affairs and International Trade Canada and is now Foreign Affairs and International Trade Canada.

Government Telecommunications Agency (GTA). Host department was originally Communications Canada. GTA has since been moved to Public Works and Government Services Canada, where it has been merged with the informatics services group to form Government Telecommunications and Informatics Services (GTIS). GTIS is applying for SOA status in its own right.

The Next Ten SOAs

Canadian Intellectual Property Office (CIPO). Host department was originally Consumer and Corporate Affairs Canada and is now Industry Canada.

Canadian Grain Commission (GCG). Host department was originally Agriculture Canada and is now Agriculture and Agri-Food Canada.

Occupational Development Programs (CORCAN). Host department is Corrections Canada.

Canadian Heritage Information Network (CHIN). Host department was originally Communications Canada and is now Heritage Canada.

Canadian General Standards Board (CGSB). Host department was originally Supply and Services Canada and is now Public Works and Government Services Canada.

Canadian Conservation Institute (CCI). Host department was originally Communications Canada and is now Heritage Canada.

Canadian Pari-Mutuel Agency (Pari-Mutuel). Host department was originally Agriculture Canada and is now Agriculture and Agri-Food Canada.

Indian Oil and Gas Canada (IOG). Host department is Indian and Northern Affairs Canada.

Transport Canada Training Institute (TICTI). Host department is Transport Canada.

Physical Resources Bureau (PRB). Host department is Foreign Affairs and International Trade Canada.