

MANAGEMENT PRACTICES No. 12

**SPECIAL OPERATING AGENCIES
ISSUES FOR PARENT DEPARTMENTS
AND CENTRAL AGENCIES**

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Consulting and Audit Canada

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A WORD FROM CCMD

This paper is the third of a set of ten "issue papers" arising from a large-scale, collaborative research study on Special Operating Agencies (SOAs).

Special Operating Agencies are operational organizations which have a degree of autonomy within existing departmental structures, but which remain accountable to the deputy minister. Operating under a business plan and management framework which set out the results and service levels expected, each SOA negotiates certain financial, personnel, and administrative flexibilities from its parent department and from the Treasury Board. The aim is to give greater flexibility and scope to employees and managers in their operational roles and to encourage innovation and high performance in the delivery of services.

SOAs have functioned as a laboratory or testing-ground for change, and have pioneered such innovations as Single Operating Budgets, Person-Year Decontrol, and Business Plans. They have substantial experience with developments that are now affecting the rest of the public service.

The SOA initiative was first announced in December 1989, and the first group of SOAs was established in the spring of 1990. By 1993, enough experience with SOAs had been gained to warrant a general study, and CCMD and Consulting and Audit Canada began work on this subject. The scope of the project was expanded as the Office of the Auditor General became involved in response to interest expressed by members of Parliament (the Public Accounts Committee) who were aware of the Executive Agencies initiative in Britain and wanted information on similar developments in Canada.

It was agreed that it would be useful to have a general stocktaking of the SOA initiative, and that this would best be done as a collaborative research project involving the Canadian Centre for Management Development, Consulting and Audit Canada, the Office of the Auditor General, the Treasury Board Secretariat, and the Special Operating Agencies and their host departments. One feature of this collaboration was the development of a common research base which could be accessed by all who were involved in the research, analysis, and writing. The research base consists of interviews with the heads of the SOAs and the deputy and assistant deputy ministers to whom they reported; sets of documents, including the business plans, framework documents, and annual reports of the SOAs; and detailed profiles and self-assessments from the larger Agencies. This common research base was used in the preparation of *Special Operating Agencies: Taking Stock*, a report prepared by the Office of the Auditor General. It was also used for developing a set of papers focusing on specific issues related to SOAs. Drafts of these papers were taken into account in the preparation of the Auditor General's report.

CCMD is delighted to have collaborated in the development of this series on Special Operating Agencies and views this initiative as an excellent example of a joint research partnership. We welcome the appearance of this third publication in the SOA series by Alti Rodal of Consulting and Audit Canada. We are also grateful to David Wright and Graeme Waymark, also of Consulting and Audit Canada, for their important contributions to this series of publications.

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Principal

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List of SOA Issue Papers

This is the third paper in a series on Special Operating Agencies to be published by the Canadian Centre for Management Development in partnership with Consulting and Audit Canada. This is the list of papers to be included in this series:

Overview of the Special Operating Agency Initiative
(J. David Wright and Graeme Waymark)

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

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

Special Operating Agencies: Business Plans and Annual Reports
(Doreen Wilson)

Special Operating Agencies: Financial Issues
(John Dingwall)

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

Special Operating Agencies: Marketing
(John Dingwall)

Special Operating Agencies: Audit and Evaluation
(Michael Thomas)

Special Operating Agencies: Management Advisory Boards
(Jane Newcombe)

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

Further information on this series may be obtained from the project coordinator:
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Introduction

The fundamental basis for change which the Special Operating Agency (SOA) concept provides is the opportunity for particular departmental units to negotiate with the parent department, Treasury Board, and other central agencies for the relaxation of certain administrative rules and controls, in return for commitments to agreed-upon levels of performance. Each SOA is required to identify clearly its mission, objectives and the results it seeks to obtain, and to develop strategic and business plans accordingly. In principle, the SOA is given greater latitude than traditional departmental units to determine the best ways and means to achieve results and is then held more directly accountable for the outcome. Succinctly stated, the SOA concept is intended to promote both increased autonomy and results-based accountability.

The purpose of this paper is to identify opportunities and risks which the SOA concept presents for parent departments and, insofar as central agencies are involved, more widely for the public service. It will explore the strategies departments and central agencies might adopt to exploit these opportunities, while limiting the risks, in the course of selecting and initiating candidates for SOA status, negotiating and implementing flexibilities, and monitoring the progress of the agencies.

Opportunities and risks are a function of the two principal axes which characterize the relationships between the SOA, its department and central agencies: (i) the flexibilities being sought or already negotiated; and (ii) the the corresponding accountability regime. This paper offers a summary treatment only of the specifics of the flexibilities negotiated or accountability regimes established, focusing on these subjects only insofar as they provide overall context for the relationships between SOAs, departments, and central agencies.¹

A general observation based on the discussion which follows is that the diversity of SOAs needs to be recognized. Appendix I provides a comprehensive checklist of characteristics which could differentiate SOAs from each other and which condition relationships with parent departments and central agencies.

Part I: Key Issues for Central Agencies

A key underlying issue for central agencies is to define properly their own role in relation to the initiative. It is generally agreed that central agencies need to achieve a balance between providing adequate guidance to departments and prospective or existing agencies and not being, or appearing to be, too interventionist. Imposing initiatives in a centralist manner or stipulating numerous rules on how to manage would undermine an initiative based on increased autonomy and results-based accountability.² A more effective approach is to allow units to evolve towards agency status through their own management plans, to permit and encourage existing agencies to operate in accordance with their particular management requirements, and to respect the responsibilities of departments.³

At the same time, the role of central agencies needs to be clearly defined to promote public service coherence in the implementation of the initiative, while recognizing the diversity of the organizations involved. Central agencies should be concerned with the overall strategic framework and the standards which apply across the public service. For example, in certain matters, such as pay and grading delegation, coordination between agencies, departments and central agencies would be deemed necessary in order to avoid discrepancies which might hinder mobility.

Issues of interest to central agencies arise during each stage of an SOA's life cycle. These issues relate to (i) formulating and clarifying the overall rationale for the initiative; (ii) establishing a selection process which is in line with the overall rationale and is also appropriate to the individual needs of the departments and units involved; (iii) acting in a supportive capacity during the implementation stage; and (iv) playing a role, appropriate to the central agency's mandate, in monitoring and assessing the progress and performance of individual SOAs and the initiative as a whole, and ensuring that accountability requirements are met.

The position taken by central agencies on these issues is of direct and immediate interest to departments which already have SOAs or are being challenged to consider the SOA option for some of their units as a result of government restructuring, of pressures to be more cost-effective while maintaining or improving service, or, in some instances, of pressures to privatize certain operations.

Treasury Board has been the key central agency in the SOA initiative. Treasury Board launched the initiative and has borne primary responsibility for defining the government's rationale or overall purpose and approach to SOAs, and for identifying, encouraging and negotiating the implementation of SOAs. Subsequently, Treasury Board has been involved with existing SOAs and parent departments in the ongoing negotiation of flexibilities which are within their purview – in relation to administrative, financial and personnel arrangements, and in reviewing strategic directions and monitoring performance through business plans and annual reports.

Overall Rationale of the SOA Initiative: Initial Purposes and Future Direction

A frequently raised issue relates to the benefits which may ensue from broader involvement and commitment from other central agencies, from departments, as well as from the political level in clarifying the rationale for the initiative and approaches to its implementation.

The rationale for establishing SOAs has been multi-faceted and ambiguous from the start. Several different perspectives inspired the establishment of the initial five SOAs. Some viewed the initiative as a way of delaying pressures to privatize or as a half-way station to privatization. Others viewed SOAs as pilot projects or "laboratories" for public sector reform, responding to the same impulse that led to Public Service 2000 (PS 2000) – to improve service to the public, to unleash the creativity of people, and to introduce accountability for results. From yet another perspective, the SOA concept offered a "prototype" for the public service, an alternative approach to delivering government operations similar to the Executive Agencies in the United Kingdom. Given the range of expectations attached to the initiative from the start, it is not surprising that as additional SOAs were named, each for its own particular reasons, the rationale for the initiative became even more cloudy.

Several problems have become apparent:

- *Lack of clarity with respect to the rationale for the SOA initiative* among the various stakeholders has resulted in conflicting and inconsistent signals to departments and agencies regarding what is to be expected of SOAs. There are differing expectations as to the outputs/outcomes which SOA status should yield, and the priority to be attached to each of these. There is also insufficient recognition of the diversity of the SOAs and of the need to modify and adapt expectations to the particular characteristics of various types of organizational units which have become SOAs. Clarity as to which results are essential and which are optional or a function of a particular type of SOA would help guide difficult decisions where conflicting interests are at play. For example, there have been complaints that revenue dependency and financial objectives have become overly predominant as measures of success, while other important outcomes (including some fundamental public policy objectives) are ignored until some scandal focuses attention on them.
- *Rationale based on experience that is too limited:* The rationale for the SOA initiative has been evolving in a somewhat unfocused manner and from a very narrow base of experience. Treasury Board has come to allow the agencies themselves to give shape to and substantiate the rationale of the initiative – which may be a good thing, given the diversity of SOAs (see next point). However, the agencies' input tends to emerge from the very narrowly focused negotiations required for their "contract" or framework documents, negotiations conducted primarily between the SOA and the parent department – and even more narrowly, within those boundaries, primarily with functional staff in relation to specific administrative flexibilities. This means that important needs of other key stakeholders excluded from the negotiations may not be addressed in the "contract," and that the "contract" does not have wide enough endorsement. Moreover, mechanisms would not have been put in place to manage pressures which these stakeholders might exert at the political level (for example, with regard to competition.)
- *Inadequate recognition of the diversity of SOAs:* While there is a need for more consistency, there is also a need for a better understanding of the different types of SOAs and of the fact that expectations need to be adjusted to reflect these variations. For example, some SOAs are on cost recovery, some rely on appropriations, and some have revolving funds. Each group has a different culture, different needs and faces different competitive pressures. As discussed in the section on SOA characteristics, the role of central agencies in determining the criteria or characteristics of SOAs in relation to the selection process also needs to be attuned to

fundamental variations among the SOAs.

- *Lack of coordination among central agencies:* Central agencies other than Treasury Board have been virtually absent in the initiative.

The rationale for establishing SOAs to date has been an admixture of several elements and has evolved in an unfocused manner. The SOA community and other stakeholders in the SOA initiative are seeking a clear statement on the present purpose and intentions for SOAs. While there is a need to formulate a consistent rationale, there is also a need to recognize the inherent diversity of existing and potential SOAs. A concerted effort is therefore needed on the part of central agencies, including the Privy Council Office (i) to gain a better understanding of the different types of SOAs, (ii) to consult with all key stakeholders in the initiative (SOAs, departments, clients), and (iii) to determine and make known long-term goals and how extensively or intensively the initiative should unfold.

Selection Process: Volunteers or "Volunteered"?

To date, Treasury Board has played a key role in launching the initiative and in the selection process. The selection process, or the identification and designation ("naming") of candidates for SOA status, entails two elements: the source or impetus for the selection, or who initiates the process and why; and the characteristics which make units appropriate for selection.

The first fourteen SOAs were "named" or announced by Treasury Board, usually in "packages" and in the context of budget speeches. Interviews indicate that some organizations were told to become SOAs (for example, Training and Development Canada), or became SOAs in order to survive, as an alternative to being privatized (for example, the Canada Communications Group). The initiative may therefore be regarded as partly centrally imposed, and partly responding to the expressed interest of prospective agencies and their home departments. In each round of the budgetary cycle, during the MYOP review, Treasury Board has continued to identify additional candidates for SOA status but has pursued these possibilities in a facilitative rather than coercive manner.

Issue: *Should candidates for SOA status be given the opportunity to become more involved and committed to the process prior to being "named" SOAs?*

For many of the SOAs, the impetus to become an SOA has come either from Treasury Board, from the deputy minister or minister, or from the prospective agency itself.

In several instances where Treasury Board was the prime mover – usually in the context of the MYOP review or as part of an expenditure reduction exercise – questions have been raised as to the appropriateness or readiness of the organization for SOA status. Treasury Board's announcement of SOAs in sets or "packages" was perhaps intended to maximize publicity for the government's embarking on important management initiatives. However, a "named" SOA would then have to be set up, and in some instances, this could take a long time because of difficult implementation issues. Such issues might include – in addition to the struggle to cover start-up costs and to accommodate the paper burden – internal resistance to change.

Units or organizations which seek out and volunteer for SOA status when they feel ready – presumably after extensive exploration of potential benefits and risks, and after

carefully tailoring goals and expectations and obtaining some internal buy-in – are likely to approach their new status with more confidence and commitment than those which are volunteered by departments or “named” by central agencies, without being given much time to think through why they are moving to SOA status and what their strategy should be.

Critiques of the Executive Agencies initiative in the U.K. point to difficulties which relate to the fact that the initiative was centrally imposed, that units did not have the time to “grow” towards their new status. On the other hand, the “centrally imposed” initiative received particular momentum from the fact that it had strong political support.

Central agencies could strengthen the initiative by fine-tuning their role in providing more guidance and direction while avoiding being too interventionist. They are also being called upon to allow for more extensive pre-announcement consultations with potential candidates and to give them the time that they need to prepare for SOA status.

Characteristics of SOAs

Background: The views on which characteristics would make departmental units most amenable to SOA status and most likely to succeed have evolved considerably since the initiative began. Treasury Board's approach has consisted of (i) having Treasury Board analysts, in the course of the MYOP process, identify candidates which exhibit characteristics related to the Agency concept; (ii) assessing the interest/appropriateness of identified or volunteer candidates for SOA status; (iii) announcing groups of SOAs in the context of the Budget or Estimates; and then (iv) moving on to the negotiations /implementation process.

Treasury Board has identified the following characteristics in its evolving profile of suitable SOA candidates:

- *discrete units of sufficient size* to justify change (though some deserving very small candidates were also accommodated);
 - capacity for being held *independently accountable* within the parent department, and not requiring significant ongoing ministerial involvement;
 - amenable to the development of *clear performance standards* – that is, clearly measurable outputs and results, so that performance commitments can be made and tracked;
 - *operational* (those in which day-to-day operations are separable from policy);
 - operating under a *stable policy framework* with a clear, ongoing mandate (perceived as critical in supporting an accountability regime which would not be subject to political forces, appeals to ministers, or changes in legislation or regulations);
-
- staffed by managers and employees who have a *commitment* to the SOA approach and who demonstrate willingness to monitor and improve performance;
 - concerned with delivery of *definable product lines* (those which provide goods and services and are amenable to market discipline); and
 - *cost-recoverability*: a key feature of the first SOAs was that they were amenable to

generating revenue and to operating with a revolving fund. This implied products/services which could be sold or cost-recovered so that the agency could be self-sustaining. Few of the later candidates fit this profile, and cost-recoverability is now deemed a welcome but not necessary feature by Treasury Board.

The steering group for the recent stocktaking of the SOA initiative somewhat altered the emphasis, highlighting the following principal requirements for an SOA:

- that objectives and outputs be clearly identifiable and measurable;
- that significant ongoing ministerial involvement not be required or expected; and
- as already established by Treasury Board, that there be a relatively stable policy framework.⁴

The ability to charge for outputs was regarded as a useful criterion, but not a prerequisite.

Issues: *Have myths regarding the selection criteria been adversely affecting expectations regarding the performance of SOAs? Are certain units which could benefit from SOA status being excluded or overlooked for SOA status because of these myths? As consideration is now being given to expanding the number of SOAs, how should the selection process be revised?*

Each of first five SOAs had a revolving fund. For the second set of agencies announced, there was less emphasis on cost-recovery, revenue generation and financial self-sufficiency and much more emphasis on improvement of service. Nonetheless, the perception that SOAs are indelibly associated with cost-recovery and revenue generation has remained and some SOAs feel pushed in that direction.

Policy stability requires central agency and departmental support and recognition of the validity of the mandate of an aspiring SOA unit. Prospective SOAs are likely to encounter problems and resistance from both central agencies and departments if their *raison d'être* is questioned, as has been the case, for example, with the Canadian Forces Housing Agency (CFHA) which has been continuously challenged to justify why the federal government should be providing housing for married service personnel. In instances where there is both ambivalence about the validity of the program and concern about the fact that it is losing money, there would be even more intense resistance and the risk of missing out on SOA-related opportunities for strengthened results-based accountability and more cost-effective operations.

The policy stability requirement may also need to be fine tuned to accommodate the challenges of changing times – including, for example, changing emphases in policy concerning environmental issues or social programs. Moreover, policy stability is not likely to be an immediate characteristic of departmental units which survive the current major retrenchment of government activity and the redefinition of the very role of government. Yet it is these very units which could most benefit from greater operational flexibility, and which will be searching for more entrepreneurial approaches and alternative organizational forms (such as the SOA model) for delivering their programs and services.

Rigid formulas and myths are not helpful. One assumption, based on early discussions of the Executive Agency concept in the U.K., was that the best candidates would be units which are not policy-oriented but rather operational and geared to service delivery.

That assumption has since been widely criticized, particularly by practitioners who do not accept that policy can be disentangled from operations and implementation. In their view, implementation has a policy dimension, and policy evolves through implementation – in fact, good policies must take into account the difficulties and complexities of implementation.

A better understanding is needed of what the concept can do for different types of agencies. A measure of operational flexibility can serve a variety of purposes. Also, one should not expect that all SOA-type features and benefits will materialize for each SOA. It is important to permit continued tailoring of flexibilities for particular needs of individual agencies. This may mean more substantial and accessible expertise at the centre.

Types of SOAs

A typology of SOAs, highlighting the particular characteristics of different types, would provide a useful basis for fine-tuning the selection process as well as the implementation and evaluation of SOAs.

As pointed out by Angus Fraser in his categorization of Executive Agencies in the U.K., the characteristics are different for "*mainstream agencies*" or agencies which carry out policy and operations of their departments; *regulatory-type* agencies delegated to execute statutory (usually regulatory) functions derived from the department's mandate; *common service* agencies which provide services to departments (or other agencies); and *peripheral* agencies, remotely or not at all linked to the department's main aims, but nonetheless reporting to the minister. However, one would also need to make allowance for agencies which straddle several categories: for example, some SOAs in Public Works Government Services Canada (PWGSC) are both mainstream and common service, given that the department's major functions relate to common services, and in some instances they are also regulatory.⁵

High-Level Championship of the SOA Initiative

Issues: *Do SOAs need a high-profile champion and focal point within the public service or at the political level?*

A principal argument in favour of giving SOAs a high-level champion and focus is that it would raise their profile and bring more attention to problems they encounter – problems such as those resulting from across-the-board budgetary reductions and input controls, or salary freezes. A counter argument is that increased attention may in fact hinder the resolution of problems in cases where there is concern about setting precedents and where it would be better to proceed in a low-key, gradual fashion. A high-profile approach would raise expectations about major changes in the offing, and may lead to prematurely over-expanding the scope of initiative. Critics of the Executive Agencies initiative in the U.K. have pointed out that the high-level political drive to get a large number of agencies set up and running as quickly as possible precluded opportunities for fine-tuning and experimenting on a small scale before making major commitments.

A view widely held in the SOA community is that a high-level champion and focus for the initiative would serve as a source of ongoing guidance and support for SOAs, and help resolve problems currently encountered. It would also give the initiative greater

momentum and ``teeth."

Issue: *How much guidance and support should central agencies provide during the transition and implementation stages, and what role should they have in supporting networking among the SOAs?*

In the U.K., central departments have been criticized for being too interventionist, either because they have retained or imposed too many rules on how to manage, thereby reducing the potential anticipated from flexibilities, or because they have imposed initiatives in a centralist manner without allowing chief executive officers (CEOs) to integrate them properly into their management plans.⁶ At the same time, they have been criticized for not providing adequate guidance (such as technical advice on pay and grading or financial flexibilities) and for not playing enough of a supportive role to facilitate exchange of experience among agencies.

In Canada, Treasury Board has adopted a supportive, encouraging stance regarding the selection of SOAs and has generated few complaints about excessive interventionism. But SOAs have called for more support and guidance, particularly in asserting their needs against departmental prerogatives. There have also been echoes of a number of the recommendations made for central agencies in the U.K., in particular with respect to: (i) the role central agencies can play in facilitating networking among SOAs and in monitoring common issues in order to encourage an exchange of experience and the adoption of best practices; and (ii) an implementation advisory role they might play by assisting department units which act as internal consultants to agencies.

Issue: *Does Treasury Board face possible conflict of interest in acting as champion of the SOA initiative, since it also has to act as controller?*

The Bureau for the Delivery of Government Services was set up as a champion of SOAs within Treasury Board, yet Treasury Board rules are involved in the set-up and operation of SOAs. Noting that the Treasury was not involved in the U.K., the view has been expressed that perhaps PCO should have more of a role in championing SOAs.

In some instances, Treasury Board may be regarded as negatively biased in appreciating the interests of a prospective SOA when there is competition or conflict with Treasury Board's own interests in a given area. For example, the aspiring Canadian Forces Housing Agency wants to be able to retain a portion of the proceeds from the disposal of housing they presently own, in order to upgrade the remaining housing. Its perception is that Treasury Board has its own agenda and vested interests in this regard – that Treasury Board would really like to move them off valuable property and itself control the proceeds from the more valuable CFHA holdings, so that such revenues could be fed into the Consolidated Revenue Fund. Another source of tension relates to CFHA's preference not to go through central agencies for the procurement of services which it feels it can acquire more cost-effectively by other means.

Negotiating SOA Status and Flexibilities: Role of Central Agencies

Background: Setting up an SOA is a multilateral process requiring a substantial amount of work. The negotiation process leading to the development of the framework documents needed for establishing an SOA involves: (i) central agencies (namely, Treasury Board and the Public Service Commission); (ii) central services (Public Works and

Government Services); (iii) the departments in which the SOAs are based; and (iv) the prospective SOA itself. Negotiations have generally been conducted under the umbrella of an interdepartmental steering committee chaired by the Program Branch of the Treasury Board Secretariat.

There is no fixed set of flexibilities which define SOA status; for each SOA, a unique combination of flexibilities may be negotiated with the parent department, Treasury Board or central service organizations. Specific experiences of the various SOAs have changed perspectives as to which flexibilities are really essential or important, and which are inconsequential or even, in some respects, a liability. Only those flexibilities which can be delegated without legislative change may be sought, and they must be in line with core public service values, including equity and fairness, entitlement and neutrality, prudence and probity in public expenditure, employment equity, and official languages.

From the perspective of central agencies, in particular Treasury Board, implementation involves (i) negotiation of the framework document, including the types of flexibilities sought and the accountability regime; (ii) negotiation of resource issues relating to revolving funds, re-spending authorities, appropriations, cost recovery and rate-setting; and (iii) arrangements for establishing necessary systems, for example for accounting.⁷

SOAs have reported that it has been easier to negotiate with central agencies and central services than with their departments. Spokespersons of departments have observed that there is much more at stake for them, particularly where a department would have to operate with a number of SOAs. (For a discussion of this issue, see the section in Part II on *Challenges for Departments with Several SOAs*).

Issues: *What are some of the key challenges for central agencies in negotiating flexibilities? Is there merit in having a fixed set of core flexibilities granted to SOAs from the start?*

Each SOA is required to present a sound business case justifying how proposed flexibilities would contribute to more efficient or cost-effective operations. While new flexibilities give SOAs greater freedom in administering day-to-day operations, careful consideration needs to be given to the impacts, benefits and risks which each particular new authority can have for the SOA itself, for the parent department and for the public service as a whole.

A key challenge for Treasury Board (and other central organizations) is to accommodate the SOA's special requirements and concerns while upholding a degree of consistency for government-wide policies and public service unity.⁸ It must take into consideration that each case may be perceived as a precedent for others, and that, allowing for reasonable adaptations, policies have to apply to all SOAs.

The principle is that flexibilities have to be justified in terms of achieving objectives and results. In some instances Treasury Board has refused delegations which did not seem necessary. Some prospective SOAs have argued that there are certain results which cannot be defined in advance – for example, the extent to which exemption from the Federal Identity Program may enhance an SOA's corporate identity.

Treasury Board has granted flexibilities most readily in the financial area and in person-year (PY) controls, less so for administrative polices and common services, and least willingly in the personnel area. The tendency has been to use existing ground rules and not to concede much more. A more recent change is the exemption of SOAs from certain

expenditure reductions and input controls. Salary freezes, however, have applied to SOAs as they have to the rest of the public service.⁹

A significant recent development of note is that a range of flexibilities associated with SOA status (such as PY decontrol or a revolving fund) are now available to, and have in fact come together in, units which do not have SOA status. This raises questions about the "specialness" of SOAs – whether there are any particular advantages in going through the burdensome process of negotiating for SOA status.

There is a strong argument for central agencies to define a set of core flexibilities which would reflect what would widely be judged as fundamental requirements for SOAs – in finance, personnel and administration (for example, authority for staffing, classification), and that these flexibilities be granted to SOAs from the start, or very promptly, without lengthy negotiations.

Issues: *How well advised and informed are prospective and existing SOAs about the full scope for increased flexibilities? How might that scope be broadened to support real needs identified by the agencies? What is the role of central agencies in this regard?*

The full scope for increased flexibilities consists of what is possible within existing legislation and recent amendments to it, what might be possible if certain policy-related constraints were removed, and what might be possible if legislation were changed. More specifically, SOAs need to become more aware of the scope for negotiating flexibilities for their particular needs in relation to:

- (i) the flexibilities made possible across the public service under the *Public Service Reform Act* (Bill C-26) and under new amendments to the *Financial Administration Act* (particularly for vote-netting and revolving funds);
- (ii) flexibilities relating to common services and the Management Category Complement which have been limited as a matter of policy rather than as a result of legislative constraints – constraints which Treasury Board and departments can remove if they so decide;
- (iii) flexibilities which would be made possible as a result of changes to legislation.

Flexibilities granted to SOAs have been limited to those possible under existing legislation, thereby excluding significant personnel flexibilities such as those relating to differential pay and benefits, or to hiring and firing. Separate Employer Status (SES) is perceived to permit greater flexibility in personnel matters, but it is more limited than generally perceived and raises new problems, such as having to negotiate separately with the unions.

Central agencies should provide readily accessible guidelines for SOAs regarding the scope of existing flexibilities, and should advocate widening that scope by removing policy constraints or by introducing legislative changes in cases where significant obstacles to improved performance are identified and if this can be reconciled with the genuine need for consistency in government-wide policies.

It has been argued that policy-related constraints which do not make sense should be removed. For example, in the early stages, SOAs were subjected to government-wide expenditure reductions and the same across-the-board restraints on particular inputs as

everyone else in government. This was counter-productive in a number of instances and posed a major problem for SOAs which offered optional services and were dependent on government clients for revenues. Exemptions from certain expenditure reductions and input controls should therefore be allowed for cost-recovery agencies or for those which provide optional services.

Issues: *Flexibilities in the personnel management area: Should SOAs be allowed to hire and fire more easily, and to compensate managers differently than in the rest of the Public Service? Would such flexibilities affect terms and conditions of employment? Would it create two standards in the Public Service?*

At present, SOA employees retain their public service status, representation by unions, benefits, and the same opportunities for promotion and transfer as other public service employees. SOA management continues to operate within the requirements of basic public service legislation (for example, the *Public Service Employment Act*, the *Public Service Staff Relations Act*, the *Official Languages Act*) and government-wide policies such as employment equity.

Some changes can be introduced through Separate Employee Status or if special conditions are negotiated with the unions. Only two SOAs have Separate Employee Status (CCG, one of the initial group of five SOAs and Indian Oil and Gas Canada). SES may provide for Treasury Board delegation in such areas as determining the organization's human resource requirements, allocation and utilization; training and development; classification; and performance awards. However, separate employers are still subject to the *Public Service Employment Act* and remain under the supervision of TBS with respect to personnel management.¹⁰

Management Category Complement (MCC): SOAs obtained freedom from person-year restrictions (ahead of everyone else in the public service), but were still subject to important restrictions and reductions affecting personnel, such as ten percent for the MCC. SOAs have sought exemption from MCC controls to allow them as many senior executives as they deemed necessary to support new SOA-type management tasks – in such areas as marketing and sales, planning and accountability, systems and infrastructure, and organizational development.

Compensation, classification and incentive pay: The 1992 wage and salary freeze adversely affected SOAs, particularly those competing with private sector. The option of using reclassifications and promotions is restricted because of cumbersome procedures.

Issue: *Common services: What issues have been raised with regard to negotiating flexibilities with common/central services organizations?*

(See the sections on flexibilities relating to corporate services, optionality and competition.)

Accountability of SOAs from the Perspective of Central Agencies

The SOA concept has provided an opportunity and a mechanism for experimenting with new approaches to increasing autonomy or de-control and strengthening accountability.

(For example, PY de-control was tested with a number of SOAs, then extended to a limited number of departments as part of the Operating Budgets initiative.) While the key accountability relationship is with the parent department (as discussed later), central agencies need assurance that de-control, or the granting of flexibilities within their jurisdiction to SOAs, will have an overall positive effect on the public service and not compromise the central agencies' mandates.

Issue: *Do present accountability arrangements provide an adequate information flow to assure central agencies that the increased autonomy accorded to SOAs is not undermining the level of integrity/consistency in the public service required by central agencies' mandates?*

From Treasury Board's perspective, the SOA business plan is the focal point for accountability. Treasury Board's position is that the business plan is primarily a matter between the SOA and the department. It is negotiated between the SOA, the deputy minister (or ADM) accountable for the SOA, and the responsible minister. It is then sent to Treasury Board for information annually as part of the department's MYOP package, though it can be submitted in relation to the planning management cycle of the SOA rather than at MYOP time.

Treasury Board's focus is not on the details of the business plan but on the broad trends and directions, and it is expected to play a role in overseeing whether performance targets and commitments are met. Serious gaps have been pointed out in present accountability arrangements, primarily between SOAs and parent departments. Suggested strategies for strengthening the accountability regime of SOAs include action to require public reporting frameworks, and a stronger link to the parliamentary process.¹¹

Many of the issues concerning central agencies and their relations with SOAs also pertain to parent departments and the agencies themselves, though from a different vantage point, as discussed in Part II of this paper.

Part II: Key Issues for Parent Departments, Deputies and Ministers

Departments have looked to SOAs as a means of achieving greater effectiveness and efficiency in meeting higher service expectations for individual units, without significantly increasing expenditures. For deputies considering options for introducing change to a major operational area, the SOA model provides, in principle, a business planning discipline and an accountability regime, along with new management flexibilities to facilitate the work.

The presence of SOAs tends to formalize intradepartmental relationships. For example, when program changes are introduced to a traditional departmental unit, those involved make the necessary adjustments to their resources. However any program changes made to an SOA require more formal negotiations and agreement with the department, and, in the process, recognition of the true cost of the changes and clarification of the outcomes expected from those changes.

Fundamental first steps in considering the SOA option are: (i) to assess the value of retaining in government the services and products of the particular departmental unit; (ii) to consider a range of alternative organizational forms and mechanisms for delivering the services/products; and (iii) if the SOA option has obvious merit, to determine the most appropriate (viable and accountable) fit as an SOA within the existing departmental structure. This means reaching agreement on and implementing flexibilities deemed to be genuinely essential for improved service and performance; and clearly defining changed roles, responsibilities and accountabilities.

The principal accountability relationship is between an SOA and its parent department, specifically with the deputy minister¹² who is accountable to the minister for the SOA's performance. In the case of one SOA, a key concern was that the line of accountability in fact be directly to the deputy minister, not via the intermediary of the central control functions of Finance and Administration.

The SOA concept requires a shift in roles for the department – from detailed prescription of operational functions, to the definition of a rigorous policy and resources framework within which the Agency management has more authority and discretion in managing operations, and is held to account for results. Major tasks of the department in relation to its SOAs would be:

- the provision of a policy framework,
- target-setting,
- resource allocation, and
- monitoring.

Framework documents are intended to encourage the deputy minister (and senior departmental management) to focus on the basic structure and *raison d'être* of the Agency and to set its strategic directions, while delegating operational matters to the Agency.

Key issues for the department relate to:

- (i) the managerial challenges and constraints involved in setting up SOAs (discussed below);
- (ii) satisfying the deputy minister's accountability requirements – given the increased

delegation of authorities and the fact that the deputy minister remains accountable for the agency;

- (iii) managing the interface between the department and its SOA(s) in a manner which permits accommodating both the client focus/service excellence aspirations of the individual units which have become SOAs, and the corporate focus on a well-integrated, streamlined department;
- (iv) establishing a good working relationship between Agency heads and managers of traditional corporate functions; and
- (v) playing a role, appropriate for a department in a results-based accountability arrangement, for monitoring and evaluating the progress and performance of the SOA.

An important factor affecting all these challenges is the size and significance of the SOA for the department – whether it is a marginal, self-contained initiative in one corner of the department, or a model for reorganizing a major portion of the department and its core activities. For example, the challenges which the Passport Office presents for Foreign Affairs are not comparable with those which existing and emerging SOAs are posing for PWGSC. Another powerful factor is the SOA's potential for stirring up political controversy – in relation to the issue of competition, for example.

Key Issues in Setting up SOAs

Issues: *What are the principal managerial challenges and constraints faced by departments in setting up SOAs and how might these be managed? Do central agencies, departments and SOAs themselves take sufficient account of the costs in time, effort and funds involved in setting up an agency?*

- *Leadership, time and resources:* Organizational change, which the move to SOA status entails, requires strong leadership, time and resources. Large scale changes, such as restructuring into business units, which might accompany the move to SOA status, can be disruptive to the organization and need to be skilfully managed.

Strategies adopted or suggested for managing these challenges include ensuring that the leadership is in place *before* the creation of the SOA; providing start-up funds to new SOAs to permit them to set up properly and to avoid the psychological impact of carrying a deficit; providing infrastructure (for example, physical accommodation) from the outset and appropriate investment in technology; more promptly granting necessary flexibilities to avoid time wasted in lengthy negotiations – perhaps by having a fixed set of core flexibilities which are automatically granted; and giving Agency heads more and (more real) autonomy and discretion, and a reasonable length of time to prove themselves.

- *Role and mandate of the SOA:* A primary challenge in setting up an SOA is to determine its role and mandate rigorously. This means determining the kinds of activities which it should and can pursue as a government agency, and the relationships and decision-making procedures which would be needed to support the pursuit of such activities. However, too detailed a statement of an Agency's mandate could become a policy straightjacket when what is being sought through the Agency approach is flexibility and responsiveness to changing circumstances.

- *Framework for accountability and corporate control/integrity:* For departments, accountability has been perhaps the most crucial issue. It has been difficult for corporate groups to let go, to permit SOAs to be "special" while still being part of the department, to accord SOAs different treatment when deputy ministers are still to a large measure accountable for them. In turn, it has been difficult for senior managers to let go and allow the controls to move down to the "point-of-client-contact" – so essential to meeting client needs.

Key instruments in managing these challenges are the SOA's Charter and business plan. Experience to date indicates that these accountability documents have not really served as binding contracts capable of altering the relationship with the parent department, because they have been one-sided, incomplete and inconsistent among the SOAs.¹³

(For a discussion of these issues see the following section on accountability, and the sections on the inherent tension in the department's role between delegating flexibilities and maintaining corporate control, integrity and consistency in the department.)

Accountability

A basic characteristic of the SOA concept is the shift in emphasis from accountability for process to accountability for results. Unlike process-based accountability which is governed by controls, "holding to account" for results is compatible with giving managers greater latitude to seek out ways and means to achieve those results. The expectation is that a focus on results and delegation of authority for deciding how best to achieve those results will spur managers to find better ways of getting things done. This requires, however, that substantive delegation of decision-making authority actually occurs, and that there is real relief from mandated processes and procedures – which means increasing flexibilities.

Formally, the SOA's results-based accountability regime consists of the Charter or framework document, the annual business plan and the annual report. This accountability regime, which includes for each SOA a tailored set of performance targets, permits the deputy minister to play a role in ensuring the proper monitoring and evaluation of the Agency's performance. If an SOA's management moves in a direction inconsistent with the framework document and business plan, the accountability link is back to the deputy minister – either directly or through the departmental chain of command.

In this arrangement, departmental officials will understandably be reluctant to account to ministers for actions they know nothing about or over which they have little control. Ministers will feel the same in the discharge of their responsibility to Parliament. The department may therefore be inclined to seek to have more control over what happens in the agencies, beyond strategic target-setting and monitoring, and to be more fully informed.

Key issues relate to (i) the need for those who are accountable for results to have authority over activities leading to those results; (ii) the building of trust; and (iii) appropriate reporting arrangements, including the phasing out of other reporting requirements once the results-based accountability cycle is operating to everyone's satisfaction.

Implications for Deputy Ministers and Ministers¹⁴

Issues: *How can the results-based accountability regime of SOAs, which encourages increased delegation of authority and flexibilities, be reconciled with the fact that deputy ministers and ministers*

remain fully accountable for the performance of the SOAs under their authority? How important to accountability arrangements is the level of trust between the deputy minister and the SOA head? What factors facilitate or hinder the building of such trust?

Ideally, the deputy minister's role in the accountability arrangement is to set the strategic direction for the SOA, particularly through the framework document and the SOA's business plan; to ensure that the SOA has the functional support required to sustain agreed-upon performance or to adjust expectations regarding performance accordingly; to evaluate the effectiveness of the agency from time to time in achieving government policy objectives, as set out in the framework document; and to monitor and regularly review the business plan and accountability arrangements.

This accountability arrangement has been compared to the "holding company" model: Agency heads take responsibility for the management of their portion of the organization; the deputy minister provides policy coherence, strategic direction and some common services; and the minister acts as Chairman of the Board. The main advantage gained is that accountability in specifically designated areas is shifted and appropriately lodged where it will be more meaningfully addressed. Deputy ministers and ministers still remain accountable without necessarily exercising micro-control, and while permitting increased delegation of authority and flexibility.

Differences in accountability arrangements are a function of the departmental culture; the capability and readiness of the SOA's management to assume responsibility; the soundness of the SOA's performance targets and the likelihood of these being met; and the degree of financial risk and exposure entailed. Another key factor relates to the personalities involved – in particular, the preferences and style of the deputy minister and the level of trust between the deputy minister and the SOA head. Difficulties can occur, and have done so, with a change in deputy minister or SOA head.

The accountability issue is concretely tested when an SOA gets into financial difficulty and the question is raised as to who would "absorb" the deficits. Treasury Board policy has been to assess the capacity of the department to absorb the cost.¹⁵

Suggested Measures

Accountability issues in SOAs should be informed by the premise that excessive control and external interference in operational matters would compromise fair accountability for results. Better alternatives to micro-control – alternatives which are widely regarded as "good management" practices to apply in any organizational structure, not just SOAs – include the following:

- (i) *More timely, comprehensive but streamlined reporting arrangements:* The SOA would have to supply information that presents a clear, comprehensive and timely view of the agency's performance. This may require reporting more frequently than annually. However, any additional reporting requirements should not be arbitrary but negotiated and mutually agreed upon. From the department's perspective, reporting requirements should be streamlined – for example, in relation to compliance with the MYOP process where there is already an annual business plan.
- (ii) *Cultivation of trust:* In the absence of a legislative framework for SOAs and as long as the deputy minister remains accountable to the minister for all aspects of the agency's performance, accountability arrangements will be shaped by the degree of trust and

confidence the DM has in the ability and judgment of the Agency head. A trusting relationship will be reflected in a minimum of formal reporting, focusing mainly on results. A less trusting relationship will lead to more detailed and frequent reporting that includes information on specific activities undertaken, operating decisions made, and processes followed.

As has been pointed out, an insufficiently stable tenure for the principals involved may undermine the capacity for building trust over time. The frequent turnover of Agency heads and deputy ministers in the case of a number of SOAs has been a problem in this regard. A finding of the recent stock-taking of the SOA initiative is that the average "pairing" or length of time for interface between deputy ministers and SOA heads is eight months, and the longest period has been 32 months.

Much also depends on the SOA's track record of performance. If an Agency is performing well with a minimum of external supervision, there seems little reason to exercise the option of detailed control. Indeed, such intervention is likely to do more harm than good, since it diminishes the Agency head's accountability and forces the Agency to divert its time and energy away from service and performance in order to respond to directives from above. However, the minister and the DM (or ADM) must always exercise the right to intervene if things go wrong.

A different option is to make SOA heads more directly and clearly accountable – in practice, not just in the framework documents – for the performance of their agencies. In such an arrangement, the deputy would have responsibility for setting up an appropriate accountability framework and ensuring that it is complied with, appoint the SOA head, and intervene further only when serious difficulties arise.

Issues Relating to Reporting Requirements and External Control

Issue: *Does SOA status offer some relief from departmental reporting requirements or add to the burden?*

In one instance, SOA status has brought relief to a small, marginal SOA from having to constantly re-educate the department and the centre whenever they wanted to make changes (for example, Canadian Heritage Information Network). However, departments are more likely to continue to be closely interested in overseeing SOAs which are central to the department's mandate and seen as part of its political agenda.

Organizational stability has also been a factor in this regard: the relocation of an SOA as a result of departmental reorganization or government restructuring (for example, the Passport Office) has meant that a whole new set of people needed to be briefed each time.

Issues: *Should the department require documents other than the annual report to report on performance (financial and other) and the progress made against targets or business plan goals? What are the implications of further externally imposed controls, directions, and reporting requirements (such as MYOP requirements)?*

Results for the initial group of SOAs indicate a number of gaps and problems in present reporting arrangements. These include the following:

- The business-like reporting processes of SOAs (through the Charter, business plan and annual report) have not been integrated into the broader system of accountability reporting. As a result, there is duplication with MYOP process. MYOPs, Estimates and Public Accounts in fact tend to dominate internal systems.
- Though annual reports are required, they are not always prepared, and even where they are prepared, there is a reluctance to publish them.¹⁶
- Some stakeholders have not been consulted or kept sufficiently informed about the nature and implications of new flexibilities. Unions in particular have felt left out of the process or suspected other agendas than those disclosed to them (for example, in relation to Separate Employer Status).

Suggested strategies which central agencies and parent departments can promote or implement for strengthening the accountability regime of SOAs include the following: phasing out of duplication in reporting, requiring a public reporting framework, and stronger links to the parliamentary process.

Evaluation and Audit of SOAs¹⁷

Issue: *By whom should SOAs be evaluated and audited? What is the role of the parent department?*

The accountability regime of SOAs gives the deputy minister a critical role in ensuring the proper monitoring and evaluation of the agency's performance. The deputy minister is expected to evaluate the effectiveness of the agency from time to time, and to ensure that government policy objectives, as reflected in the framework document, are being achieved.

The roles of the parent departments, Treasury Board, and SOAs themselves in the evaluation of their performance still need to be clarified. Given the increased accountability which SOAs assume, self-evaluation and internal audits would seem appropriate as the primary level of evaluation. The parent department and Treasury Board would need to have reliable assurance regarding performance and some role in evaluation to reflect department-wide or government-wide accountabilities.

Deputy ministers have responsibility for the evaluation and audit of SOAs in relation to the application of government policies and practices. SOAs abide by all relevant government policies and practices except those for which exemption has been granted. Monitoring of compliance with those policies and practices may be undertaken by the department's internal audit and evaluation unit, independent auditors or the Auditor General.

Issue: *When and how frequently should SOAs be evaluated and audited?*

Some SOA stakeholders are keen to evaluate early and often in order to permit ongoing modifications, strengthening or redirecting of the initiative. Others feel that SOAs should be given a period of reprieve from large-scale evaluation or audits for an initial period, as they go through the difficult transition stage.

Issue: *What consequences should there be for not meeting targets? Should there be sanctions when*

performance evaluated against agreed-upon measures is deficient? Conversely, should a rewards and bonus system be in place to respond to good performance?

These are basic, yet largely unresolved, questions for organizations aspiring to results-based accountability. These are therefore questions which need to be addressed by both central agencies and departments, both (i) in relation to authorities or flexibilities which would permit SOAs to deal with poor performance and reward achievement internally, and (ii) in dealing with SOAs which are performing badly overall. As for Agency heads, it is difficult to think of any reason why they should be treated any differently than other public service executives who fail to achieve expected results.

External Advice: Role of Advisory Boards

Issue: *What is the most appropriate role for advisory boards? Should an advisory board be part of the accountability cycle for the Agency, or should it be strictly advisory, dealing with issues identified on an ad hoc basis? To whom should it be advisory – the minister, the deputy minister or the Agency head?*

Advisory boards are very diverse in composition, objectives and ways of working. In the U.K., they have functioned to advise the CEO, or to monitor the Agency for the department. Few were judged to be balanced enough to both advise and monitor.

Some SOAs have established advisory boards to provide a source of business-like advice and input from clients and stakeholders. For example, GTA's management advisory board, the Government Telecommunications Council, consisting of high-level members of GTA's customer departments, is deemed to have played an active and vital role in assisting the Agency to ensure that its plans reflect the requirements of customers and the government as a whole. The Agency's business plan has been developed with the Council's guidance and subsequent endorsement.

Advisory boards may be chaired by the deputy minister and could include representatives from central agencies, academia, major clients, the private sector and other government organizations. To play an accountability role, an advisory board would have to act more like a board of directors. However, as long as the SOA resides within the departmental framework, the deputy still remains ultimately accountable. Generally, the view has been that advisory boards, which usually have a strong component of private sector representation, should be confined to giving advice, rather than providing management direction.

The department and its SOAs need to reach a common understanding and consistent approach to the use of advisory boards, the role they should play, and how that role should be carried out. Key issues relate to (i) the selection of members to the board; (ii) the appropriate role they should play; and (iii) deciding to whom the board should be advisory – the minister, the deputy minister or the SOA head.

Strategies adopted or suggested:

- If appropriately used, SOAs' advisory boards can be helpful to departments, while being advisory to the SOAs. For example, the deputy of PWGSC had viewed the establishment of advisory boards for SOAs in PWGSC as a means for assisting in the department's relations with its SOAs. In other instances, the presence of an advisory board on which the deputy or assistant deputy sits as a member has strengthened the department's preparedness to give the SOA a greater measure of independence.¹⁸

- Board members should be selected on the basis of their capacity to provide the best advice for the functioning of the SOA, while not presenting problems of conflict of interest. The presence of outsiders on advisory boards has generally been valued because of the business-like advice they can offer, and, as experienced in the U.K., because of their impact in ensuring "robust targets" and encouraging continuity in discussion among main stakeholders. A key concern is that the business-like advice required by a SOA head not be compromised by departmental direction or considerations.
- Another type of advisory board, recommended in a U.K. study, is a Ministerial Advisory Board (MAB) for each department, whose role would be to ensure departmental cohesion. An MAB would examine the level and relevance of targets, assess whether these are compatible with policy direction in the department, and play a strategic role in advising on the future direction of the Agency.

PWGSC has opted to put in place a similar arrangement, in the form of a Business Advisory Board which provides strategic and business planning advice to the whole department, including SOAs. The board is to be chaired by the deputy minister and would include ADMs and Agency heads of the department's SOAs.

However, it has been argued that a departmental advisory board would not be able to serve some of the specific needs of individual SOAs for independent advice, both from within and outside the government.

The role and modus-operandi of such boards is evolving, and needs study.¹⁹

Delegating Authority and Negotiating Flexibilities

Giving Agency heads greater responsibility and authority or discretion in managing their organizations means a closer alignment between what they are mandated or expected to do and the extent to which they are empowered to do so. In principle, such delegation should enable Agencies to respond more effectively to clients and other stakeholders. However, as discussed in the sections below, it may also entail risks. It may lead to "balkanization" and lack of coordination of the SOA's activities with broader departmental interests.²⁰ It may result in misuse of discretion and lack of accountability, if information flow is inadequate and intervention and redress mechanisms are absent. The strategy for managing such risks is through effective negotiation of flexibilities, the business plan, and the accountability regime.

Delegation of decision-making authority achieves little unless accompanied by some relief from departmental and government-wide processes and procedures. Flexibilities which SOAs have perceived to be critical to their establishment and functioning relate primarily to authorities in the area of finances, administration and personnel – flexibilities which must be delegated largely from the parent department.

SOAs have reported that negotiations with their departments have been much more time-consuming and difficult than negotiations with central agencies or central services. Reasons offered are that these centralized departmental functions at times operate as control mechanisms rather than as services, and that people managing these functions have a greater stake in the delegation of flexibilities. Key issues relate to such factors as SOA requirements for corporate services, constraints under which departments must operate, and the impact on

departmental corporate groups.

There have been wide variations in the degree of delegation of authority which deputy ministers have allowed for their SOAs – from a hands-off approach where the Agency head is responsible for day-to-day management of the SOA and the deputy minister sets major directions, to a more hands-on approach from the department which may also involve withholding responsibility for common services. The degree of autonomy given to an SOA will likely depend on its track record of performance and its potential for embarrassing the government if mistakes are made.

Scope of Autonomy/Flexibilities and Corporate Control

Issues: *What has motivated deputy ministers to grant greater autonomy to certain departmental units? How much autonomy can SOAs reasonably expect to have, given that they are still part of the department? What impact does according greater autonomy to an SOA have on its relationship with the rest of the department?*

In some instances, deputy ministers were ordered by their ministers, through budget statements, to grant certain departmental units greater autonomy via SOA status. Many deputy ministers who willingly support SOA status for certain departmental units are motivated by the opportunity they see in SOA status to manage by results, with appropriate management contracts and relationships.

However, there are inherent limits to the degree of autonomy SOAs can have, as they are still part of the department. As discussed above, only those flexibilities which can be delegated without legislative change may be sought from the parent department (or Treasury Board, and, where appropriate, from common service organizations). The one SOA which has a legislative basis and reports to a minister (CGC) has experienced an ambiguous kind of quasi-independence with unclear lines of authority and resourcing. The parent department has held back some corporate functions and made "requests" contributions to the department instead of imposing across-the-board cuts.

There are also self-imposed limits, relating to policy constraints, or to the organizational culture and resistance to or resentment of special treatment accorded to an SOA.²¹ The fact that SOAs are part of the department while also having a more formal relationship with the department makes any autonomy they are given more visible. Deputy ministers seeking better integration in their departments would be inclined to permit the establishment of an SOA (or increase the autonomy of an existing SOA) only after a clear mode of collaboration is worked out with the rest of the department.

A strategy suggested by one Agency head is not to try to negotiate all possible flexibilities from the start, but rather to select a few which would allow the Agency to demonstrate improved efficiency in performance, and then – over time and on the basis of needs made pressing by experience – to seek additional flexibilities. Such an approach is perceived to be more likely to reassure the deputy minister on the consequences of delegated flexibilities.

Issue: *From the perspective of Agency heads, is the degree of autonomy and discretion delegated to them sufficient for them to adequately discharge their increased responsibilities as a result of SOA status? What flexibilities are really needed in order to improve client service?*

Agency heads feel that they have not obtained an adequate level of autonomy and discretion to carry out the responsibilities set out in their organizations' mandates. They did not receive a number of important flexibilities, either because they were refused or as a result of self-censorship – for example, with respect to staffing, reinvestment, and market selection. In other instances, autonomy was formally granted but not sufficiently supported – for example, with regard to competition with the private sector, its scope for tailoring the Agency's management or its information and internal support services to suit its needs.²²

The impact which particular flexibilities (in financial management, human resource management, etc.) can have on service and on the performance of an Agency, or in fostering competitive advantage for revenue dependent SOAs which offer optional services, is briefly discussed in the sections below, and treated more fully in separate issue papers.

Issue: *From the department's perspective, how much corporate control is essential? Why have departments been holding back, and in some instances pulling back flexibilities from SOAs? What are the implications for SOAs of existing corporate control?*

SOAs have already reported reduced administrative burdens as a result of SOA status, including the relaxation of Treasury Board administration rules, less filling out of forms, and lower levels of authority required for signatures. However, in a number of critical areas, strong corporate control has been retained or reasserted.

Departments have put forward a range of arguments to justify their reluctance to concede flexibilities: that SOAs are asking for flexibilities they do not really need to get the job done; that risks entailed require the department to retain enough control to protect the deputy minister who is ultimately accountable;²³ and that a critical mass of central/corporate services (with respect to personnel or financial resources, for example) must be retained to ensure consistency and coordination across the department.²⁴

In a number of SOAs, the withholding of flexibilities, particularly in the area of personnel, is perceived as undermining their potential business performance. Limited scope for using rewards and incentives, and the cost and complexities associated with workforce adjustment are perceived as serious handicaps for SOAs which must operate on the basis of financial self-sufficiency while offering optional services in a competitive environment.

Consideration needs to be given to the burden which certain controls place on the SOA and to whether these are really needed. For example, as pointed out above, are requirements for compliance with the MYOP process justifiable when there is already an annual business plan?

Issue: *In recognition of the experimental and incremental nature of the SOA initiative, how much scope should there be for both departments and SOAs to adjust rules and expectations when circumstances and the environment change?*

Like other change management initiatives, transition to SOA status should not be expected to be a clear-cut progression in line with initial assessments and expectations. For example, the fact that two SOAs (CAC and CORCAN) have had their flexibilities reduced, should not be taken as an indication of the weakness or inappropriateness of the SOA concept, but rather as part of the change process.

In addition to major reversals or strides forward, there is also likely to be ongoing negotiation with the parent department on a wide range of issues. For example, an SOA may need to convince the department that it should not be paying for the overall departmental overhead, but should rather determine that portion of common services overhead for which it should assume responsibility. (CCG negotiated such an arrangement.)

As far as is possible, business plans and, in particular, Charter documents should be crafted to take into consideration a range of contingencies and to permit adaptation and significant cultural change during the transition period and beyond. At the same time, if business plans are to have an impact, they need to set out specific, measurable performance targets and be taken seriously, even during the period of transition.

Flexibilities Relating to Funding and Financial Management

The key challenge for central agencies and departments in relation to the financial management of SOAs is to find ways to mesh basic requirements of public expenditure procedures with financial requirements of more independently managed, often commercially competitive agencies, which are expected to be (i) accountable for cost-effective quality service; (ii) geared to clearly identify operating costs; and (iii) viable, entrepreneurial and business-like organizations.

Given these expectations, SOAs have sought changes in sources of funds and funding mechanisms and greater control over funding – through a single operating budget or revolving fund, vote-netting, or another new arrangement. In the process of implementing such arrangements, a range of issues have been raised:

- whether to require financial self-sufficiency for SOAs;
- whether the SOA is constrained in using lapsed funds;
- the extent to which there is transaction-based charging;
- the extent to which there is awareness of direct costs (for example, cost of products, person's work) and indirect costs (salaries of deputy ministers and ministers, public service requirements, official languages);
- the impact of built-in mandatory costs on the SOA's capacity to be competitive;
- in instances where there are several SOAs in a department, whether the SOAs should have a combined or common revolving fund or individual revolving funds.

The decisions and directions taken in relation to the above issues have clear implications for both the SOA's and the parent department's financial management regimes. An important consideration for both is to ensure mutual understanding of, and agreement on ways of addressing, the impact which particular changes to budgets will have on outputs.²⁵ The department and the SOA also need to consider the implications of various options for autonomy/flexibility, accountability, service quality, or financial viability, for example.

Flexibilities Relating to Human Resource Management

SOAs have negotiated very few flexibilities in compensation and other personnel matters from departments. Changes in personnel management are difficult, particularly

when linked to collective bargaining (classifications, for example).²⁶

As discussed above, Separate Employer Status, which would have to be negotiated with Treasury Board, the Public Service Commission (PSC) and the parent department, raises a number of issues and concerns relating to implications for employees: whether they would lose public service guarantees regarding layoffs as set out in the Workforce Adjustment Program; or whether SOAs with SES might become ghettos in which employees are trapped, losing the opportunity for employment in other parts of government.

Issue: *What impact might the implementation of an SOA have for human resource management in the parent department and in the SOA?*

SOA status may result in a *redefinition of roles*, particularly among middle and senior management, and possibly *re-sizing*, particularly for SOAs which are revenue-dependent.

Developments likely to accompany SOA status, which can have significant implications for human resource management in the department, include the following:

- Within the SOA, stronger commitment to individual performance planning, performance appraisals, employee surveys and "best practice" development; these benefits have already been reported.
- Special skills and knowledge may be needed in managing the establishment, operation and interaction with the SOA, and there may be new requirements for *training* and opportunities for *career development* in this regard.
- SOAs call for increased *delegation and empowerment* both within the SOA and in the department's interaction with it.

Corporate/Central Services

The provision of corporate services represents a critical area of administration affecting the relationship of SOAs with the parent department. The practice for cost-recovered SOAs has been that the SOA reimburses the department for common or corporate services – finance, personnel, administration – on a full cost basis (for example, TDC); or the SOA may provide the service itself (CCG) and cover full costs that way. In the case of SOAs in PWGSC (with the exception of CCG), previously delegated flexibilities in the area of corporate services have recently been drawn back, and use of departmental corporate services by the SOAs has been made mandatory for a three-year period.²⁷

Issues: *What are the implications of an SOA purchasing corporate services from the department, or from another source, or providing these itself? What are the key factors which should guide the decision from the perspective of the department and that of the SOA?*

This "make-or-buy" decision requires accurate information on the costs of the various options, so that relative cost-effectiveness may be properly assessed. The elimination of person-year ceilings under single operating budgets means that managers have greater freedom to adopt the "make" option, if they are able to build a business case that it is the most cost-effective option, and if they have been delegated authority to make the decision as to whether to "make" or "buy" – and from whom to buy.

Decisions on the extent of administrative delegation will be a function of the mission and resources of the agency, the business plan, the strengths and weaknesses of existing administrative functions, and the overall judgment of the deputy and minister responsible.

Factors which need to be considered in deciding on whether or not to delegate flexibilities for corporate services include the following:

- How will prices be established?
- How much scope will there be for purchasing these services elsewhere?
- What changes would need to be introduced within the SOA to provide for these services internally?
- What will be the impact on the size and structure of the department when it no longer needs to provide certain common services?

From the SOA's perspective, arguments in favour of the SOA providing the service itself include the following: that it can lead to substantial savings, because some of the common services provided by the department may not actually be required by the SOA; and that providing its own service permits the SOA to tailor the services more precisely to its own needs. For example, by developing their own services, SOAs may be able to avoid delays in staffing or classifying critical functions.

An important underlying factor is the level of trust between the department and the SOA – for example, in relation to the control function of corporate services. Corporate services, such as finance and personnel, are accountable to central agencies as well as to the deputy minister for ensuring adherence to government-wide administrative policies in their respective areas. Thus, they tend to have a control function in addition to a service role. The heads of departmental corporate service groups are ultimately accountable, through the deputy minister, for ensuring that all parts of the department, including its SOAs, comply with those policies. Thus, the extent to which the heads of corporate service groups are likely to support decentralization of corporate services to the SOAs will depend in some measure upon the level of confidence and trust they have in those within the SOAs who will be providing the service.

Issue: *Does the (sudden) pulling back of delegated flexibilities in the provision of corporate services undermine the capacity of an SOA to behave in a service-responsive and business-like manner?*

Concern about the impact of delegating flexibilities to SOAs in the provision of corporate services has been greatest in instances where SOAs constitute a significant portion of the department (as in PWGSC). Pulling back such flexibilities, in order to accommodate the departmental focus on economies of scale or to protect staff in functional groups, needs to be balanced by another important consideration: to find the most cost-effective option on a service-by-service basis. This requires an ability to determine the true costs of each service, and, if the service is being provided centrally on a fee paying basis, to link prices charged to costs.

With regard to effectiveness, there will be differences between services in terms of the administrative convenience of having them supplied locally or centrally, and also in terms of the potential for economies of scale and specialization. The conduciveness of various options to promoting a service orientation should be a determining factor.

Issues of concern to both the department and the SOAs relate to the difficulty of

obtaining accurate cost information in government and the risk that cross-subsidization would distort purchase decisions. An advantage of charging or being charged for services is that true costs become apparent, providing a basis for, and pressures to, streamline. On the basis of such knowledge, an SOA may seek to renegotiate the arrangement with the department with a view to reducing the cost; it may choose to reduce service levels; or to reorganize service delivery to eliminate elements deemed unnecessary. The discipline of revenue dependency and optionality is now being promoted as a force for streamlining more widely in the public service, but it is being confronted by the competition issue (as discussed briefly below).

Optionality and Competition

Issues: *Should a revenue-dependent SOA which provides an optional service be allowed to compete fully with the private sector (by responding to requests for proposals) for federal government business? for provincial and municipal business? Should it be allowed to sign MOUs for service with a federal government department, or does this give them an unfair advantage over private sector companies? On what basis might the SOA and the parent department reach a common understanding on how competitive the SOA can or should be?*

By definition, SOAs whose services are optional are facing competition. This competition can come from potential customers, who may choose to "make" the services for themselves; from other government organizations which provide similar services (usually common service agencies); and from non-government organizations (usually in the private sector).

For each of these situations, the parent department can play a role in either discouraging or encouraging a strong competitive position for the SOA. For example, it may ease constraints which have an impact on the SOA's competitive advantage so that the SOA can thrive or at least survive. Or it may choose to encourage other options – internal to government or from the private sector – for the provision of the particular products or services.

Since November 1992, CAC and CCG have been authorized to compete on requests for proposals (RFPs) to serve departments. The decision was followed by considerable debate over the extent to which government service agencies should be required to compete on a "level playing field" with the private sector. It is argued, for example, that private sector firms must pay taxes while government services do not and that government services enjoy a number of "insider" advantages, such as not having to go through a formal contracting process.

Key issues which the parent department needs to address in determining the position it should adopt regarding the SOA's stance on competition include the following:

(i) *Value of the SOA:* What value is there in retaining in government the services and products of a particular optional, revenue-dependent SOA? Could such products /services be provided as easily and effectively by internal staff of departments? by the private sector? Does the arrangement offer special advantages for clients and for the taxpayer – such as economies of scale, speed, consistency, quality, particular government knowledge or access?

(ii) *Establishing competition criteria and performance expectations which take into account public sector constraints on competitiveness:* Once convinced of a particular advantage in having the SOA offer the optional service (for instance, greater knowledge of government,

special expertise, the quality of work, and the ability to respond quickly), the parent department and central agencies must weigh the impact of public sector constraints on the capacity of the SOA to survive competitively.

These constraints pose a particular challenge for SOAs which are fully revenue dependent and whose services are optional. They must function under pressures which characterize a competitive business, demonstrating to their clients the merit of using their services in relation to other choices. At the same time, they must bear the cost of internal government policies and constraints – such as respecting regional interests, operating under constraining layers of authority, adherence to the workforce adjustment policy or official languages policy, and supporting departmental overhead. Because they are in government, SOAs also have less flexibility in raising capital, and in managing problem employees or rewarding high performers. They may also be subject to restrictive mandates that prevent them from moving into potentially profitable areas in terms of clients or services.

Departments should take these constraints into account when pressured by the private sector to limit the competitive capacity of SOAs, and should lessen constraints where feasible for SOAs which have a legitimate role to play in government and whose competitive activities are linked to a valued public purpose.

Coordination and Consistency within the Department

Issues: *What impact do SOAs have on departmental identity and solidarity? How much risk is there for fragmentation or "balkanization" of the department as a result of the creation of SOAs? Does the SOA concept offer new opportunities for coordination of government activities?*

SOAs are not likely to be disruptive if they are perceived as "special," or if they are small and marginal in the department. If they are perceived as setting a precedent for the rest of the department, if they carry out core departmental activities, or if they constitute a significant portion of the department (as in PWGSC), they may raise concerns, such as the following:

- *Viability of central or corporate services in the department:* If SOAs provide their own central services, how far can departmental corporate services be reduced or devolved without impairing the capacity of the department to coordinate, ensure consistency and provide the types of integrated information needed by the deputy minister and minister? (See the previous discussion on corporate/central services and the section which follows on challenges for departments with several SOAs.)
- *Departmental culture and identity:* How well can the departmental culture and identity be maintained if there are several large units whose primary identification is with themselves rather than with the department? (See the discussion in the next section.)
- *Coordination and management:* Do the different accountability regimes – for the SOA and for other parts of the department – create problems for the deputy minister (or ADM) who is in turn accountable to the minister for both regimes? Can the department absorb the costs (in time, effort) involved in setting up one or more SOAs, and in managing and monitoring them, while still managing the department? What are the implications for regional operations of the department and its SOAs? (See the discussion which follows on challenges for departments with several SOAs.)

- *Fairness and consistency within the department:* Provided costs are recovered, a revolving fund or re-spending authority enables some units to expand their operations. Would such units be favoured over others which also provide important public goods but cannot recover costs? (See discussion on criteria/characteristics of SOAs in Part I.)

Some of the concerns outlined above have been mitigated by the fact that there is increasing convergence between SOAs and other parts of departments, as SOA-type flexibilities are being extended more widely (for example, operating budgets, person/year decontrol, re-spending authority, revolving funds and vote-netting), and as principles akin to both SOAs and PS 2000 (such as delegation of authority, focus on customers, innovation) are implemented more widely.

However, the convergence between SOAs and other parts of government has also led to some disillusionment with, or indifference to, the SOA concept: Why bother to acquire SOA status if some of its principal features are being adopted government-wide and can be obtained regardless of SOA status? The response from those who appreciate the SOA concept, is that it provides a vehicle for organizational change, as well as tools for countering risks to departmental identity and solidarity – that is, the framework document and business plan.

Elaboration of these documents sharpens the SOA's focus on mandate and mission, on goals and objectives, and on strategies for achieving these. If the exercise is carried out in line with the overall mission of the department and in close collaboration with the deputy minister (whose approval for these documents is required), it can in fact create added scope for better coordination and integration of activities with other units in the department.

The SOA concept may also suggest opportunities for better coordination of government activities across departments, such as support services in the regions. For example, the department with the largest human resources management group might provide those services to other departments in the region.

The "Specialness" of the SOA within the Department

Issues: *Does SOA status make SOAs significantly different from other departmental units? In what ways are SOAs treated as "special" within the department? Should the participation expected of an SOA in support of general departmental priorities and initiatives be different from that of other departmental units? For example, how much of the Agency head's time or other resources should an SOA commit to departmental activities? What happens when departmental priorities compromise those of the SOA? What is the status of the SOA head on the management team?*

Factors which over time contribute to making SOAs special include:

- (i) *structural differences:* for example, increased flexibilities, revolving fund and re-spending authority (for agencies which have this), and a specific result-oriented accountability framework; and
- (ii) *cultural changes:* for example, a more entrepreneurial, sharper customer focus.

However, as pointed out above, flexibilities associated with the initial group of SOAs are no longer unique to SOAs – they are available more generally in government without SOA status. There is a sense, within many of the SOAs, that their relationship with their

parent department is not significantly different from that of other departmental units. Charter "contracts" do not appear to alter the relationships with the parent department because they are often one-sided and too limited. Yet there is the expectation, both within the SOA and in the parent department, that an SOA will behave differently and should be evaluated differently than other government units. It is widely felt in the SOA community that expectations that SOAs be special must be matched by departmental adjustments to treat them as special. (See the Conclusion of this paper.)

Where such "specialness" is not understood and respected, walls are created. A recent study of Executive Agencies the U.K. observes that the divergence between Agencies and parent departments is a result of the Agencies' perception of departmental management as a "bureaucratic obstacle," and departmental perception of agencies as "little fortresses following their own aims regardless."²⁸ Strategies recommended for removing that wall include a management advisory board and the interchange of staff between the Agency and the department. Such exchanges would contribute to a mutual understanding of factors critical for the achievement of both departmental and Agency goals, and would also ensure good balance of skills.

The Role of the Agency Head

One of the potential advantages of SOAs is to permit the exercise of effective leadership. Being held accountable for results rather than process and being in charge of an organization with a clearer sense of identity and purpose encourages the Agency head to focus more on leading the SOA and less on playing a corporate role within the public service.

A number of Agency heads have observed that in their participation in departmental management committee meetings, they were perceived to be more autonomous than ADMs. Discussion at such meetings related both to the overall departmental executive management issues and to the results and prospects of the SOAs in relation to their business plan.

Issue: *Should Agency heads continue to be viewed as a corporate resource by the department or should they be left to devote most of their time to the agency?*

While it is important for an SOA to be "plugged in" and know what is going on in the department, this may involve the Agency head and others from the SOA in sitting through discussions of issues which do not concern the SOA.

Where general departmental priorities do not match those of the SOA, having SOA participation in department-wide initiatives may consume time and detract from more central tasks. The cost of such participation is a particular consideration for SOAs which are on cost recovery.

A related issue is whether the performance of SOA heads should be assessed primarily on their ability to lead their organizations to a high level of performance or on their ability to be a departmental "team player."

Issue: *Should Agency heads be "guaranteed"(within reason) sufficient length of tenure to be able to adopt a long-term strategy and provide stable leadership?*

As pointed out above, frequent turnover of Agency heads and deputy ministers has an

obvious effect on continuity in the relationship and makes it difficult for both the SOA head and the deputy to manage far-reaching changes which show results only over a long stretch of time.

Experience has shown, however, that a strong Agency head who has had time to follow through on strategies and really lead his or her agency can withstand a succession of deputies (as has been the case for CCG and the Passport Office).

Implications for Senior Departmental Management

Issue: *How does the hiving off of significant parts of the department into separate agencies affect the role, timetable and power base of the deputy minister and other senior managers?*

While accountability to the deputy minister is retained in the SOA model, increased delegation of flexibilities and authorities means more of an arm's-length arrangement and greater independence from the parent department. This would likely entail a redefinition of roles for senior management in relation to the unit which has become an SOA. In particular, there is likely to be less direct involvement in operational issues and a larger role in overall direction, support and facilitation.

With increased operational and administrative delegation, deputies can spend more time setting out and monitoring the strategic direction and performance of the unit and of the department as a whole.

It is clear that the support of the deputy minister and senior management is critical to the successful implementation and management of an SOA, particularly in relation to negotiating flexibilities and ensuring that central departmental services are supportive.

The time and attention devoted to SOAs by the deputy minister (and minister) depends on the size of department and the SOAs, and how political the SOA's activities are.²⁹ In one department with several SOAs (Public Works and Government Services Canada), communication between the deputy minister and the SOAs occurred through several channels: SOA heads' participation in monthly managers meetings; time spent by the deputy (an hour every few weeks) with SOA management to review current issues; a session (quarterly) with SOAs' senior management on recent developments and their views on issues; meetings with advisory boards (twice a year); and occasional informal contacts.

Participation of Agencies in Policy Formulation

Issues: *Can policy be disentangled from implementation? What role should SOAs play in policy formulation?*

The initial view of Executive Agencies in the U.K. – that these were operational units, functioning independently from centres of departments which were responsible for policy – has been much criticized. The argument was that policies need to take account of the difficulties and complexities of implementation, that policy in fact evolves through implementation, and that implementation itself has a policy dimension. The Canadian SOA initiative too has fumbled around what is now widely perceived as an artificial and potentially dangerous division between policy and operations. Strategies suggested to overcome such a division include bringing the Agency head and key agency staff into regular contact with the deputy minister and departmental staff, and staff exchanges between

the department and the agency.

Challenges for Departments with Several SOAs

Issue: *What are the management and coordination challenges for departments which have several SOAs, or which are considering the SOA concept as a model for overall departmental organization?*

The challenges which an individual SOA might pose for the overall management, coordination and integrity of the parent department are magnified as the number of SOAs in the department increase, as may be the case with PWGSC.³⁰ These challenges are in sharpest focus when the SOA concept is looked to as a model for overall departmental organization. Isolating all the different components of a department's operations may have several far-reaching consequences for ministerial accountability and flexibility. It could increase transparency, for example, by exposing services which may have become non-essential, or operations which are being used simply to pay for other programs and policies. Enhanced transparency also means less flexibility for ministers to interfere in the organization with respect to these operations.

Key issues relate to the following:

- balancing the department's requirements for integration with the SOAs' need for independence;
- managing the relationship between SOAs in a manner which would promote collaborative arrangements and avoid overlap and duplication; and
- managing regional operations in a manner which would enhance both service and accountability.

These issues are of particular concern at PWGSC, where up to 60 percent of the department will consist of SOAs if present candidates for SOA status are approved. Through an "SOAs Implementation Committee" and efforts to reach consensus on operating principles, the department has been trying to develop an integrated approach to SOA development and to the management of individual SOAs within the overall structure of the department.³¹

Integration versus Independence

In principle, tight integration of SOAs within the parent department should facilitate managing and coordinating the operations of the department and the SOAs, and help to eliminate overlap and duplication. However, where SOAs in a department have very diverse service lines or have been operating independently for good reasons for a long time, it may be unrealistic to expect to now manage these as a tightly integrated whole.³² Moreover, SOA status should have reinforced the degree of independence enjoyed (or expected) in delivering these services.

The nature of one SOA's line of business may justify its having greater independence from the corporate centre than another Agency, or its entering into alliances with other entities. While remaining a loosely associated group of common service Agencies, collaboration and alliances can inspire innovative mixes of services and products offered by the different Agencies, as suited to specific projects and business opportunities. Through

co-location or other innovative approaches supported by new technologies, Agencies can cooperate to provide for coordinated service delivery at single points of contact. The emphasis would then be not on a "seamless organization," but on "seamless service delivery" from the perspective of clients.

The challenge for the department is to recognize the differences among Agencies and their need to be more autonomous, while encouraging them to benefit from alliances – to build on commonalities and interdependencies in order to improve performance and service.

Issues: *How might the department encourage and facilitate "seamless service delivery" amongst its SOAs? What role might the department have in monitoring its SOAs collectively for this purpose?*

There is a sense at PWGSC, which has the largest number of SOAs and many service lines, that as many of these service lines have become optional and very competitive, there is a greater need to control and integrate them through a central business group or executive group. Approaches being adopted to promote better coordination and integration of service delivery include the following:

- elaboration of a joint communications strategy for all target audiences, including clients, employees and suppliers at headquarters and in the regions;
- establishment of a Business Advisory Board to provide strategic and business planning advice to the whole department, including SOAs, on product development, client satisfaction, and marketing. The board would be chaired by the deputy minister and would include ADMs, heads of SOAs, and members of PWGSC's Transition Team. Such a board is perceived to be valuable in accommodating the needs of an organization such as PWGSC with its mix of SOA-type business planning practices and standard MYOP and Main Estimates processes. It would also permit major investment proposals to be considered in relation to the overall departmental vision and business strategies.

The underlying assertion in such initiatives is that SOAs continue to be part of the department, that while SOAs may behave differently – in the way they interact with the department, in their emphasis on knowing their clients and markets, etc. – such different behaviour must still be conducted within the departmental framework.³³ The fact that an SOA-like mentality is also being promoted in non-SOA parts of the department as a result of the move to optionality in common services would further facilitate an integrated approach to service delivery in the department.

The aim is to achieve a common corporate direction for marketing, common services, and departmental systems. The approach can be justified not only from the department's perspective but from the clients' perspective as well, particularly in the regions, where a client can obtain integrated delivery of a package of PWGSC services – such as accommodation, telecommunications, and other locally shared services.

Relationship between SOAs

A major concern in establishing SOAs relates to possible "balkanization" of the department: that service centres would operate in isolation from each other, resulting in weakened overall coordination, duplication, and confused accountability – all of which would lead to negative repercussions on service. Such a negative development can be countered by (i) promoting collaboration among the SOAs, and (ii) avoiding overlap and

duplication through an integrated departmental approach to service delivery, as discussed above. Key features of the SOA concept can contribute to these efforts – in particular, entrepreneurship and the focus on service and performance.

Collaboration/Business Alliances

Strategic alliances amongst the SOAs of a department, or between SOAs and other parts of the department (as well as with other government and non-government organizations) can contribute to integrated, cost-effective approaches to service delivery. Such alliances can open the door to "comprehensive turn-key solutions" to meet complex client requirements. They can inspire innovative service mixes for specific projects and business opportunities, and provide for single points of contact for coordinated service delivery.

Through collaboration amongst themselves, SOAs can contribute to reducing costs and to the pursuit of common business opportunities. They can share costs in developing new products, or participate in joint ventures to address specific business opportunities or projects, with fee sharing and reciprocal incentives and guarantees. Through strategic alliances they can mitigate problems with shrinking markets or skills availability, coordinate operations, prevent internal competition and pricing problems, and obtain "maximum leverage out of complementary competencies."³⁴

A focus on clients would encourage the alignment of SOAs and the department around the requirements of major clients, for example, by co-locating department staff with agency staff, where justifiable. Approaches identified at PWGSC to support internal collaborative arrangements and business alliances include the following:

- Service delivery based on customer preference
- Use of preferred suppliers
- Market-based charging
- Joint investment in new products
- Better coordination of national and regional operations.

Avoidance of Overlap and Duplication

SOAs must strive to eliminate service overlap, ensure clear accountability for service delivery, avoid confusion for clients, and achieve efficiency of operations. This requires effective communication, internally and with suppliers and clients, and systematic monitoring, by both the SOA and the parent department, to identify areas of overlap and duplication.

Approaches need to be tailored to address specific problems of overlap – for example, where two SOAs offer services which sometimes overlap or are in competition with each other, as in the case of Realty Services and Architectural Services at PWGSC, each of which offers services related to the life cycle management of facilities. Strategies suggested in such instances include the following: a mutually agreed-upon "broker" to direct work to the proper expertise area; integration of the service into one of the organizations; or assigning a single manager.³⁵

Managing Regional Operations

There are two basic options in configuring SOAs in departments which have a

number of SOAs: (i) on the basis of location with a series of regional SOAs, each with its regional Agency head and delivering a range of services to local customers; or (ii) on the basis of service.

The former arrangement would present particular challenges in managing the whole of the department. The latter approach may be preferred because it facilitates focusing on a single mission, developing specific performance standards and targets, consistent national standards, and effective sharing of skills and knowledge across the country within particular service areas.

A major drawback of the latter approach is that it may inhibit cross-fertilization between different services and may complicate the client interface at the regional level. However, cross-fertilization can still be obtained informally and the business service centre approach can be used to provide a common initial contact point for clients who can then be referred to the appropriate service. Another drawback is that it leaves the regional director general (RDG) playing the role of coordinator but with very little line authority and hence little accountability. The RDG becomes, in effect, the deputy minister's representative in the region.

Overall Role of Department in Relation to Its SOAs

Issues: *What is the ideal functional relationship between an SOA and the parent department? To what extent should departmental officials have direct authority over the SOA? Should the ongoing departmental role be limited to the provision of support services?*

In line with the SOA concept, the role of the department would be to support greater autonomy/authority for the SOA, to contribute to improved service and performance in a hands-off manner, and to ensure an adequate accountability regime.

Appropriate roles identified for one department in relation to its SOAs include the following.³⁶

- to ensure continued validity of the policy regime under which the SOA has been tasked to deliver services, as set out in the Agency's framework document;
- to provide functional support to the level of service required by, and at a price acceptable to, the SOA; if the latter conditions are not satisfied, to reduce the Agency head's accountability for performance accordingly;
- to evaluate the effectiveness of the Agency from time to time, to ensure that government policy objectives, as reflected in the framework document, are being achieved;

- to ensure a written accountability agreement, to account for all targets set out in the business plan; and regularly (four times a year) review the business plan and accountability arrangements to ensure that all variances are diagnosed and prescriptions are adopted for future periods to avoid surprises at year's end;
- to relieve the agency of all significant process reporting beyond the annual business plan and annual report, and improving procedures with regard to the latter if needed.

Part III: Overall Results and Opportunities for Strengthening the SOA Initiative³⁷

Improving Service

Most SOAs report a greater focus on service, reflected in a range of activities geared to making staff and services more responsive to users' needs – for example, customer focus groups, total quality management initiatives, and user representation on advisory boards.

While it is widely held that SOA status contributes to improved service, the evidence to date to support this assessment has been mostly anecdotal rather than in the form of hard data. Parent departments and central agencies, which have a significant role in establishing overall strategy and giving direction to the business planning process of SOAs, can encourage SOAs to use client surveys and other means to measure service improvement more regularly and systematically.

On the negative side, departments have reported instances where the existence of SOAs has led to difficulties in coordinating service delivery and marketing; and other instances, particularly in the area of common services, where they felt they were losing collective coherence and control.³⁸ A departmental focus on economies of scale and protecting staff in functional groups has in some instances undermined the use of the SOA concept for strengthening a service orientation and for finding the most cost-effective option on a service-by-service basis. Strategies adopted or suggested for SOAs and departments to manage such risks include a stronger customer orientation and optionality for common services.

Lower Operational Costs, Better Productivity

Most SOAs claim that SOA status has made them more aware of the costs of their activities. However, the recent stock-taking of SOAs did not find concrete evidence for the initial group of SOAs to indicate that SOA status was accompanied by reduced operating costs or gains in productivity. It was recommended that SOAs take measures to track efficiency and productivity, and that such information be used to improve performance.

Hindrances to more cost-effective operations and greater productivity for departments in relation to their SOAs include internal competition and duplication of corporate services. Strategies adopted or suggested to overcome these hindrances include renewed emphasis on service and on clear mandates, a degree of centralization, and making visible (and thereby unacceptable if inappropriate) the overhead costs of corporate/central services and staff functions in parent departments.³⁹

Opportunities for Strengthening the SOA Initiative from the Perspective of Parent Departments and Central Agencies

Clarifying the Rationale

There is a lack of clarity both in central agencies and in departments regarding the policy expectations, objectives and time-frame for the SOA initiative. There is also inadequate recognition of the different types of SOAs. This has led to ambiguity over which

outcomes/outputs expected of SOAs should have priority, and difficulty in articulating these in the SOA's "contract."

Central agencies are being called upon to clarify and communicate the present rationale for the initiative, to recognize the diversity of SOAs and to adjust expectations of outcomes/outputs accordingly, and to better integrate the initiative in the government's broader reform agenda. This would enhance the selection process, the implementation process, and the monitoring and evaluation of SOAs.

Departments have a direct role in the specific application of the SOA concept and rationale, as they negotiate and approve framework documents and business plans. The department's responsibility is to ensure that these instruments are used to advantage, and that they are respected and binding on all parties.

Departments also need to consider the implications of SOAs for departmental structures and processes, and to adapt these, where warranted, to ensure that the SOA connects well to departmental and government-wide systems, while maximizing benefits from the SOA concept.

Strengthening the Set-up Process

A closed and bureaucratic process for setting up SOAs is likely to overlook the interests of some important stakeholders and to be costly to candidates. There is a risk that the interests of these stakeholders will not be represented in the formulation of the vision and goals of the SOA, and that they will therefore not lend their support to the SOA.

Strategies suggested for managing these risks include the following:

- informally or formally open up the set-up process to stakeholders in order to build greater acceptance and support, in particular, with respect to the negotiation of Charter documents and business plans;
- improve criteria for determining which government activities would most benefit from becoming an SOA; and
- define and package essential core flexibilities to reduce the need for detailed bureaucratic negotiations with corporate staffs in relation to each flexibility, thereby reducing set-up costs.⁴⁰

Providing a Focal Point for Consistent Support and Advice

A central focal point (or "champion") for the SOA initiative would:

- give impetus and direction to the initiative, and assure better coordination and advocacy;
- provide a forum for stakeholder input, thereby helping build acceptance and trust;
- play a role in screening SOA applications, ongoing monitoring and evaluation;

- facilitate learning and the resolution of problems.

Parent departments may at times be reluctant or have a conflict of interest in solving unique SOA issues. SOAs need to have recourse to a strong neutral third party for advice and support in challenging departmental prerogatives. Deputy ministers also need support and could benefit from a central focal point which provides continuity and expert advice to help assess the wisdom of Agency heads' proposals and their use of discretion. In addition, central agencies (in particular, Treasury Board) can support SOAs by providing guidelines on appropriate accounting principles and systems, and specifying a framework for public reporting.

Strengthening Political Support

The limited political support which SOAs have had – as a result of the marginal scope of the initiative and lack of awareness in departments – has meant more difficulty for SOAs, both during the transition process and when faced with difficult issues or pressures from external stakeholders (for instance, regarding competition). It is important to link the SOA initiative to the overall public sector renewal agenda in order to validate its purpose and help overcome the challenges of transition to SOA status.

Clearer Focus, Direction and Accountability

SOA heads state that they have been able to use business plans to provide better focus and direction within individual Agencies. However, they have pointed to a number of impediments:

- Present arrangements allow departments to withdraw previously granted authority and discretion too easily and arbitrarily, thereby undermining the plans, progress and credibility of the Agencies.
 - Reversion to traditional "command and control" patterns has occurred when an Agency head or deputy minister changed, and support has wavered when dissatisfied stakeholders (competitors or unions) exerted pressure at the political level.
 - Too brief an interface time between SOA heads and deputy ministers has undermined the capacity to build trust, which is a key factor in the accountability relationship.
 - The respective responsibilities of Agency heads and deputy ministers need to be clarified. SOA agreements focus primarily on responsibilities of the Agency head, and even there, incompletely. These agreements have not significantly changed the way parent departments think of their relationships with SOAs as compared with other departmental units.
-
- There are gaps in accountability arrangements, including an inadequate flow of information and the absence of clear measurable goals, both at the departmental and central agency level at the time of approval of the framework documents. This undermines the capacity for meaningful subsequent monitoring.

Suggested strategies to improve focus, direction and accountability include the following:

- Establish the boundaries of authority (that is, guidelines for the conduct of functional responsibility in departments, and articulation of an irreducible core of acceptable behaviours and practices for SOAs).
- Clarify the respective responsibilities of Agency heads and deputy ministers, and match these responsibilities with appropriate authority and discretion. The clearly delineated responsibilities can be entrenched if published in the contract (Charter documents and business plans) and signed by the minister, and/or articulated in a policy statement or legislation.
- Ensure more stability in the SOA head's position. Security of the Agency head's position can be enhanced by adapting the selection process (such as using public competition, or specified term appointments) as well as the appraisal, transfer and dismissal processes.
- Make more consistent use of external advice through "neutral" or representative advisory boards, which represent the interests of various stakeholders. Such boards can act to maintain perspective and widen support for flexibilities deemed to be critical to the viability of SOAs.
- Establish clear, concrete performance objectives and improvement priorities and include them in Agency charters. This would make clear what is expected and how fast. Agency performance would then be measured in relation to established goals and priorities.

Conclusion

An SOA's relationship with its parent department is characterized by a dynamic tension between different sets of requirements and incentives which need to be balanced if the principal purposes of the initiative are to be advanced. On the one hand, there are the SOA's requirements for a degree of independence from the department in order to better position itself for greater efficiency and client-focused service delivery. On the other, there are the department's requirements for accountability and for continued commitment of all its units to overall departmental policies and priorities.

The greater autonomy initially negotiated and promised to SOAs has in some instances turned out to be highly conditional and vulnerable when confronted by the resurfacing of traditional constraints from parent departments. The fact remains that SOAs continue to be part of their parent departments, and that they are also likely to continue to be subjected to most government-wide actions and policies. While recognizing the limitations of the SOA concept, departments and central agencies need to focus on the opportunities the concept affords for pushing the limits of management flexibility in government.

A principal purpose generally perceived to be behind the SOA initiative is to improve service and performance in departmental units by fostering a transition to both increased autonomy and results-based accountability. The roles of central agencies and parent departments are to set the legislative and policy frameworks and strategic direction for the Agencies, and to ensure that appropriate arrangements are in place for reporting and monitoring results. At the same time, they are called upon to "empower" the Agencies – to give them greater latitude to manage their processes and operations and to contribute to policy formulation in order to attain the identified goals and results.

Increased latitude for SOAs implies acceptance by central agencies and deputy ministers of a degree of differentiation among different parts of departments. There has in fact been an expectation (from central agencies, parent departments and SOAs themselves) that SOAs should behave differently than other departmental units. The expectation of "special" behaviour for SOAs may be based on concrete flexibilities which have materialized as a result of SOA status, or simply as a result of the impetus provided by SOA status for bringing together, highlighting and "packaging" flexibilities and attitudes which may already be available to non-SOA parts of government in a more fragmented manner. Though many SOA-type flexibilities in themselves may no longer be unique, the SOA concept (or label) continues to provide a unique vehicle for change to occur incrementally.

In supporting the implementation of SOAs as a vehicle for organizational change, central agencies and departments should be guided by the three basic elements of the SOA approach – to encourage SOA status for those units whose overall performance and ability to achieve results would be enhanced by such status; to make possible greater autonomy by offering exemption from administrative rules and external involvement; and to develop performance agreements and ensure accountability for results.
