SPECIAL OPERATING AGENCIES: BUSINESS PLANS AND ANNUAL REPORTS

Doreen Wilson

CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

CENTRE CANADIEN DE GESTION

CONSULTING AND AUDIT CANADA

CONSEILS ET VÉRIFICATION CANADA

A Word From CCMD

This paper is the fourth 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 the Canadian Centre for Management Development (CCMD) and Consulting and Audit Canada (CAC) 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 chief executive officers 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.

CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

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 are grateful to David Wright of Consulting and Audit Canada and to Graeme Waymark for their important contribution to this series of publications, and especially wish to thank Doreen Wilson, formerly of Consulting and Audit Canada, for preparing this paper on *Business Plans and Annual Reports*.

Janet R. Smith
Principal

Ralph Heintzman
Vice-Principal, Research

List of SOA Issue Papers

This is the fourth 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: David Wright, Principal Consultant, Consulting and Audit Canada, who may be reached at (613) 995-8572.

CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

Table of Contents

CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

Executive Summary

This paper examines the role of the business plan and annual report within the Special Operating Agency (SOA) initiative. The analysis is based on interviews carried out with Agency heads and other individuals involved in the initiative.

Along with the charter, these two documents are the formal requirements for an SOA: new accountability arrangements are stated in the charter; the organization's strategic direction is articulated in the business plan; and results are reported in the annual report. The documents are intended to replace the standard accountability processes and documents, such as departmental delegation of authorities, personal accountability accords and Main Estimates documentation. However, interviews suggest that the business plan and annual report have failed to do this effectively, and that SOAs have continued to respond to both sets of requirements. In addition to increasing the administrative burden within Agencies, this requirement sets up a "twin track" of accountability, resulting in duplication and some confusion. For most Agencies, the standard departmental arrangements and personal accountability accords are given more weight than the Agency business plan.

The paper then compares the Canadian experience with business plans and annual reports with the British experience, where business plans, targets and annual reports have become the predominant accountability documents within the national government. The report suggests that the momentum and scope of the British Next Steps program have had a great deal to do with the acceptance of business plans. More important, many new and far-reaching authorities have been devolved to Agencies, making their charters much more meaningful and challenging than their Canadian counterparts. In Canada, the acceptance of transitional business plans has perhaps allowed for a less rigorous plan for Agencies in their first year. In contrast, Britain insists on a completely developed business plan before the Agency is granted formal status.

The paper recommends that the role of charters be clarified and strengthened, with significant authorities being devolved to the Agency. In turn, the Agency must be held accountable for a rigorous business plan, including challenging targets, and must report formally on progress.

Finally, a few general tips are given on the "how to" of business plans and annual reports, which include the leadership role of the Agency head and the importance of winning departmental support and involving staff.

1. Introduction

Three documents − the charter, business plan and annual report − play a prominent role in all official descriptions of how to implement Special Operating Agency (SOA) status. Senior levels of government, even those still ambivalent about the initiative itself, express a great deal of support and interest in two of these documents: business plans and, to a lesser degree, annual reports. Recently, the concept of government operating in a more business-like way, expressed through a business plan, has become a central tenet of many Western governments. Moreover, over the past decade, managerialism − the belief that more emphasis must be placed on managing for results − has caught the imagination of those trying to reform the public sector and has intensified interest in organizational forms which promote results-based accountability.

Although business plans are central to the philosophy and requirements of SOAs, many within the SOA reform process have been disappointed with the actual impact of these documents. Many of those from within Agencies wonder if they have the requisite planning skills: they look for a model to follow, wish business plans were not so time-consuming, and grapple with identifying the "right" resources to involve in the plan's production. Those at senior departmental levels wish to see the plans on an annual basis; yet they seem uncertain about where these documents fit in the bureaucratic lexicon, and appear somewhat disappointed with the plans produced to date. Views expressed on both sides − by both senior departmental management and those within SOAs − can be compared to an oft-repeated opinion on art: "I may not know much about art (business planning), but I'll know a good painting (business plan) when I see one."

This paper examines the role that business plans and annual reports were ideally meant to play, both in entrenching "special accountability" arrangements and as strategic direction setters, and compares that intended role with the role they appear to be playing, based on interviews conducted within the SOA community. A comparison is made with the roles of business plans and annual reports in the British Next Steps program, which has been closely linked to the creation of SOAs in Canada. The paper suggests that there is a "twin track" of accountability, and that SOA documents have been unable to supplant the standard accountability instruments which apply to everyone else. The paper then makes some recommendations on how these two documents might play a more effective role in future. Finally, a few "best practices" for business planning are offered as practical advice.

The paper is based on official SOA documentation; on interviews carried out for the collaborative stocktaking directed by the Office of the Auditor General; and on the author's experience of public sector business planning. It should be noted that the paper focuses on business plans simply because there is much more information and discussion on these than there is on annual reports, and also because effective business plans precede annual reports, both in the accountability loop and in setting strategic direction. Furthermore, although there

are both Chief Executive Officers and Chief Operating Officers heading SOAs, the paper has used the term CEO to denote any Agency head.

II.   The "Ideal" Role of SOA Documents

Special Operating Agency documents include a charter (also known as a framework document), a three-to-five-year business plan, and an annual report. The purpose of each is discussed below.

The Charter, or Framework Document

A separate issue paper dealing with accountability discusses the role of the charter in greater detail than may be found in this paper. The role of the business plan must, however, be put in context, and since its role and that of the charter are tightly linked, the charter's role in preceding the business plan is examined in some detail.

The Treasury Board document *Becoming a Special Operating Agency* describes the SOA charter document as follows:

> The **framework document** represents the Agency's "constitution" or "operating charter."...Framework documents spell out how the Agency management will be held accountable for results as well as how often (and in what form) they will report to the parent department...the Board focuses particularly on two elements – the guiding principles on which the SOA will be judged...and the managerial flexibilities that are required to do the job. In the final analysis, framework agreements are intended to provide a basis for stability.[1]

The charter, therefore, sets out the particular framework within which the SOA operates, as distinguished from the normal public sector framework, and underlines the "special" nature of the SOA.

The Business Plan

If the charter is meant to establish an operating framework, the business plan articulates how the Agency intends to use its special flexibilities to advantage. It plays two key roles in the SOA model:

(i)   setting the long-term strategic direction; and
(ii)   establishing a yearly basis for accountability.

As described in *Becoming a Special Operating Agency*, the business plan's main purposes are to:

- ensure better management of the SOA;
- establish the operational and financial targets for the coming year; and

- define what the Agency needs from its department and from Treasury Board in terms of mandate, resources and authorities.

The plan should also clearly indicate in business terms where the SOA is going over the next five years, how it intends to get there, and how it will measure progress.

> The first SOA business plan is submitted to the Treasury Board at the same time as the framework document that establishes the Agency. Thereafter, business plans are submitted annually....[2]

Although the primary purpose of the business plan appears to be its strategic role − setting the long-term direction − it is impossible to divorce this objective from its accountability role. As stated in the Treasury Board document:

> ...the business plan represents a detailed performance contract between the department and SOA management that is renewed annually. In submitting the plan, the Chief Operating Officer of the SOA is committing to be held accountable for the achievement of specific objectives and performance levels. In approving the plan, the Minister is agreeing to allow Agency management to pursue the broad direction and strategies in the plan, within the freedoms set out in the framework document.[3]

In Canada, the business planning cycle has been established as a rolling three-to-five year process. Although the charter is freely available, most business plans are treated as confidential documents.
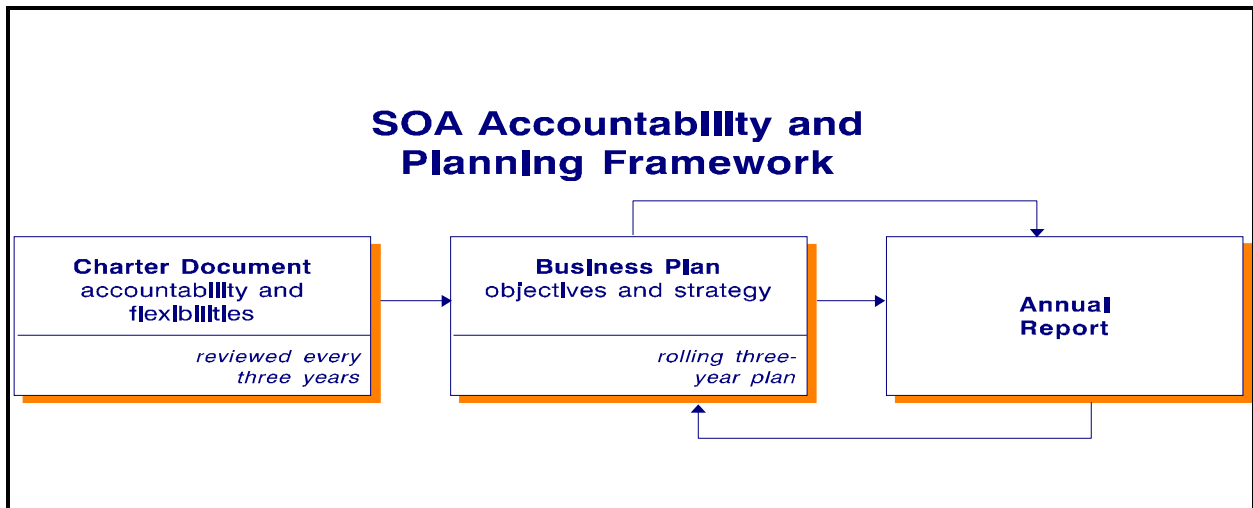
The Annual Report

Little mention is made of the annual report in Treasury Board's guides and papers on SOAs. The role of the annual report is primarily within the accountability process, although it can and should also play a strategic role. As the Agency reports against its strategic objectives, the analysis of the annual reports over time inevitably influences the direction of subsequent years in the Agency. The Treasury Board paper does, however, discuss the role of the annual report in one of its annexes:

> The accountability "loop" is closed through an Annual Report. This is a separate document, provided within three months of the end of the SOA's fiscal year. The annual report should contain an update on performance since the last report, year-to-date results at the time of the report and revised year-end projections. The report should also detail service performance indicators (both quantitative and qualitative) and indicators of financial results.[4]

Summary

The ideal roles of the SOA documents can best be summarized in the following diagram:

Figure 1

SOA Accountability and Planning Framework

Charter Document accountability and flexiblities	Business Plan objectives and strategy	Annual Report
reviewed every three years	rolling three-year plan	

II. The Actual Role of SOA Documents (and Their Counterparts)

In this section, the actual role being played by the SOA documents is examined on the basis of information obtained through interviews with SOA executives and departmental officials. All SOAs continue to produce the documents, and most feel they play a valuable role. However, there is an increasing number of complaints about the added administrative burden these documents create, and some questions have been raised concerning their effectiveness.

The Charter

Since the charter establishes the operating framework for the Agency and sets the "tone" for subsequent years, it is worth examining some current perceptions of the charter.

Only the initial five Agencies have been established long enough to have gone through the process of renewing their charter documents. There were some complaints about the usefulness of this renewal exercise, since few extra authorities were either sought or given. One exception was the Canada Communications Group (CCG), which has been given the authority by Treasury Board to become a separate employer. Some Agencies have sought and won extra authorities outside the charter process (for example, the right to compete with the private sector on tenders was sought in a joint submission by CCG and Consulting and Audit Canada (CAC), and subsequently granted), while others have been unsuccessful in their additional requests.

A further recent development, highlighted in the interviews, is that "special" authorities given to the initial Agencies are now available to all government departments regardless of SOA status (such as single operating budgets). Many of the interviewees were hard pressed to define what special flexibilities set their Agency apart from the rest of the department.

It would appear that most of the charter documents have not established an operating framework powerful enough to permit the heads of Agencies to exercise significant authorities. It also appears uncertain whether this reflects the reluctance of departments to give meaningful authorities, or the reluctance of Agency heads either to exercise the authorities they do have or to delegate these authorities further down the organization. Most likely, it is a combination of all these factors. The majority of interviewees commented that Treasury Board was the most generous in delegating authorities to fledgling SOAs, while the departments proved to be more reluctant to devolve authorities and more difficult in negotiations. It should be noted, however, that, unlike its British counterpart (discussed in a later section), the Canadian federal government is bound by several pieces of legislation, such as the *Public Service Employment Act*, limiting the authorities which can be delegated to an Agency.

Departmental Operating Framework

Public sector organizations the world over are noted for their strong adherence to stringent policies, policies which have been put in place both for reasons of probity and for political risk-management. The Canadian federal government is no exception: each department operates within a set operating framework which is built on legislation and regulations, as well as on policy. A characteristic feature of traditional government bureaucracies is a monolithic approach to management and rule setting. Exceptions are discouraged and the public sector is viewed as one organizational entity.

In a recent publication, Sir Peter Kemp, the first project manager of the Next Steps team, warned of the danger of this approach:

> [There is] a trap which has bedeviled all attempts at discussing reform sensibly: that is subscribing to the myth of the monolithic civil service. The "civil service," as we call it, is in fact an extraordinarily complex and variegated institution encompassing not one organisation but many. It is the failure to appreciate this which leads so many people and reform initiatives astray.[5]

He continued by recommending the breakdown of the monolith into a federation of smaller Agencies, while maintaining the classic virtues of the civil service, such as impartiality, integrity, merit and accountability.

This view is supported by some of those interviewed who claimed that one of the strongest arguments for SOAs is the very diversity of the public sector. SOAs have attempted to break the monolithic mould by setting their own unique operating framework within their respective charters.

The most common question from outside observers of the reform effort is to ask what makes an SOA special: "What can you do as an SOA that you couldn't do as part of a traditional departmental unit?" One of the tenets of the Agency initiative is that the nominated unit will negotiate special authorities suited to its clients and services, authorities which will set it apart from the normal departmental operating framework and allow it to better serve its clients and mandate. Anecdotal evidence indicates, however, that this has proved extremely difficult to effect in practice. Typical comments include:

> *"The department was resistant (to our requests), holding on to their authorities";*

> *"Agencies were conservative in their requests for flexibilities";*

"The flexibilities given at the beginning were special, but soon the rest of the department was given the same authorities";

"We still get the same treatment from departments."

These comments suggest that the charter documents have not created a separate, stable operating framework in which Agencies operate at arm's length from their parent department. It appears that the departmental operating framework still holds dominion, and that management of SOAs within departments is remarkably similar to the management of other organizational units. For example, many are looking for an ideal model to follow in preparing business plans, but this flies in the face of the principles behind a good business plan which ought to be a well-thought-out document based both on the needs of a particular client group and on specific management decisions.

The Business Plan

It is evident from an analysis of the interviews conducted with SOA chief executives and senior departmental officials that business plans did not figure predominantly in any discussion; yet the substance of most answers centred on strategic issues (where the Agency head saw the organization in five years' time, client concerns, revenue projections etc.), issues that are commonly found in organizational business plans. It would appear, therefore, that even if the business plan has not yet played a significant role in Agencies, the heads of Agencies have successfully changed their thinking from a bureaucratic mindset to one that is strategic and "business-like."

A business plan serves two purposes: one to set strategic direction, and the other to be an accountability document. Both objectives are inextricably linked when the plan is serving the purpose for which it is intended. If the CEO is held to account for the goals outlined in the plan, the plan will tend to be rigorous and well thought-out. If the business plan is not used by the department in an accountability function, then the strategic direction for the Agency will be established elsewhere. Interviews with CEOs and DMs indicate that the business plan is failing in both roles. The senior managers are disappointed with the quality of planning by Agencies, and the Agencies themselves are frustrated by the lack of attention paid to their plans.

Within this process, the Agency must attempt to win the support of the department for its plans and targets. This can be difficult and time-consuming, especially if the Agency must ask for support for potentially controversial or politically sensitive decisions (such as competition with the private sector, or closing a regional office).

The following are some of the comments about business plans gathered during the interviews. [At the time the research was done, there was still a requirement to produce MYOPs, Multi-Year Operational Plans.]

"MYOP still dominates − Business plans are marginal";[6]

"We have a lack of resource tools to do business planning";

"...decisions are being taken not on the business plan, which was the intention of it, but on the MYOPs, and the argument is that we're getting the worst of both worlds";

"The MYOP process means absolutely nothing to an SOA, but we are still expected, because we fall into a departmental framework, to support the process...regardless of how meaningless it is";

"[our] indicators and targets [are] not developed yet";

"I don't think there's very much wrong with the framework at all. I think the problem is with the business plan...";

"Business plans are not really the dynamic accountability instruments they should be."

Only a few comments about the business planning process were positive:

"[I] started implementing the business plan the same day it was approved...the staff realize they now have to deliver";

"...business planning was given new impetus under the SOA."

It should also be noted that the approval of an Agency's business plan, in addition to providing advice, is one of the proposed roles of an SOA management advisory board. However, very few individuals spoke of this role in conjunction with their boards, although one in particular did speak of the valuable assistance received from the board in shaping and endorsing the business plan. The boards of a few Agencies have been asked to play an active role in the business planning process, but this is still far from an official approval process, such as the British have, where the chairman of the advisory board is responsible for submitting the business plan to the relevant minister, with the board's approval.

It appears, therefore, that the chief problems with SOA business plans stem from three factors:

(i)   its transitional nature during the Agency's first year of operations;
(ii)   a lack of targets and indicators;
(iii)   the twin track of accountability documents.

Transitional Business Plan

Although not formally documented by Treasury Board, it was accepted from the start that, in the interest of time and momentum, the first Agency business plan would be transitional. The transitional business plan would articulate all the activities required by the Agency for its first "real" year of operations, usually including the development of performance indicators and targets. This is the only plan that must have Treasury Board approval; subsequent plans are produced for departmental approval only. As a result, the initial plans for each Agency have tended to be strategic in nature, with little operational detail; as such, they do not provide a good model for business plans in subsequent years. This process has had negative consequences in that many Agencies have tended to stall in a transitional mode, with no one demanding more rigour from subsequent plans.

Targets and Indicators

The same trap appears to have hampered the development of meaningful targets and performance indicators in most Agencies. When compared to the primacy of targets in the U.K. Executive Agency initiative, and when contrasted with the purpose of targets as outlined in SOA literature, there appears to be a wide gap between the intended role of targets and the role they actually play. In analyzing the current thinking and experience in developing targets for government service delivery, it becomes clear that this process is one of the most difficult and time-consuming elements of civil service reform. No government has a formula for easy and meaningful target development, although many governments look to the British experience for guidance.

Government business plans can centre on setting the Agency's targets for next year, and then document how the Agency intends to meet them. For the Canadian SOA initiative, it is evident that until the targets are demanded as the primary accountability measure, their development will necessarily be at a standstill.

Twin Track of Accountability Documents

The majority of Agency heads spoke of the necessity of duplicating the "reporting burden." Thus, rather than replacing the normal departmental procedures and documents, the business plan appears to be a supplement to them, with the result that Agencies, pressed for time and resources, have chosen to devote most of their efforts to the document accorded the greatest importance in the system. For most Agencies, this has been an accountability accord

between the CEO and the DM, and the Main Estimates and Public Accounts documentation. The business plan, therefore, has tended to be produced as an addendum. One CEO spoke of producing an annual business plan only to satisfy the charter document requirement. Not surprisingly, most business plans have been marginal projects.

At the time this study was conducted, the MYOP (Multi-Year Operational Plan) was still a requirement for all departments and agencies, including SOAs. As part of the new Expenditure Management System, the MYOP requirement has now been eliminated.

In the interviews with SOA officials, a number of comments were made about the MYOP and about personal accountability accords, as follows:

> *"At one point we tried to get out of [the MYOP] and naturally...you still have to feed to all the government, Treasury Board documents...Yes, it's more work because you're doing everything twice";*

> *"Our management contract is the accountability accord";*

> *"Accountability basically rests on the accountability accord between the CEO and the DM";*

> *"[we are] in the situation where, in addition to [our] framework document, and the business plan and the annual reports, [we] are also required to input and participate in MYOPs and the like."*

The business plans were meant in part to replace the contributions of SOAs to the MYOP process, but this did not occur. One reason may have been the lack of financial detail and rigour in some Agency business plans. Another important reason was the need to reconcile the SOA accounting systems with those of the government more generally. For example, even for SOAs with revolving funds, any change in the "bottom line" of a revolving fund must be taken into account in determining the state of the Operating Reserve which is managed by Treasury Board. Even though the MYOP has now been abolished, this is still a requirement which must be met in the fall review of the Main Estimates. For SOAs which are still partly or completely dependent on appropriations as their source of funding, the Main Estimates process will continue to be crucial. (For further information on this point, please see the paper *Special Operating Agencies: Financial Issues*.)

The personal accountability accords established with Agency heads are based on the same accords that the DMs or assistant deputy ministers (ADMs) established with each subordinate reporting to them. The accords apparently focus on organizational goals, which

also are likely to appear in the Agency business plan, but they establish individual goals for the CEOs as well. This raises issues of transparency and accountability. The business plan is meant to be produced as an organizational effort, with the CEO taking the lead but involving staff, so that the Agency as a whole is aware of the goals and committed to achieving them. The accountability accord, however, is meant to be a confidential document produced largely between the subordinate and reporting officer. Although the organizational goals established in the accord may involve staff input, or may be widely disseminated once agreed, the basis of the accord remains a personal, non-transparent affair. Moreover, many accountability issues are dealt with in the annual performance appraisal, with little feedback to the organization's staff on the consequences of their performance.

The Annual Report

Only one or two of those interviewed mentioned preparing annual reports, and very few SOAs have prepared them on a regular basis. As no official body (such as Parliament) demands the annual report, it would appear to be a low priority for DMs and ADMs with Agency responsibility. A few SOAs mentioned the value of an annual report in marketing their business to external clients, but its role in accountability reporting appears to be minimal. One or two questioned the wisdom of producing an "expensive glossy" document which serves no apparent purpose.

Since few targets are established by SOAs in their business plan, there is seemingly little need to report on performance against targets in an annual report. It would appear that the Agencies that have gone the furthest with target setting and financial forecasting are among the ones that publish an annual report.

The Departmental Performance Appraisal System

The accountability loop in an SOA still appears to rest with the normal performance appraisal process between the Agency head and his or her superior (DM or ADM). Although some CEOs spoke of having to report against their business plan, most of their meetings with the DMs centred on performance against their accountability accord, usually a mixture of individual and organizational goals.

The performance appraisal system is a familiar, recognized tool for accountability in government, which apparently continues to be used in a "normal" way (that is, based on individual accountability accords rather than on Agency business plans and targets).
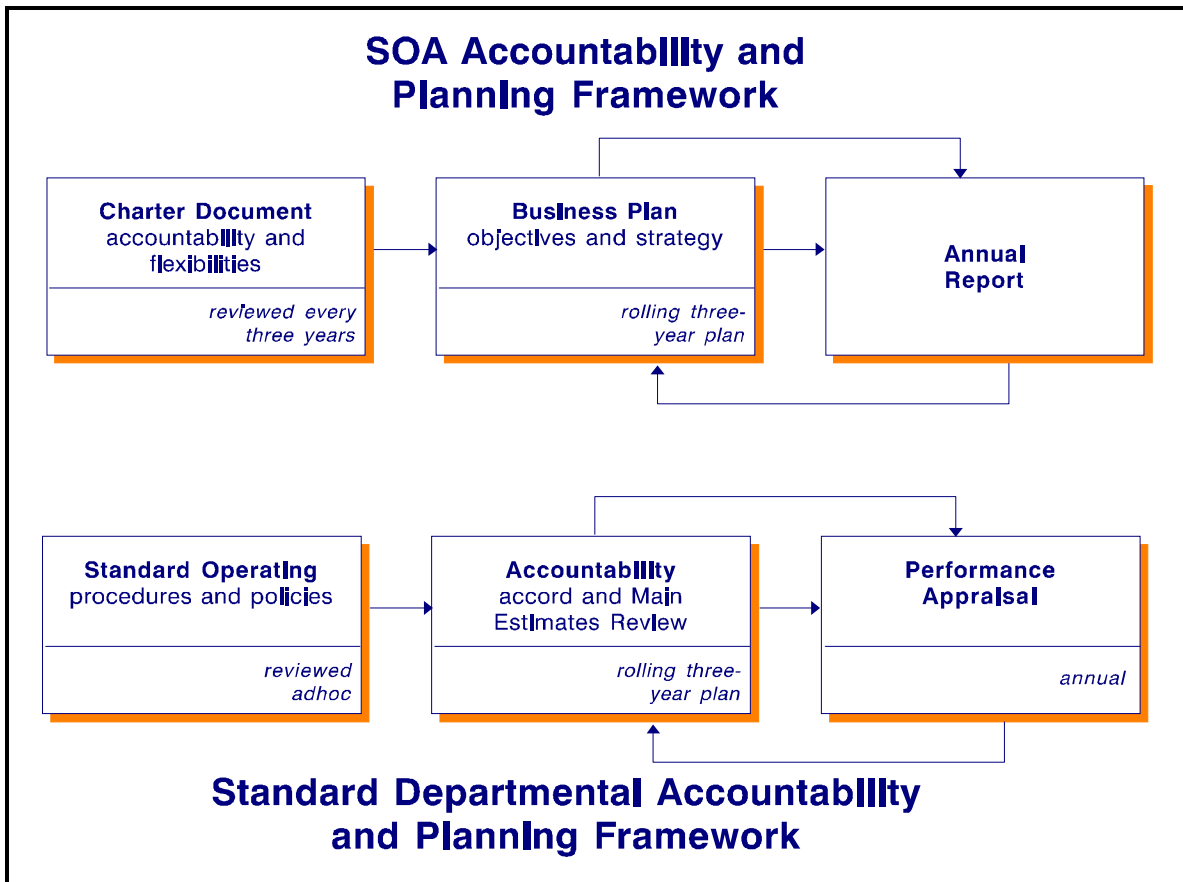
According to one SOA head:

"Nothing has changed...we don't have a contract...we do have a contract in terms of performance appraisal, the performance appraisal system, [but] we do not have a performance contract of any type."

Summary

It seems evident from the interviews conducted that the SOA documents have not replaced their departmental equivalents in the way that was intended. As a result, instead of producing a unique set of documents which is recognized and respected in the bureaucracy and which forms the basis for treating the Agency in a manner set apart from the norm, the SOA must instead produce a more marginal, duplicate set of documents, thus establishing a "twin track" of accountability. The Agencies appear to have accepted that only one of these "tracks" is real and therefore put most of their effort into pursuing that track. For a few Agencies – although they are the exception – this has meant the charter and the business plan; for the majority, this has meant the standard accountability loop, as outlined in the following diagram.

Figure 2

SOA Accountability and Planning Framework

Charter Document accountability and flexibilities	Business Plan objectives and strategy	Annual Report
reviewed every three years	*rolling three-year plan*	

Standard Operating procedures and policies	Accountability accord and Main Estimates Review	Performance Appraisal
reviewed adhoc	*rolling three-year plan*	*annual*

Standard Departmental Accountability and Planning Framework

Until the SOA track of accountability gains acceptance in government's lexicon of recognized accountability arrangements, it would appear unlikely that it will be successful in replacing the normal departmental arrangement. As yet, the departments have little reason to take up the burden of accepting and dealing with two sets of inputs (one from the majority of the department, and a separate arrangement with SOAs). Therefore, the duplication burden has fallen to the Agencies, with only one accountability track having any consequences.

IV. A Comparison with the United Kingdom

The genesis of the SOA initiative is often linked to the development of Executive Agencies in the British government. Although the nature of the Canadian federal government is very different from the unitary British government, and although the Next Steps program was started for different reasons and on a different scale than the SOA initiative, there are still enough similarities to make a comparison worthwhile. It is also worth noting that the Next Steps program has received many accolades from a variety of sources as a successful public sector reform initiative. In spite of some recent commentators' criticisms of Next Steps, Peter Hennessy's comment still holds true:

> Like everybody else when [Next Steps] was published I thought it would end up in that crowded creek of failed Civil Service reform, groaning in their moorings, and that lack of ministerial attention would see it off. Initially the results were not as spectacular as some had suggested, but bit by bit it went further and it went faster than I anticipated. By 1990 I had come to the conclusion that it could and should endure.[7]

Within the British Agency reform, emphasis has been placed on managing for results and on establishing Agencies as the norm for government organizations. As a result, the label "special" has been avoided, and instead flexibilities have been given which are required to achieve those results.

The framework document in Britain has evolved from modest beginnings, where the document listed a number of relatively small authorities that the CEO was allowed to exercise, to a document listing those authorities which the parent department reserves for itself. In this way, the department must justify why each authority should *not* be given to the Agency, and makes the implicit assumption that all flexibilities rest with the CEO unless otherwise specified.

The program has also evolved from a non-legislated base, where the Agency remained a legal part of the parent department, to more recent developments where some legislation has been enacted to allow for greater personnel and financial freedoms for the Agencies (the larger Agencies, for example, can now negotiate pay with their staff's union representatives). Parliamentary questions pertaining to operational Agency matters are passed to the CEO by the minister, and the CEO replies directly to Hansard. One can see a startling difference in charters, flexibilities and attitudes between the United Kingdom and Canada, even though the two countries were only six months apart in beginning Agency reform. Indeed, the Next Steps program has so changed the face of Whitehall that many commentators have pointed out that the standard operating framework of government has been replaced by a diversity of values and policies, housed in the many different Agencies.[8]

Business plans in the U.K. are very different from those of their Canadian counterparts. The plans are written to support the achievement of targets – financial targets, efficiency and

quality being the accepted categories. These targets are set by the minister on the advice of departmental advisors, although the Agency usually puts forward targets for consideration. Financial information is critical, as many Agencies are required to run both commercial (accrual) and cash accounts. One member of the Next Steps team has stated that one of the greatest benefits of Next Steps program has been the transparency of costs. In less than a decade, Whitehall has moved forward from a position of not knowing its costs except on a global, cash basis, to become a government that has publicly available information on how much specific activities cost on a full-cost basis. Much of the credit goes to the rigour that is expected and, for the most part, delivered in the annual business plans.

Two specific differences exist in British business plans, beyond the scope and acceptance of the reform program itself. One difference lies in the timing and the nature of the first plan. In the U.K., no transition plan is accepted. Rather, the Agencies take from a year to two years to develop a rigorous plan, complete with targets and financial information, before receiving approval to launch the Agency officially. Thus, a good first-year business plan can be used in subsequent years as a model.

Another difference rests in the development of an additional document. The British Agency process requests a five-year corporate plan as a separate prelude to the two-year business plan. The corporate plan covers their mission, mandate, five-year strategic vision, customers, competition, etc. The two-year business plan details how, through a focus on the yearly targets, the corporate plan will be achieved. In Canada we have merged these two documents into one three-year business plan which usually is long and cumbersome, and tends to be strategic rather than operational.

Since British Agency heads are held accountable for the Agency's performance against targets, substantial performance pay rests with successful achievement of those targets. Because these results are public and transparent, both the department and the Agencies take the setting and reporting of targets very seriously. The business plan, thus, has come to play a key role, both in setting the long-term direction for the Agency and for government, and as an accountability document.

The annual report is also markedly different in Britain. The Agency's audited financial results and performance against targets must be published before Parliament each summer. All Agencies must publish an annual report, and Treasury has published guidelines outlining what must be included in each annual report. Although business plans, if they are commercially sensitive, can be kept confidential, the annual reports are publicly available. Some criticism has been directed at this practice because of the expense of publishing glossy publications, but most outside observers have applauded the quantity and quality of information now available on government operations. Price Waterhouse holds an annual contest in which it offers an award for the "best annual report" to a Next Steps Agency; these awards were first offered shortly after the Next Steps initiative got underway.

V. Summary and Recommendations

It is evident that business plans and annual reports presently play a marginal role within the SOA initiative and that many participants are disappointed with the role and effectiveness of the documents. It is also evident that their roles could be more rigorous and meaningful, especially in light of the British experience with these documents. Since business plans and annual reports have not been accepted in the bureaucratic lexicon as recognized accountability or planning documents, there is little incentive for the departments to accept them.

What is the reason why business plans and, to a lesser extent, annual reports have not really caught on in the Canadian government? It is suspected that this failure rests not so much with the business plan itself, but with the charter document and government's acceptance of "special" arrangements. It would appear that not many Agencies have been able to establish a special operating framework outside the norm accepted within their parent department. Few have meaningful charters with special authorities which they exercise, and fewer still produce business plans which outline what the Agency intends to do with these authorities to benefit their clients. And it is only very rarely that the annual report, the last on the track of SOA documents, is used as a vehicle for reporting and true accountability. It would appear, then, that a great deal of momentum must be generated from the first process in the chain, the charter, in order to give momentum to the "downstream" documents. Figure 3 illustrates the downstream momentum which could result from establishing a special operating framework through a meaningful charter document.

Figure 3
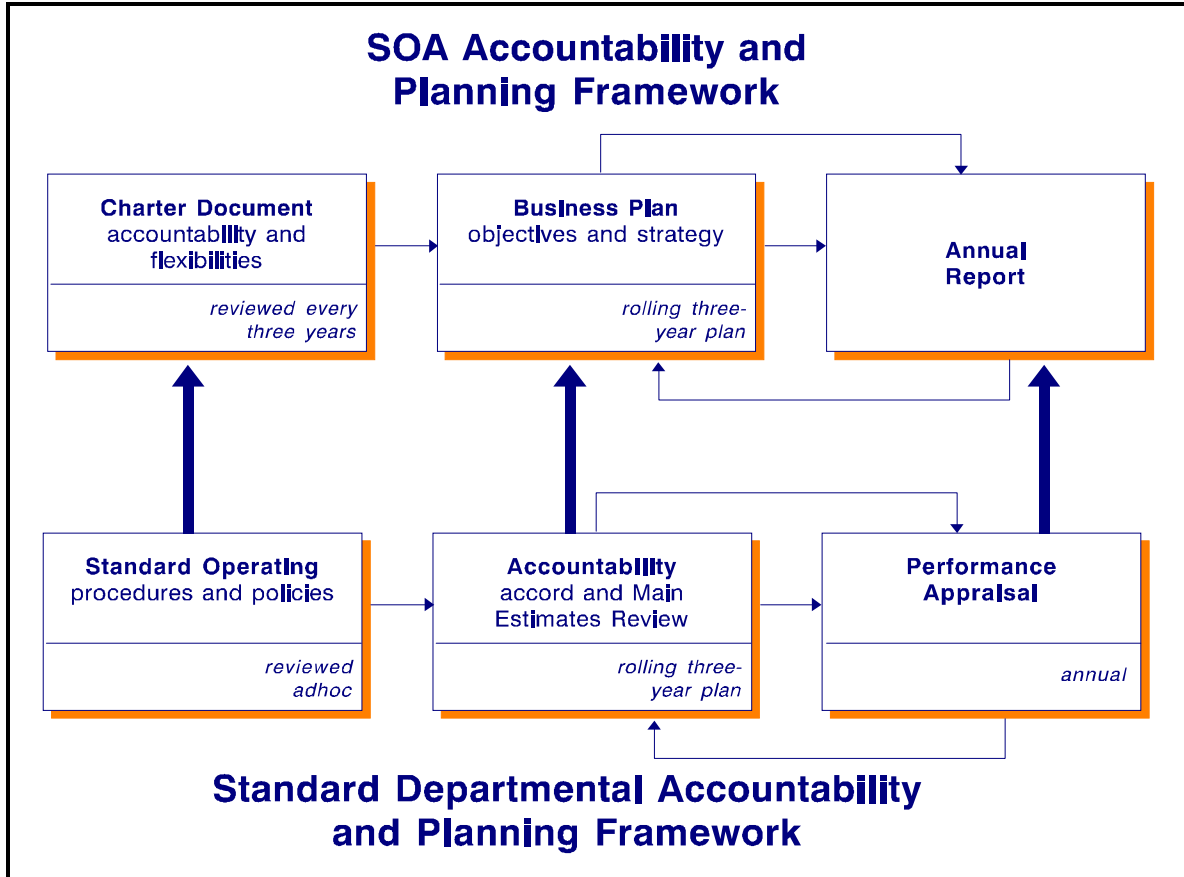
The circumstances necessary to transform the operating framework of Agencies centre on the resolution of ministerial accountability, the role and support of departmental officials, and the definition of intended results of Agency reform. As these issues go well beyond the scope of this paper, the reader is referred to the SOA issue paper *Autonomy, Accountability and Performance Measurement*.

There are, however, a number of recommendations that can be made to improve the quality and impact of business plans and annual reports:

- All departmental authorities and central agency authorities should be assumed to be delegated to the Agency head, unless some are specifically withheld by the delegating body. The reasons for each authority withheld must be articulated.

- Agency heads should be appointed through open competition. This would allow the best candidate to take the position, bring in special skills and give the process of change, and business planning, much credibility.

- No business plan should be accepted as a transitional measure. The designated unit should take one to two years to ready itself for the launch; this includes writing a business plan with real targets and performance indicators.

- A five-year corporate plan, focusing on the strategic issues, would allow the Agency to set its direction in one document, and would lead it to concentrate on how it means to achieve that direction in the business plan. At present, the business plans are an uncomfortable mixture of strategic direction and operational detail, with too much emphasis usually being given to the strategic direction.

- The Agency head must make the creation of the business plan a primary duty and involve staff early in the process.

- The business plan must deal frankly with difficult issues and take hard decisions, which then must be supported by the department and central agencies.

- Rather than establishing a personal accountability accord with their ADM or DM, Agency heads should instead offer the corporate and business plans with accompanying targets as their accord.

- The business plan must be accepted in place of a MYOP contribution.

- The deputy minister and Treasury Board must hold the Agency head to account for the achievement of targets. This might be best accomplished through a required annual report which is tabled in Parliament.

Until these issues are resolved, a successful business plan and annual report appear to depend primarily on the personal will and effort of an enthusiastic Agency head and, secondarily, on the support and acceptance of a sympathetic deputy minister.

VI. A Few Best Practices

This paper has focused on the need to change the environment and purpose of business plans within the system of the public service before any real improvement can be seen in the plans themselves. However, even within the present system some well-constructed business plans have been produced, both inside and outside of Agencies. Many of those interviewed, somewhat frustrated by their own efforts, expressed a desire to know what constitutes a good business plan. This section, therefore, offers a few hints on what can help make a business plan meaningful and rigorous; it is based primarily on the author's experience and on a review of the documentation.

- *No Set Formula*

In a bureaucracy, there is a tendency to demand a formula which one can follow to produce the output demanded. However, even outside government, most private sector business planning guides begin by explaining that there is no good "model" to follow, and that to try to use one can be dangerous. In the private sector, business plans are often written to support a request for financing; such plans must reflect the belief of the entrepreneur that his or her idea is a winner and worth investment. That individual, or team, has a commitment to implement the plan once financial backing is assured. The document is their articulation of a clear vision for the future. While most business plans tend to cover the same ground (such as marketing, competition, finance, and operations) the best business plans are those that convince the reader of the entrepreneur's determination to achieve success.

Although government is significantly different from the private sector, both in its planning and ultimate purpose, the bureaucracy can – and should – borrow lessons from the private sector. The best plans are those that have avoided a set formula and have been written, instead, with clarity of purpose.

- *The Leader as Owner*

Many heads of Agencies and other government units involved in business planning have their days occupied with a multitude of political and operational urgencies; they can thus find little time to devote to a business plan. The task tends to be delivered into the hands of competent support, those who have more time to devote to the process. If the plan is to reflect a clear vision for the organization, however, it is evident that the head of the organization must drive and own the plan. The business plan reflects key decisions taken by the organization once all available options have been considered. No one can take these decisions within the unit except the Agency head. When a government plan reflects no hard decisions, it lacks substance and credibility. Although the Agency head may not act as the pen on the plan, his or her involvement must be central (and be seen to be central, both by the staff and by the department); otherwise, the plan risks failure.

- ***The Staff Represented***

Almost as important as the role of the leader is the role of staff in planning. Staff must participate in the process and see their roles reflected in the plan, or else implementation of the plan will be jeopardized. Although the leader must provide clear direction and decisions, these should reflect the input of staff who will have prime responsibility for implementing all operational plans in the coming year. The business planning process must provide an opportunity for feedback to staff on past organizational performance, the challenges ahead, and some priorities for the leader. This will allow the staff to participate in putting forward strategic options for consideration which the leader can then evaluate with their help in order, ultimately, to choose the direction. The resulting document should thus lead to greater staff acceptance, and eventually, to a greater chance of success.

- ***Document versus Process***

Because the final product is a written report, the focus tends to be on completing the plan. Many long hours can be spent in producing a plan which is then filed away to gather dust until the next planning cycle, when it is unearthed to be used as a template for the next year's plan. To make the quantum leap from paper to reality is the most difficult part of business planning.

The focus must be on the *process* of producing a business plan, not on the plan itself. As stated in a guide issued by HM Treasury on Strategic Planning and Control in Government Departments in 1991:

> Important though the written corporate and business plans are as strategic planning and management tools respectively, it is the process leading up to the production of the plans that is the most important. If this is skimped or superficial, the value of the written plans will be drastically reduced.[9]

- ***Focused***

Many venture capitalists read only the one-page summary of a business plan, and presentation time can be equally parsimonious. The prevailing mood within this group is a belief that if you are unable to say what you plan to do in one page, or ten minutes, then you are not sure of what you are doing and investment will be wasted on the business. Government plans tend to be long on words and short on action. Nothing is more compelling than a tight, focused document that convinces senior management that the organization understands its business and its future direction.

- *Bold*

Because of the political nature of government and the reality of ministerial accountability, circumstances have conspired to make bold decisions in government almost impossible. Yet present challenges within the public sector almost demand such decisions, ones in which the decision makers have looked at all possibilities, frankly assessed each one of them, and committed themselves to a bold plan of action. These decisions obviously require in-depth analysis and departmental and political support, but hard decisions will carry the business plan – and more important, the organization – a long way.

- *Assumptions*

Uncertainty prevails within the public sector, and those responsible for business planning are understandably reluctant to commit themselves to a course of action, or performance targets, when they lack control over the outcome. As a result, these are usually not covered in the plan, with the result that the plan suffers. Government has somehow come to believe that the private sector has more control over its circumstances and can, therefore, produce more rigorous plans. However, Eaton's cannot force customers into its store. It can only stock the items they hope will attract buyers at a price they are willing to pay. IBM could not protect its industry position in spite of its reputation and quality. Bureaucrats must become accustomed to making assumptions on the basis of trends and analysis, clearly identifying these assumptions and making plans based on them. They must also identify what other outcomes are possible, and prove that management can respond and manage these possibilities. The business plan is meant to be a tool for *managing* the organization, and the only certainty is that the business plan will not unfold exactly as it is written.

- *Quid Pro Quo*

Private sector business plans are written to support a recognized exchange: "Invest your money in our business and you will make more money." For government it is not so easy or obvious, but the same principle does apply. Give us, Agency XYZ, these resources, these appropriations, and these following authorities; and we, in return, will give you *this.* Whatever *this* is, it should be something that the department, the politicians and the taxpayers wish to have: faster service, cheaper unit outputs, better quality, improved regulations, and so on.

More credibility and belief will come to the business planning process if this *quid pro quo* arrangement were taken more seriously and supported by both sides. The department, for its part, must get into the habit of demanding results, after giving the units the resources necessary to do the job and allowing them the freedom to do it. The Agency, for its part, must habitually demand better results of itself and then offer them to the department as proof of its ability and worth.

Business planning itself is no panacea for the federal deficit, or for more effective government. However, the process, supported by clear accountability and roles, can help shape a public sector ready for the challenges of the next century.

- ***Annual Reports***

This paper has fewer helpful hints to offer on annual reports than on business plans. The British guidelines referred to earlier suggest that many of the same attributes that make a good business plan hold equally true for the annual report. These documents will be public, however, so their production may require more creativity, especially when reporting disappointing results, or in attempting to keep some details confidential. The annual reports can also be good publicity documents, so photographs, graphs and the overall design can deliver the message more powerfully than the written word. Within government, however, a balance must be struck between cost and impact, and most Agencies have tried to limit the extent that the glossy format is used.

Notes

1. Treasury Board Secretariat. *Becoming a Special Operating Agency*, July 1991, pp. 7 & 8.

2. *Ibid.*, p. 8.

3. *Ibid.*, p. 9.

4. *Ibid.*, Annex B, p. 2.

5. Kemp, Sir Peter. *Beyond Next Steps: A Civil Service for the 21st Century*, The Social Market Foundation, 1993, p. 14.

6. The MYOP (Multi-Year Operational Plan) requirement has now been eliminated. See the section on Twin Track of Accountability Documents.

7. As repeated by William Waldegrave, Chancellor of the Duchy of Lancaster, in an opening address to the 1993 Agency Chief Executives' Conference, York.

8. A recent article in the March 19, 15th issue, ("Reassuring Sir Humphrey") examined three questions in particular with respect to the Next Steps reform process: the threat to integrity; the undermining of impartiality; and the erosion of parliamentary accountability.

9. H.M. Treasury. *Guide on Strategic Planning and Control in Government Departments*, 1991, p. 13.

YOUR VIEWS ARE IMPORTANT. . .

CCMD is pleased that you have obtained a copy of this publication and we hope it has met your expectations. Your answers to the following questions and any other comments you may wish to make would help us assess the interest and usefulness of this document and would assist us in planning our future publication activities.

Indicate your reaction to the following statements by circling the appropriate numbers on the scales on the right.

1 *Strongly Disagree*	*2* *Disagree*	*3* *Somewhat Disagree*	*4* *Somewhat Agree*	*5* *Agree*	*6* *Strongly Agree*

This publication has provided me with helpful information or insight.	*1 2 3 4 5 6*
The length and format of the publication are appropriate.	*1 2 3 4 5 6*
This publication	
provides me with useful new perspectives on the nature and context of contemporary government.	*1 2 3 4 5 6*
helps me to understand the current and potential future challenges of public service.	*1 2 3 4 5 6*
will influence my managerial/leadership behaviour or practices.	*1 2 3 4 5 6*

Other Comments   *(You may use the other side of this page for additional comments.)*

Personal Data: We ask the following questions only to make our database more complete. Please supply/check off the appropriate information.

1. Age	2. Years in the Public Service	3. Your Group	4. Non Federal Government	5. Sex
1____ 25 - 30	1____ 0 - 5	1__ DM/Assoc. DM	1__ Other government	1___ Male
2____ 31 - 35	2____ 6 - 10	2__ ADM (EX 4 and 5)	2__ University/College	2___ Female
3____ 36 - 40	3____ 11 - 15	3__ EX (1 to 3)	3__ NGO	
4____ 41 - 45	4____ 16 - 20	4__ EX Equivalent	4__ Other	
5____ 46 - 50	5____ 21 - 25	5__ EX minus 1	5__ Other Country	
6____ 51 - 55	6____ 26 - 30	6__ EX minus 2		
7____ 56 - 60	7____ 31 - 35	7__ Other		
8____ 61 - 65				

Are you a regular reader Yes No *of CCMD publications?*	*Did you personally request* Yes No *a copy of this publication?*
How did you find out about this publication? ☐ *from a colleague* ☐ *from another CCMD publication* ☐ *other (note below)*	*If there are other topics you would like to see included in our publication list, please note them here.*

To send your comments, please refer to the information on the reverse.

CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT

Please send your comments to:

Research Group
Canadian Centre for Management Development
P.O. Box 420, Station "A"
373 Sussex Drive, 4th Floor
Block B, De La Salle Campus
Ottawa, Ontario
K1N 8V4
Telephone: (613) 947-3682
Fax: (613) 995-0286

Other Comments (continued)

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

CCMD Publications on Public Management

Learning and Executive Development

P46E   The Strategic Revolution in Executive Development: What Does It Mean for You and Your
        Organization?, *Ole Ingstrup*, 1995/02

        Continuous Learning: A CCMD Report, 1994/05
P34E   − Complete Version
P35E   − Summary

        Leadership for a Changing World: Developing Executive Capability,
        Peter Larson, Robert Mingie, 1992/10
P24E   − Detailed Report
P17E   − Highlights

P6E   Learning in an Organizational Setting: The Public Service Context, *R. Bruce Dodge*, 1991/06

Governance in a Changing Environment

P67E   The Dewar Series: Perspectives on Public Management
        Strategic Leadership for Public Service Renewal, *I.D. Clark, O. Ingstrup, B. Dewar, L. Goulet,
        J. Davis, M. Keating, J. Côté-O'Hara* (forthcoming)

P64E   Governing in the Millennium: How *Much* Less Government? *Arthur Kroeger*, 1996/04

        Management Techniques for the Public Sector: Pulpit and Practice, *Christopher Pollitt*
P53E   − Complete Version, 1995/07
P59E   − Summary, 1995/10

P52E   Managing Incoherence: The Coordination and Empowerment Conundrum,
        B. Guy Peters, Donald J. Savoie, 1995/07

P47E   Public Service Renewal: From Means to Ends, *Ole Ingstrup*, 1995/03

P45E   The Dewar Series: Perspectives on Public Management
        Rethinking Government, *Harry Rogers, David Dodge, Gilles Paquet, Judith Maxwell*, 1994/12

P31E   The Public Service, the Changing State and Governance, *B. Guy Peters*, 1993/12 (Reprinted 1995/03)

        Globalization and Governance, *Donald J. Savoie*
P30E   − Complete Version, 1993/12 (Reprinted 1995/02)
P44E   − Summary, 1994/11

P29E   Reinventing Osborne and Gaebler: Lessons from the Gore Commission,
        B. Guy Peters, Donald J. Savoie, 1993/11

Policy and Governance

P62E   The Policy Capacity of Government, *B. Guy Peters*, 1996/06

P60E   Rethinking Policy: Strengthening Policy Capacity: Conference Proceedings, 1996/01

P58E   Rethinking Policy: Perspectives on Public Policy, *John C. Tait, Mel Cappe*, 1995/10

Deputy Ministers and Strategic Management

P32E   Ministerial Chiefs of Staff in the Federal Government in 1990: Profiles, Recruitment, Duties and Relations with Senior Public Servants, *Micheline Plasse*, 1994/04

P23E   Strategic Management in the Public Service: The Changing Role of the Deputy Minister, *Frank Swift*, 1993/11

P22E   Strategic Planning in Government Administration: A Comparison Between Ottawa and Quebec, *Mohamed Charih, Michel Paquin*, 1993/11

What is Public Management? An Autobiographical View, *A.W. Johnson*
P21E   – Complete Version, 1993/05 (Reprinted 1994/12)
P28E   – Summary, 1993/05

How Should the Performance of Senior Officials be Appraised? The Response From Federal Deputy Ministers, *Jacques Bourgault, Stéphane Dion*, 1993/03
P19E   – Complete Version
P27E   – Summary

P7E   The Changing Profile of Federal Deputy Ministers, 1867 to 1988, *Jacques Bourgault, Stéphane Dion*, 1991/07

The Consultation Process

P42E   Managing a Royal Commission: A Planning and Organizational Model Derived from the Experience of the Royal Commission on National Passenger Transportation, *Janet R. Smith, R. Anne Patterson*, 1994/10

P15E   The Constitutional Conferences Secretariat: A Unique Response to a Public Management Challenge, *Peter Harrison*, 1992/06

P14E   Consultation: When the Goal is Good Decisions, *R. Anne Patterson, Rod A. Lohin, D. Scott Ferguson*, 1992/06

P10E   Citizen's Forum on Canada's Future: Report on the Consultative Process, *Wendy Porteous*, 1992/03

P9E1   A Case Study in Multi-Stakeholder Consultation: The Corporate History of the Federal
P9E2   Pesticide Registration Review, or How We Got From There to Here, *Hajo Versteeg*, 1992/03
       P9E1 Volume 1. General Principles for Decision Makers
       P9E2 Volume 2. Practical Considerations for Process Managers and Participants

P8E   Public Managers and Policy Communities: Learning to Meet New Challenges, *Evert A. Lindquist*, 1991/09

Service and Quality

P25E   From Policy to Performance: Implementing Service Quality Improvements in Public Sector Organizations, *Tim Plumptre, Donald Hall*, 1993/10

Implementing the U.K. Citizen's Charter, *G. Bruce Doern*, 1992/12
P18E   – Complete Version
P26E   – Summary

Restructuring and Process Improvements

P51E   Reengineering in the Public Service: Promise or Peril? *Ole Ingstrup*, 1995/04

Managing People

P43E   Upward Feedback in the Public Service, *Sharon Varette, Eric Phillips-Beaudan*, 1994/11

Managing Organizational Change

P48E   Meeting the Challenge: Managing Change in the Nineties, *David Shepherdson*, 1995/04

P16E   Managing Public Sector Divestment, *Taïeb Hafsi, Jan J. Jörgensen*, 1992/06

P13E   The Clean Launch: How Revenue Canada, Customs and Excise, Implemented the GST, *Mike Smith*, 1992

P5E   Our Story: Organizational Renewal in Federal Corrections
        A Book Written by the Staff and Inmates of the Correctional Service of Canada, 1991

P4E   Innovation in the Public Service, *James Iain Gow*, 1991/03

Special Operating Agencies

P73E   Management Advisory Boards, *Jane Newcombe*, 1996/09

P72E   Audit and Evaluation, *Michael Thomas*, 1996/09

P71E   Marketing Issues, *John Dingwall* (forthcoming)

P70E   Human Resources Management Issues, *Betty Rogers*, 1996/09

P69E   Financial Issues, *John Dingwall*, 1996/09

P68E   Business Plans and Annual Reports, *Doreen Wilson,* 1996/09

P61E   Issues for Parent Departments and Central Agencies, *Alti Rodal*, 1996/04

P57E   Autonomy, Accountability and Performance Measurement, *J. David Wright*, 1995/10

        Overview of the Special Operating Agency Initiative, *J. David Wright, Graeme Waymark*
P54E   − Complete Version, 1995/08
P55E   − Summary, 1995/08

Corporate Histories

P33E   The Canadian Centre for Management Development: The Early Years, *John Hunter*, 1994/05

P3E   A History of the Patented Medicines Prices Review Board: The Early Years, *Eric A. Milligan*, 1991/03

Other Publications

P12E   The Accountability of Mixed Corporations, *Asit K. Sarkar, Jack G. Vicq*, 1992/05

P1E   How to Create Superior Briefings, *Roderick G. Quiney*, 1991/02

<u>ORDER FORM</u>

Copies of publications may be obtained from:

Canadian Centre for Management Development
P.O. Box 420, Station "A"
Ottawa, Ontario
K1N 8V4

Telephone No.: (613) 943-8370
Fax No.:   (613) 995-0331

List No.	Qty	List No.	Qty	List No.	Qty	List No.	Qty

NAME AND ADDRESS

_____

_____

_____

_____

_____

_____

Telephone No.: _____