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SPECIAL OPERATING AGENCIES: HUMAN RESOURCES MANAGEMENT ISSUES

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A Word from CCMD

This paper is the sixth 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.

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 Betty Rogers, also of Consulting and Audit Canada, for preparing this paper on *Human Resources Management Issues*.

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Principal

Ralph Heintzman
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List of SOA Issue Papers

This is the sixth 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.

Table of Contents

Executive Summary

In 1993, a Special Operating Agency (SOA) stocktaking study was initiated to assess the progress of the SOA initiative, to identify the impediments it has encountered, and to suggest ways that it might be strengthened. The findings of the stocktaking study were based on in-depth self-assessment profiles of six of the earliest SOAs, supplemented by numerous interviews with senior officials in these and other SOAs, their host departments and central agencies. In parallel with the stocktaking exercise, a series of papers on issues important to the SOA initiative were prepared. This document is one of these papers, focusing on issues related to human resources management. The following are the main findings of this study.

Assessment of Existing Flexibilities

The rationale behind the establishment of SOAs was to give discrete operational units increased managerial autonomy in exchange for greater accountability for performance results. Experience has shown that the extra authorities actually given to SOAs have been quite limited, especially in the area of personnel management. Furthermore, the charter documents have not served to protect SOAs from government-wide or department-wide policies that override SOAs' theoretical autonomy and limit their ability to meet performance objectives. Deputy ministers remain fully accountable for the performance of their SOAs, and the actual autonomy of an SOA is largely governed by the working relationship between the Agency head and his or her deputy minister (DM). The appointment of a new DM or Agency head can result in a change in the nature of an SOA's accountability, including the performance objectives.

Many Agency heads voiced strong concerns about the limited flexibilities in the areas of human resources. Problems with staffing restrictions and delays, government-wide freezes, delayering, Total Executive Complement limitations, the work force adjustment policy, difficulties in dealing with problem employees, a cumbersome and limited classification system, and limited ability to reward good performance all lead to higher personnel costs and added difficulty in meeting performance objectives. SOA heads clearly feel that they must have increased flexibility in human resources management if their Agencies are to make significant performance improvements.

At the same time, large increases in personnel management authority could lead to a reduction in the current protection of SOA employees as provided by existing personnel policies. Increased flexibilities will also mean a widening of the differences in working environments between SOAs and the rest of the public service. Hence, while new flexibilities are needed to enable SOAs to manage day-to-day operations more effectively, careful consideration needs to be given to the impacts, benefits and risks of each new authority on the operations and personnel in the SOA itself, the parent department and the public service as a whole. A key challenge is to accommodate the SOAs' special requirements and the need for

greater distance from the mainstream of the public service, while upholding a degree of consistency for government-wide policies and public service unity.

The frustration of the SOA heads with existing limitations in human resources management is leading many to question whether they could acquire the increased personnel management authority they need by becoming a separate employer. Several stocktaking interviews suggest that SOA heads may become increasingly interested in separate employer status if greater flexibility cannot be obtained from departments and Treasury Board. An Appendix to this report discusses the potential benefits – and the extra costs – associated with becoming a separate employer.

If SOAs are not given the flexibilities needed to achieve performance objectives, then these limitations must also be recognized in terms of what *can* be achieved. SOAs, being part of the public sector, are required to incur costs, including personnel costs, such as work force adjustment, that are unique to the government situation. SOAs also continue to be buffeted by decisions on budget cuts, salary freezes, and by restrictions on management numbers and levels that are especially difficult to absorb when trying to operate in a business-like manner. The extent to which SOAs are given more distance from the rest of government, including more freedom from these constraints, will enable them to improve performance.

The extra costs of managing within the public service environment, together with limitations in staffing and compensation, can be particularly difficult for Agencies that operate in a competitive market. It is, in fact, erroneous to suggest that, given the existing flexibilities, a “level playing field” exists between optional-service SOAs and their private sector competition. While an increase in flexibilities would enable SOAs to pursue bottom-line objectives more effectively, many such flexibilities cannot be granted under the existing public service regulations and practices.

The added costs to SOAs of operating within public sector norms are a “cost of doing business,” and SOAs' budgets and the performance expectations of stakeholders must recognize and allow for these costs. Furthermore, these extra costs must not be used as an excuse for not making and implementing hard management decisions (for example, adjusting the SOA's capacity to changing client needs and dealing with poor performance).

No data have been collected by SOAs that would help to estimate the size of these costs. Such data are needed if government is to better estimate the true costs of existing personnel policies.

SOA as a Catalyst for Change

It is clear from the study that SOA status can be a catalyst for change in corporate culture, attitude and focus, but this change can take many years to implement. It is also apparent that both the magnitude and direction of change have varied in different SOAs. While some SOAs reported significant change in their organizations, others felt that their culture and operations were not that much different from their pre-SOA environment. The most commonly reported changes were an increased focus on financial performance and service quality. An increased focus on public purposes was a priority in only a small number of SOAs.

Several interviewees felt that SOA status led to a significant improvement in employee morale. Any such improvement can be viewed as a major achievement, given the current climate within the public service. Much of this improvement in morale appears to reflect a belief of employees that they can influence their own destiny through improved performance. The long-term impact of SOA status on morale has yet to be established, and will likely depend upon the extent to which this belief is justified.

Strategies Adopted to Facilitate Change

Because of the limitations in the flexibilities granted to SOAs, Agency heads have focused on making greater use of the flexibilities that were already available to them. Some of the strategies commonly adopted to encourage, facilitate and manage change include:

- development of new mission, vision and value statements,
- increased communication and consultation,
- greater empowerment of employees,
- emphasis on entrepreneurship and risk taking,
- increased training and development, with greater focus on Agency objectives,
- staffing,
- development of a new system for measuring Agency and individual performance,
- new methods to recognize good performance and reward staff, and
- changes in work structures, roles and work coordination, to better emphasize teamwork and improve marketing and account management.

It is important to note that none of these measures is limited to SOAs. Instead, all are available to any manager within the public service, although non-SOAs may face more severe limitations on the extent to which they can rely on staffing or spending money on training and development to improve their work force.

Evaluation

An important step in managing change is the ongoing evaluation of the direction and extent of change. Unfortunately, the available data do not support an assessment of the changes that have occurred, nor of the relative importance of the different strategies in fostering cultural change. In fact, what is needed is a combination of strategies aimed at changing employees in a well-defined direction. There is also general recognition amongst SOA heads that ongoing improvements in these areas are needed. Regular employee feedback, through surveys, focus groups, coffee sessions and chats in the hall, are the best mechanism for assessing the effectiveness of various strategies and identifying where adjustments and improvements are needed. Employee surveys, however, are the only mechanism to gather statistical data on the views of staff, and to assess how widely concerns and beliefs are shared.

I. Introduction

Background

On December 15, 1989, as part of a budget speech, the Government of Canada announced the creation of five Special Operating Agencies (SOAs): Canada Communication Group (CCG), Consulting and Audit Canada (CAC), Government Telecommunications Agency (GTA), Training and Development Canada (TDC) and the Passport Office.

The rationale behind the establishment of SOAs was to improve the delivery and cost efficiency of the services offered by government. This was to be accomplished by giving increased managerial autonomy to discrete operational units in exchange for greater accountability for results and performance. These organizations were to operate in a business-like manner, with the flexibility necessary to achieve bottom-line targets.

Since the establishment of these first five SOAs, another 12 organizations have been granted SOA status, while many further candidates have been identified and/or are currently negotiating towards this status. For the newer SOAs, there has been less emphasis on revenue generation and financial self-sufficiency, and more emphasis on service improvement. These Agencies include a number that operate on the basis of partial cost recovery and even full appropriation. Most are expected to achieve a range of results that encompass both financial and non-financial objectives.

The Stocktaking Study

In 1993, a Special Operating Agency stocktaking study was initiated to assess the progress of the SOA initiative, to identify the impediments it has encountered, and to suggest ways that it might be strengthened. This study was a collaborative effort, conducted under the guidance of a Steering Group chaired by the Office of the Auditor General, with members from the Treasury Board Secretariat (TBS), the Canadian Centre for Management Development (CCMD), SOAs, SOA host departments, and prominent individuals from the private sector.

The findings of the stocktaking study were based on in-depth self-assessment profiles of six of the earliest SOAs, (the five original SOAs together with CORCAN[1]), supplemented by numerous interviews with senior officials in these and other SOAs, their host departments and central agencies. In parallel with the stocktaking exercise, CAC and CCMD were asked to prepare a series of papers on issues important to the SOA initiative. This document is one of these papers, focusing on issues related to human resources.

Each of the six SOAs involved in these reviews was asked to prepare an Agency profile and identify changes that had taken place as a result of the transition to SOA status. The findings of these six Agencies provide the basis for many of the issues discussed in this paper, as the experience in the newer SOAs is more limited due to the briefer time frame that they have had to evolve. In assessing the results described below, it should be remembered that all six organizations that provided in-depth assessments are generally expected to recover most or all of their expenses, and all except the Passport Office provide their services on an optional basis, competing with the private sector for clients, directly or indirectly. Hence, some of the findings presented in this report may have less relevance to SOAs that are less focused on cost recovery, and do not provide optional services.

This paper focuses on the human resources issues identified in the stocktaking study. Although these are somewhat difficult to define, SOA status is intended to change the way in which a government unit delivers its services, and to a very large extent, this means changing its culture. Since "culture" is such an all-encompassing concept, this paper inevitably overlaps with some of the other issue papers, but provides a greater emphasis on how these issues affect the management and staff who are actually faced with service delivery.

The study begins with a discussion of the accountability framework which governs the flexibilities that have been granted to SOAs in the area of personnel management. The adequacy of these flexibilities is then examined, from the view of the SOA management, SOA staff and the host departments. Frustration over existing flexibilities has led several SOA heads to consider the advantages and feasibility of becoming Separate Employers. This subject is discussed briefly at the end of the third chapter, and in greater detail in the Appendix. The last two chapters briefly discuss the changes that have occurred in the area of human resources and examine the strategies adopted by SOA management to facilitate change.

II. Personnel Management Authorities and Flexibilities Framework

SOAs operate under a framework of increased authority/flexibility and greater accountability for results. This framework is established and measured through three key documents: the charter, the business plan and the annual report. The charter (also known as the framework document) provides the formal basis for the autonomy of the SOA. It specifies the authorities under which the Agency will operate, in areas such as finance, human resources and administration. It is this document that defines the “special” nature of the SOA. The business plan, which is updated annually, articulates how the Agency intends to use its special flexibilities. In this document the Agency specifies its long-term strategic direction, and establishes a basis for accountability by identifying specific goals and performance levels that the Agency commits to achieve. In the annual report, the Agency reports its actual performance against the objectives specified in the business plan, thereby closing the accountability loop.

When an organization is granted SOA status, employees retain their public service status, representation by unions, benefits and the same opportunities for promotion and transfer as do other public service employees. SOA management continues to operate within the requirements of public service legislation (the *Public Service Employment Act* [PSEA], the *Public Service Staff Relations Act*, the *Official Languages Act*) and government policies such as employment equity. They must abide by all relevant government policies except those for which exemption has been granted in their charter document.

The Charter or Framework Document[2]

In order for an organization to obtain SOA status it must undertake negotiations involving the Treasury Board Secretariat and the host department to gain agreement on the authorities that it requires in order to fulfil the targets, objectives and activities set out in its business plan. Where the identified authorities have already been delegated by Treasury Board to a department, the unit negotiates with the deputy minister (DM) for transfer of these authorities. Where the authorities remain in Treasury Board, the Board's approval must be obtained first. A small number of authorities (for example, exemption from the Priority Clearance System) must be negotiated with the Public Service Commission (PSC), where these authorities have not already been delegated to the department.

Only those flexibilities that 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, employment equity and official languages. This limitation has precluded significant personnel flexibilities, such as those relating to differential pay and benefits, and greater flexibility in staffing. Existing collective agreements constitute a further limiting factor on what can be delegated.

Of those human resources flexibilities that can be delegated, there is no fixed set which defines SOA status; for each SOA a unique combination of flexibilities must be negotiated with the parent department and central agencies. Table 1 shows some examples of negotiated flexibilities and authorities related to human resources management that have been identified in charter documents. Although at first glance this list may seem to be substantial, in practice the extra authorities granted to an individual SOA in the area of personnel management have been fairly limited. Furthermore, a number of authorities that were sought by prospective SOAs, such as person-year (PY) decontrol, have since become available generally throughout the public service, at least in theory.

Delegation of human resources authority to SOAs is also often accompanied by the caveat that individual managers must consult with human resources units before making a decision. These units tend to exert pressure on the managers to follow “formal procedures” that may be counter-productive to the staffing and other personnel actions needed to “improve the delivery and cost effectiveness of the services of government,” as is the role of SOAs. The human resources function in the public service, including SOAs, ensures that personnel practices meet legislative, regulatory, collective agreement and policy requirements. This role is often seen by managers as being slanted towards that of an auditor and controller, rather than one of a service provider. As noted by one interviewee:

> “The Human Resources Branch appears to be control-oriented with a limited understanding of the process and orientation of an SOA.”

Thus the formal autonomy of SOAs is quite limited. Many Agency heads, when asked to define what “special” flexibilities set their Agency apart from the rest of the department, were hard pressed to define any. One SOA head, when asked about the additional formal flexibilities obtained, replied “We got almost nothing.” Another Agency head noted that his Agency was still required to

> “...follow the same procedures in staffing...adhere to all department policies and consider departmental vulnerable staff [for appointments]...encounter the same frustrations and delays...and face the same cumbersome classification system with limited opportunity to recognize superior performance.”

The heads of a number of Agencies went so far as to see the flexibilities negotiated to date under the charter (including those in the human resources area) as being of minor

Table 1

Examples of Flexibilities Negotiated as Part of Establishing SOA Status

Staffing and redeployment	• exemption from person-year controls
	• exemption from certain parts of the Priority Clearance System
	• authority to appoint term positions for up to 6 months, and to extend term appointments for up to one additional year
	• authority to approve imperative staffing actions for key bilingual positions
	• staffing authorities (including sections 29 and 31 of the PSEA)
	  • layoffs and work force adjustment
	  • recommended release
	• exemption from abatement provisions with respect to public servants in receipt of a pension
	• official languages exemptions: position identification, imperative staffing
	• authority to approve requests for cash-out
	• authority to approve secondment/interchange assignments
	• some increase in the Total Executive Complement
	• authority for the interpretation, approval, administration of terms and conditions of employment and collective agreements; levels of grievance, collective bargaining; conflict of interest; code of conduct

Classification, and Pay and Benefits	• classification and organization authority for the executive group • Phase I and Phase II classification authority (all positions below EX-1), and various staff relations and compensation functions (grievances, performance pay, pay increases, disciplinary action) • authority to establish a monetary incentive plan
Employee Development	• training • official languages exemptions on training • performance review, career counselling, employment equity • authority to approve memberships in organizations • more than one person attending a conference
Other	• exemption from the requirement to use departmental personnel services
	• exemptions from departmental communications policy • occupational health and safety • human resource planning

importance. Instead they considered that being an SOA was mostly a "state of mind," and they have focused on making greater use of the flexibilities that were already available to them.

One host department's DM even questioned whether SOAs *should* be given unique flexibilities not available to non-SOAs. His view (since all of the flexibilities have been granted without legislative change) was that if these flexibilities lead to better productivity and service through results-oriented management, then they should be available to everyone else in the public service. This statement reflects a widely held view that SOAs are simply a prototype for better management within the public service, and that they can provide deputy heads with a mechanism for testing the impacts of increased flexibilities in a controlled environment, before universal implementation. The granting of increased flexibilities to SOAs has, however, been accompanied by an appropriate accountability framework which focuses on results. If the same improvements in results are to be achieved, this framework would be needed whether or not the organization has SOA status.

To conclude, there currently exist several barriers against granting greater personnel management flexibilities and authorities to SOAs. These include existing legislation and collective agreements which limit the ability of central agencies or deputy ministers to grant increased authority, as well as the lack of a minimum fixed set of flexibilities that define SOA status. Two other important barriers are the reluctance of deputy ministers to delegate the authorities that they do have to SOAs while remaining accountable for their SOA's operations, and the reluctance of employees to accept a loss of benefits or protection.

Role of the Host Department

SOAs have reported that negotiations with their departments have been much more time-consuming and difficult than with central agencies. Experience to date has also shown that these charters have not really served as binding contracts capable of altering the relationship with the parent department. While the charter document defines the “formal” autonomy framework, the actual autonomy of an SOA is governed, to a large extent, by the working relationship between the Agency head and the host department's deputy minister.[3]

In understanding this relationship, it is important to remember that the SOA operates within the existing accountability framework of deputy ministers; the deputy minister and minister remain fully accountable for the performance of their SOAs. This accountability of the DM is, therefore, at odds with the results-based accountability regime of SOAs, which is based on increased delegation of authority from the DM. Furthermore, given the DM's ultimate accountability for the Agency's operations, autonomy formerly granted by the DM can, in theory, be taken back at a moment's notice. A more common occurrence is the appointment of a new DM that results in a change in the nature of an SOA's accountability, including the performance objectives. This change can occur whether or not the Agency has a revolving fund.

Accountability issues become particularly important when an SOA gets into financial difficulty, and the question arises as to who bears financial responsibility. This can be especially important in the area of human resources management, when, for example, the SOA needs to reduce resource levels to reflect changing markets. SOAs incur human resource costs, such as work force adjustment, that are not normally incurred by the private sector. The DM must decide the extent to which the department will absorb these extra costs on behalf of the Agency. This decision, in turn, can be influenced by whether the DM views the Agency's personnel as part of the department or as belonging to the Agency.

III. Assessment of Existing Flexibilities

This chapter examines the adequacy of the existing human resources flexibilities, and their impact on an SOA's ability to meet its performance objectives. The first section examines the concerns expressed by many Agency heads as to the problems that they have encountered under the existing flexibility regime. To give balance to their arguments for greater flexibility, the next two sections examine the impact of existing and potential increased flexibilities on Agency staff and the host department. The last section briefly discusses the potential role of separate employer status (SES) as a mechanism for increased flexibility.

Needs of the SOA to Meet Performance Objectives

During the interviews with Agency heads, some of the most commonly expressed concerns related to problems arising from the limited flexibilities in the areas of human resources. These concerns appear to arise from two sources:

(i) a lack of formal flexibilities granted to them under their charter documents; and

(ii) the undermining of those flexibilities that have been granted by government-wide or department-wide policies that override the SOA's theoretical autonomy.

SOAs have been subjected to most of the same government-wide expenditure reductions and the same across-the-board restraints as everyone else in government. The lack of available flexibilities with respect to rewards and incentives, and the cost and complexities associated with work force adjustment are perceived as serious handicaps for SOAs. These additional costs and constraints have been especially difficult for SOAs which must operate on the basis of financial self-sufficiency, offering optional services in a competitive environment. Their clients expect to receive a level of service at least as high as they would get from the private sector, yet these SOAs are being asked to compete while incurring costs and other operational constraints not normally borne by the private sector. As noted in one Agency's stocktaking profile, “Government-wide decisions imposed on the SOA without consideration of the impact on business can cause major financial damage to the organization.”

The following are some of the problems identified by SOA heads and the impacts these have on their ability to meet performance objectives.

Staffing

Although some SOAs have negotiated person-year decontrol, others have been limited in the number of people they can hire. Even an SOA that nominally has PY decontrol can find that its host department will apply a department-wide freeze (staffing or resources) to its SOA(s). Nor does the fact that an SOA has a revolving fund necessarily protect it from such freezes.

Limitations in the ability to hire the staff needed to respond to clients' service requirements can make it very difficult to meet commitments made to clients. As one SOA head noted: “When you make commitments to your clients, who then rely on you to deliver agreed services, they do not care about your problems.”

Current staffing restrictions, such as having to deal with the Priority Clearance System, mean extra costs and time delays in staffing positions. One SOA head complained that even while he is trying to convince his staff and stakeholders that the SOA is being run as a business, it can take six months to staff a position. The time delays can mean lost business opportunities, while the extra costs make it difficult to meet bottom-line objectives. More flexibility in staffing and out-placing, and a hiring process that is less complex and time-consuming is seen to be essential to enable optional-service SOAs to respond more efficiently to changing market demands, and to be cost-competitive.

Staffing restrictions can also increase business costs for SOAs that offer a mandatory service, as in the case of the Passport Office. This Agency must respond to all clients who require its services. They do not have the option of saying “no” to clients when demand exceeds resource availability. Because of person-year cuts to reference levels, this Agency has had to make greater use of term employees in order to maintain service levels. This has meant higher training costs, higher staffing costs and lower productivity.

Salary Freezes and Promotions

Some SOAs noted that the current public service-wide salary and increments freeze has rendered it virtually impossible to promote from within their Agencies, making it difficult to attract the personnel they need or to retain and motivate the personnel they already have.

A proposal for a new “Appointment to Level Stream” is being developed that may facilitate promotion based on merit and partially address this problem. Since the proposal is still under development, its potential impact cannot be assessed.

Salary and wage freezes can have a particular impact on revenue-dependent SOAs that are competing with the private sector. Personnel in these SOAs can make comparisons with their private sector counterparts who are performing the same tasks, often for much more money. The top revenue generators can estimate how much more money they could make on their own or if they joined a competitor. Even in today's economic environment, some SOAs have lost key personnel to higher paying jobs in the private sector. When this happens, the SOA loses potential revenue and finds that it is more difficult to maintain or achieve financial viability.

Delayering and the Management Category Complement

Although SOAs obtained freedom from person-year restrictions, the February 1991 budget imposed on SOAs (along with the rest of the public service) a 10 percent reduction in the Management Category Complement, and the requirement to reduce the number of management levels below the deputy minister to a maximum of three.

This directive had a devastating impact on at least one SOA, where in order to meet the requirement to delayer, the organization eliminated a management level that was responsible for marketing, business development and project management. This change had a dramatic impact on the business, the leadership and the culture of the organization, as a number of the Agency's best senior personnel left. While it could be argued that many of the impacts of delayering were largely caused by the way this delayering was carried out (rather than by the delayering itself), the fact remains that the requirement to delayer was not related to any objective to improve the Agency's performance.

Many SOAs have requested increases in their Target Executive Count (TEC). Some SOAs have obtained their requested levels, while others have not. As SOAs reorganize and restructure to better meet the needs of clients, SOA heads feel that they require the flexibility to appoint executives to manage units, where needed. They have argued that SOAs have new and expanded management tasks in areas such as marketing and sales, planning and accountability, systems and infrastructure, and organizational development and change.

Redeployment/Adjusting the Size of the Work Force to Market Demands

In an SOA, customer needs must be continuously reviewed and products and services changed to meet evolving needs. This can lead to reduction or elimination of the need for certain types of skills, which, in turn, can require the redeployment of staff. If an Agency is to be cost-efficient, it must maintain a high level of flexibility to respond to the type and level of business demands. In this respect, some Agency heads feel that the work force adjustment policy places constraints and additional costs that can severely limit their ability to adjust their work force and/or to meet bottom-line performance targets.

Dealing with Poor Performance and Poor Performers

Poor, or even mediocre, performers can do significant damage to an Agency's reputation. For example, a survey of potential clients by one optional-service Agency revealed that although the Agency was seen as having many extremely capable people, it did not get rid of its poor performers. These potential clients were hesitant to use the Agency's services because of concern about the calibre of service they would receive.

Poor performers can also have an impact on the motivation of their colleagues, who see an individual getting paid the same or higher salary level while contributing very little. SOA staff may find themselves having to do “damage control” when poor performance leads to a loss in customer satisfaction.

SOAs have the same difficulties as other parts of government in dealing with individuals who are poor performers, even when these individuals cause major problems for the organization. In SOAs where there is a strong emphasis on both individual and organizational performance levels, especially revenue-dependent SOAs, the impact on the bottom line can be significant when an organization must carry one or more individuals who do not contribute.

While SOAs can sometimes try to relocate a weak performer into a job that does not deal with clients, in an organization where most employees are dealing with clients this option may not be available. Even when an employee has consistently demonstrated poor performance, it can take management considerable time and effort to compile enough documentation for dismissal.

While SOA heads articulated the limitations they face in trying to remove poor employees from their organization, there was little discussion focusing on the difference between “poor performers” and “poor performance,” and on the role of management in managing employee performance. The level of an individual's performance will be governed by many factors, such as

- the job situation (environment, procedures, training, tools, teams, mentoring and coaching, management style, etc.),
- the consequences of individual behaviour (measurement system, feedback, rewards), and
- the performer (relevant skills and knowledge, intellect, attitude).

Good management entails trying to determine the cause of poor performance and taking corrective action. Often the cause of poor performance is not centred solely on the individual. Managers may view dismissal as the only method of dealing with poor performance rather than trying to identify and solve job-related root causes that contribute to poor performance.

Classification

The classification system is limited in a number of ways. It does not readily support compensation for high levels of performance; nor does it facilitate staffing for key specialized functions (for example, there is no classification for marketing).

The administration of the current classification system tends to be time-consuming and control oriented, and lacks the flexibilities required to ensure business-like management of government services. The “system” requires the use of occupational group definitions and traditional hierarchical organizations that do not lend themselves to the kind of operations and people required to ensure the success of a Special Operating Agency. Where “rank-in-the-person” would be more appropriate to an organization that must meet financial performance and service targets by recruiting and recognizing high performing people, SOAs are forced to try to adapt the “rank-in-the-position (hierarchy)” approach prescribed by the existing classification system. This system often forces high-performing people into management roles in order to secure promotion, when they may have greater value to the organization as senior professionals.

Organizations (including SOAs) that use a “matrix” approach to management will have particular problems using a classification system where a manager's level is determined by the number of individuals, their occupational groups, and the levels that “report” to him or her. Many SOAs feel that more flexibility is needed to use and/or adapt the classification system to set compensation levels – the purpose of a classification system. Frustration with the current classification system was one of the primary factors that led the Canada Communication Group to seek separate employer status.

Ability to Reward

Agencies that are competing with the private sector are in competition with organizations that can provide monetary and other rewards to their employees. Almost all of the SOAs interviewed indicated concern over their inability to reward people on the basis of their performance.

In 1990, one SOA proposed to offer bonuses to selected employees to reward high performance. The bonus would have been based on quantitative performance indicators and a qualitative assessment of their work. Treasury Board would not approve this and requested the

Agency to develop options on payment of performance bonuses for further review by the Board.

The Treasury Board Secretariat is neither a risk-taker nor a willing giver of extraordinary authority. On the basis of past experience, it is very aware that public service unions will insist on uniform treatment of all their members. The cooperation of unions is required to establish special arrangements for SOAs.

While some SOAs have tried to find mechanisms such as tickets or special lunches to reward employees (see the Conclusion), the options available are very limited. As one SOA head noted:

> “You can set up vision statements, objectives for the corporation at large, objectives for each individual and performance metrics against [which performance or progress toward] these objectives [are measured,] but at the end of the day it all boils down to monetary rewards. Human nature expects that if I do better than everyone else, I will get a larger bonus.”

If a system to reward good performance of Agency staff is to be devised, then such a system must be *seen by staff* to be linked to clear measures of successful performance. If this clear linkage exists, it may lead to increased motivation, but any system which is deemed to be unfair or biased or subject to management preferences could have an opposite effect. It is also important to note that there is little evidence available on how differently employees and/or management would have acted under a different compensation package. Perhaps SOAs should become the pilot mechanism to test the impact of increased flexibility to reward exceptional performance.

At least one Chief Executive Officer (CEO) also felt that there should be a means to distinguish between managerial and organizational performance. He noted that private sector managers were often paid higher incentives when corporate profits were down, because rewards for high levels of managerial performance were most essential in difficult economic conditions. Experience in the private sector has demonstrated that monetary and other compensation gets results and contributes both to motivating employees and to attracting the best workers.

Another suggestion made by an SOA head is a reward system based on the United Kingdom's Executive Agency approach, where performance pay has become a managing principle. The larger Executive Agencies in the U.K. have been delegated authority over pay and classification, as well as collective bargaining responsibility with unions. Some chief executive officers are on three-year contracts with up to 40 percent of their pay linked to performance levels against targets. Staff at all levels of the organization also have at least a small percentage of their pay linked to performance, which is measured against targets. (A recent study has, however, concluded that these Agencies also need to do more work in this area.[4])

Needs of SOA Employees

It is clear that limitations in human resources flexibilities limit the ability of SOAs to meet their performance objectives. At the same time, the more an SOA's personnel flexibilities and operating norms vary from those of its host department and the rest of the government, the greater the likelihood of creating two classes of people – those within an SOA, and those in the rest of government.

Employees within an Agency are caught between a desire for the Agency to achieve high performance, and a desire to have the same personnel protection as the rest of the public service (work force adjustment, job mobility). While some SOA employees might like to see their Agency become exempt from costs associated with work force adjustment, it is doubtful that most employees would readily give up the protection it provides. This may be particularly true in Agencies where staff feel that they are vulnerable to a potential political decision to eliminate or privatize the Agency. Similarly, while the Agency staff may feel the frustration associated with the current staffing regime, many would like access to the Priority Clearance System should their own jobs be eliminated. At a time when there already exists considerable uncertainty within the public service, some staff may even fear that an increase in an SOA's human resources flexibilities could lead both to a lessening of job security and to an increase in the potential for insensitive or even abusive use of authority by managers, with inadequate redress mechanisms for employees.

Needs of the Host Department and Its Employees

Preferential or different treatment of SOA employees can also create human resource issues in the host department. Examples of the types of problems noted by SOA management are as follows:

- Where SOAs have been partly or wholly protected from public service-wide downsizing exercises, this has led to resentment in other areas of the department that find their workloads increased as they try to absorb the cuts.

- Offering rewards to people can make relationships difficult with the rest of the department. In time of expenditure restraint, these can be viewed as extravagant.

- When one SOA undertook a significant amount of training, employees in the rest of the department became upset about having a per capita training budget that was considerably lower than the size of the SOA's budget. This created pressure for the SOA to spend less money on training.

- Employees in the host department who have been declared surplus may resent any move to limit their priority consideration in the hiring processes of SOAs.

Another area of conflict between the needs of the SOA and those of the host department lies in whether the SOA can provide its own financial, administrative and personnel functions. Some SOAs have obtained authority to provide these services, while others must purchase them from the host department.

There are a number of arguments put forward by departments as to their reluctance to concede this flexibility. One is that a critical mass of central personnel services must be retained to ensure consistency and coordination throughout the department. Where SOAs form a sizable portion of the department, delegation of personnel matters can have a significant negative impact on the viability of corporate services, and on the people who deliver those services.

The Department of Public Works and Government Services Canada (PWGSC) has recently withdrawn the authority to provide corporate services from all of their SOAs, except CCG, for a three-year period. This move is partially to shelter employees in the department's corporate services, at a time when the department has a large number of surplus people. The three-year time frame has been established to allow PWGSC's corporate services group to develop to where they can provide a level of service that can match or exceed that which could be provided by a group internal to the SOA.

Separate Employer Status

SOA heads' frustration with existing limitations in human resources management is leading many to question whether they could acquire the increased personnel management authority they need by becoming a separate employer. Several stocktaking interviews suggest that SOA heads may become increasingly interested in separate employer status if greater flexibility cannot be obtained from departments, and from Treasury Board as the employer. Because of the high level of interest shown in learning more about SES, an Appendix to this report discusses this subject in detail. A few of the major findings will be presented here.

At present, only three SOAs, CCG, Indian Oil and Gas Canada and the Canadian Retail Debt Agency, are separate employers, the latter organization having been a separate employer before becoming an SOA. Employees of an organization with SES no longer work for

Treasury Board and are not covered by their collective agreements. This enables an Agency with SES to develop a classification system and collective bargaining structure that more closely fits the SOA's operations, a compensation plan that better reflects the desired compensation policy, and more appropriate terms and conditions of employment. Separate employers can develop their own personnel management policies, subject to consultations with Treasury Board and unions. They can establish their own reward and incentive mechanisms, subject to limits derived from the *Public Service Compensation Act*. The flexibility to establish an organization-specific classification structure can potentially deal with some of the performance recognition issues by ensuring that there are avenues for career progression and development and that the pay levels match the job attributes.

Separate employers conduct their staffing in accordance with the *Public Service Employment Act*, or the appointment authorities granted through their own enabling legislation. They are also subject to the *Public Service Compensation Act*, must establish their own work force adjustment policy along the lines of the Treasury Board policy, and bear the cost of any adjustments or redeployments.

The separate employer designation also carries with it several new functions and responsibilities, including collective bargaining responsibility and the development of personnel management policies and a benefit regime for employees. The development of a unique classification system is a complex and potentially time-consuming process, and although it might help mobility within the Agency, such a system could limit transfers to the department or the rest of the public service.

Since the transition both to an SOA and to SES involves cultural change for the organization, these transitions should not be implemented at the same time. Managers and employees have sometimes become confused as to changes and consequences associated with SOA status and SES, believing the transition to an SOA will result in a loss of benefits and protection, whereas this could result only when and if the organization becomes a separate employer. A recent Public Service Staff Relations Board decision has determined that a change to SES is a devolution such that it can trigger a work force adjustment situation.

SOAs may require additional funds in order to implement the transition to SES, as well as for increased ongoing responsibilities. It remains unclear as to whether overall cost reductions occur with the transition to SES.

IV. Changes in Management and Staff on Becoming an SOA

Agency heads and some deputy ministers reported that SOA status can stimulate change, particularly empowerment to get on with the business of the newly defined and chartered organization. This chapter examines how the management and staff felt that they had changed upon becoming an SOA and summarizes the changes identified in the six Agency profiles and in opinions voiced in interviews conducted during the stocktaking study. Since few numeric data are available which can be used to quantify the direction and magnitude of these changes,[5] many of the findings presented here have been derived from anecdotal evidence. The first section of this chapter briefly examines some of the of changes that have occurred in SOAs (this topic is covered more extensively elsewhere[6]); the second section discusses the impact of SOA status on employee morale.

Cultural Changes Occurring on Becoming an SOA

It appears that significant change has occurred in a number of SOAs with much of this manifested in a change in corporate culture, attitude and focus. However, both the magnitude and direction of change has varied among SOAs: not all interviewees believe there has been significant change in their organization, and some reported that their operations were not much different from those that existed before becoming an SOA.

Several SOAs felt that they had shifted from a control-oriented bureaucracy to one of service to the public, combining better quality of service with demanding financial and performance targets. SOA status has generally stimulated most organizations to focus much more closely on the results that they want to achieve. The main changes in results reported by the six Agencies that provided detailed self-assessment profiles were as follows:

- *Focus on Financial (Bottom-line) Performance:* For most of these SOAs, their new status has meant some increase in focus on the bottom line. The amount of change in this area reflects several factors, including whether the SOA changed from a mandatory to an optional service, and the extent to which the pre-SOA organization was already strongly bottom-line focused.

- *Focus on Service Quality:* Most SOAs indicated that their customer service orientation has changed significantly. Examples of areas where they have become more client responsive include: improved delivery cycle times; better understanding of customer needs; and customer participation in the development of business plans.

- *Focus on Public Service Purposes:* In a few cases, the change to SOA status also accompanied a stronger focus on the SOA's performance against mission, mandate or public purposes. However, this element of performance tended to be mentioned least often when the impacts of SOA status were identified.

Employee Morale

Few hard data are available with which to assess the impact of SOA status on employee morale. Any improvement in the working environment would represent a major achievement, given the current climate within the public service. Many SOA heads and members of senior management pointed out positive impacts on morale and attitude, as may be seen in the following comments:

> “The SOA initiative has brought out staff's dedication and ownership.”
>
> “The level of employee involvement has increased; they care about their organization and about making it better.”
>
> “The difference made by SOA status was almost magical in terms of the sense of added energy, creativity and commitment.”
>
> “The change to an SOA, and being treated with a certain degree of autonomy, made us feel that we had some control over our destiny.”
>
> “Managers now feel that they have input into the broader issues facing the organization; employees take great pride in the Agency's unique structure and method of funding and the fact that we operate solely on revenues from sales.”
>
> “We benefit from a highly motivated work force which takes great pride in the quality of the products and service to clients.”
>
> “Employees view the Agency as dynamic with good career potential.”
>
> “Employees recognize that they can control their own destiny; they are committed to continuous improvement and a heightened understanding of the relationship between the provision of quality products and service and the survival of the Agency; employees are proud of the products and services they deliver and the work environment.”
>
> “SOA status was well received by staff, was viewed as exciting, providing them with increased flexibilities and an opportunity to function more like a business.”
>
> “SOA status allowed us to think in ways where we had previously felt more constrained.”

"A positive bottom line can be a source of pride for employees."

A senior central Agency official was impressed with the different views expressed by mainstream government employees (moral problems, motivational problems, lack of authority) compared to those of SOA employees who had a much more positive view.

Other comments showed that SOA status did not necessarily lead to improved morale:

"Morale during the transition period has been poor; this is attributed to frequent changes in senior management, and a perceived threat of closure due to poor financial performance."

"There is a general feeling that SOA status did not live up to expectations; 'It is just another thing that the government did for good publicity'; there was no major effect on morale either way."

"Employees have faced unrelenting change both within their own organization and in the market they serve; this has significantly affected morale."

"This initiative has not had a major impact on staff below management level."

Where employee morale has improved, much of this improvement may reflect the employees' belief that they can influence their own destiny through improved performance. The long-term impact of SOA status on morale has yet to be established, and will likely depend upon the extent to which this belief is justified. Improvements may be only a temporary shift, and morale may have recently taken a downward turn due to wide speculations about the future viability and direction of SOAs.

Confirmation from Employee Surveys

Unfortunately there is very little information available from employee surveys to confirm or contradict the comments made above. (Managers frequently are surprised, when they survey staff, by the discrepancy between what managers think are employees' values and concerns and the actual views of staff.) A small number of SOAs undertook employee surveys soon after becoming an SOA, but have not conducted recent surveys to identify how attitudes have changed. CCG, however, has undertaken two surveys: the first resulted in the establishment of several new goals for the Agency; and the second revealed the employees' general belief that CCG was on track with its new established goals – they had confidence in CCG's ability to succeed and were proud of the products and services that they were providing. (CCG is now in the process of being privatized.)

V. Human Resources Strategies Used to Encourage, Facilitate and Manage Change

SOA status can be a catalyst for organizational change. It can become a signal to Agency management and staff that a significant paradigm shift is required in their focus, attitudes and values. To implement such a shift requires an assessment of cultural readiness and the execution of a solid change management plan and human resources strategy. It has been suggested by some SOA heads that at least 12 months are required in order to plan properly for this transition, while at least another two to five years are needed to implement a large change in culture. Corporate culture can be an extremely difficult aspect to change, and reorientation is a long-term process.

Some of the challenges SOAs addressed in their human resources strategy and change management plans included determining how to

- move to a risk-taking and risk-management environment;
- change the mind set of staff from an administrative and policy focus to a customer orientation; helping them to understand customer needs and become more responsive;
- obtain employee buy-in to a new bottom-line, cost-efficiency focus;
- manage employee morale during a period of rapid change, uncertainty and ambiguity;
- build cross-functional teams – to move away from "stovepipes" and encourage team selling;
- increase communications and consultation that are both top-down and bottom-up;
- assist employees who provide services to decreasing markets to diversify their skills;
- increase product and service quality;
- increase marketing skills; and
- creatively reward employees in an environment with limited options.

To implement change it is necessary first to decide in what areas and to what extent the new Agency will change, and then to implement strategies to foster and encourage this change. This chapter discusses ten interrelated strategies commonly adopted by SOA heads to encourage, facilitate and manage these changes.

Mission, Vision, Values

Some SOAs developed or revised their mission, vision and value statements in order to identify and clarify their new direction and focus.

For example, GTA developed a new mission statement that changed its pre-SOA focus on providing services that satisfied clients at the lowest possible cost, to a new focus on “bringing information and telecommunications products and services to the government so that it can, in turn, effectively deliver services to Canadians.” This new mission statement changed the Agency's focus from that of administrative service delivery agent to that of enabler of effective service delivery. It also encapsulated the notion that GTA would be an active agent that was to bring solutions into government, for example, to be more than just a government reseller of standard products.

Prior to becoming an SOA, the Passport Office's mission and strategy were ill-defined, and its objectives were subsumed within the greater goals of the department. Its stocktaking profile stated that the articulation of a revised mission and strategies helped to focus staff and rationalize the Office's evolution.

While the vision, mission and value statements can clarify focus and direction, the actual impact of these statements on the everyday life of Agency staff varied. There are several factors that might explain this variation. One is the degree of participation of staff in the development of these statements, since this affects the extent to which these words have any meaning to employees, reflect their values, and shape their understanding of how the organization is to change. Another important factor is the correlation between the substance of these statements and the elements of performance that are actually measured, tracked and rewarded, as discussed later in this chapter. Similarly, if the other actions taken by management, such as management changes, hiring and training, are all clearly identified with the mission statement and the new focus of the Agency, the impact of this statement will be greater, whereas if the SOA develops a new mission statement but it is “business as usual,” then employees will view the new statement as irrelevant.

Communication and Consultation

Most SOAs stressed that a major strategy for fostering cultural change is consistent, open and continual communication and consultation between senior management, middle management and staff. As one SOA head observed, “It is essential to get the message out, get feedback, reinforce the message and be honest.” Communication efforts have to be targeted at all levels and groups in the organization. The importance of employee access to the Agency head was also stressed by many, to ensure that the leader's message is understood at all levels. To this end, a number of Agency heads implemented direct communication and consultation sessions (lunches, coffee sessions, staff meetings and events) with their employees.

Communication

SOA heads recommended that whenever a substantial change occurs in the organization, care be taken to communicate it. These changes include financial arrangements, training, and alleviation of constraints in terms of certain rules and regulations. Communication of improvements in the Agency's operational performance as a result of these changes is also important for improving morale and creating a sense of hope and ownership in the future of the Agency.

Several SOAs also pointed out the need to coordinate the internal and external communication strategies to meet the expectations of both internal and external stakeholders and to increase understanding and appreciation of the mission and operating principles.

In communicating these messages, speed is a priority and communications vehicles are needed that can quickly deliver key information to all employees. A number of mechanisms have been used to keep employees informed about the organization, its future direction, challenges, successes and failures. These include:

- communiqués, and information bulletins
- Agency-wide newsletters
- CEO/President's lunches for informal discussion with employees
- internal bulletin boards on the local area network
- CEO presentations and coffee sessions
- CEO “fireside chats”
- a promotional video which includes non-scripted testimonials from employees
- a business plan video, and
- regular Total Quality Management (TQM) seminars with the CEO where employees can raise issues and ask questions.

Consultation/Decision Making

In addition to communication strategies, two-way consultation between management and employees also increased. For example, CCG established an Employee Advisory (EA) board to provide employees with an unfiltered voice to the CEO and senior management. The

CEO is the only member of the management team represented on the EA board. Any issues can be brought to this board, including the Agency business plan. The board has proven to be an effective vehicle for employees to table concerns and suggestions. The CEO and senior management have stated their commitment to respond to all concerns and suggestions.

Another SOA head, when establishing his or her management accord with the deputy minister, initiated a call letter to all employees for suggestions. This brought in more than a hundred responses, most of which were deemed to be very thoughtful and useful and generated 38 issues used to develop the accord.

Other consultation strategies used included

- internal strategy conferences
- TQM and marketing conferences
- weekly executive management meetings
- weekly “Special Issues” meetings
- regular staff meetings
- round table discussions involving staff at all levels
- weekly teleconferencing of directors
- annual conferences of managers
- establishment of appropriate committees that include regions, all levels of management
- issue-based committees to address topics such as communications, performance indicators and client service
- participation of all staff in business planning workshops, and
- an “upward feedback” program in which employees help their managers identify their strengths and any dysfunctional management behaviour and develop, in partnership with employees, action plans for improvements.

As noted, almost all the Agency heads interviewed stressed the importance of communication and consultation, indicating that they had made considerable efforts to improve communication and consultation within their Agencies. Unfortunately, there were no data gathered that can be used to assess the relative effectiveness of the various approaches used; nor is it known to what extent SOA management actually obtained feedback from staff to assess the extent to which these communication and consultation strategies provided employees with the information and access to management that they needed.

One-way communication, such as newsletters, communiques, videos and presentations, can be very effective when they communicate something that employees want to know, and if they are seen to be open, honest communication. If, instead, they are viewed as a public relations message from the Agency head, or are full of “feel-good” stories that busy employees think are irrelevant, then this communication will be of little benefit, other than to make management feel that they are “communicating.” Employees will also assess the actions of management relative to the messages communicated, and where inconsistencies occur, these can greatly undermine the impact of communication strategies in fostering change.

Similarly, two-way consultation between management and staff is essential for allowing employees to obtain answers to their questions and express their concerns. It is also essential for letting employees know that their ideas are welcome, thereby motivating them to find creative solutions to problems, and for letting them see that their ideas are given serious consideration. This consultation does, however, increase the expectations of employees that their concerns will be addressed by management and that some form of action will be initiated, or that feedback will be given to employees on why action was not taken. In effect, employees will view management as accountable for the commitments they make.

It is also widely recognized that the most effective form of communication varies from employee to employee. Therefore it is advisable to use a variety of methods (written, video, conferences, workshops, and other means) in order to reach all of them. Furthermore, continuous evaluation and adjustment of the communication strategy should be an integral part of the communication and consultation strategy.

Empowerment

Empowering staff to develop performance goals and identify solutions to problems will generally increase their buy-in to the new direction of the Agency. For example, one Agency reported that when its staff were included in a business planning workshop, they displayed a strong commitment to the organization and to a client service philosophy. They also understood that the environment was changing, and were willing to change accordingly.

A few SOAs indicated that they had made changes to their decision-making processes to encourage greater empowerment of their employees, and to increase employee participation in managing Agency affairs. The heads of these Agencies stated that their employees are empowered and encouraged to continually improve work processes.

For example, the Passport Office has restructured work to eliminate supervisory control. Passport examiners no longer have to check with supervisors before they can make a decision on complex cases. Managers are now held accountable for sustaining a team capable of producing the required output.

Another SOA is in the process of trying to provide clear operating principles so that its employees can work under principles of self-management. It is also trying to set up standards of performance that encourage improved response times, better documentation and better client relationships.

Entrepreneurship and Risk Taking

A few of the interviewees stressed the importance of encouraging entrepreneurial thinking and risk taking with the aim of establishing it as standard practice. The Passport Office is testing a number of new initiatives: opening offices in commercial shopping malls; opening during weekends and evenings; providing new services (for example, travellers cheques, country profiles); and undertaking joint ventures with other government departments. Other SOAs have introduced new products and services, and are exploring the establishment of alliances with the private sector.

One SOA head stressed that organizations which encourage entrepreneurial thinking and taking responsible risks must recognize that some errors will inevitably be made, and that it is important to learn from mistakes rather than to take retribution.

Training and Development

Most SOAs recognize the importance of training and development and have reported that they increased their focus on ensuring that employees receive the training they need. One SOA head viewed training as an indicator that management is committed to helping employees adjust to the new work environment and acquire the necessary skills. Many SOAs increased the amount of training, and also strengthened the linkage between training and skills development and their Agency's strategic plan, direction and needs, as well individual performance evaluations. In keeping with the intent of the SOA concept, most training initiatives focused on quality improvements, customer service, sales and marketing, and the development of technical skills.

Two organizations (CCG and GTA) undertook extensive training in Service and Total Quality Management, which centred on continuous improvements to customer service and product delivery. In CCG, over 30 sessions were held involving some 800 employees, and an additional 30 sessions are planned. In GTA, TQM training focused on helping employees to understand their contribution to customer service and the impact of their activities on overall customer satisfaction, emphasizing the importance of meeting deadlines and commitments to the customer.

Marketing was another area in which significant training needs were identified, especially for those Agencies that provide optional services or products. The requirements for effective marketing include:

- well-trained, customer-oriented sales professionals;
- product managers capable of understanding their business and markets, of estimating gross profit margins, and of developing unit cost and unit pricing measures; and
- technical and analytical staff to provide marketing support and market analysis.

One SOA also reported that training is given to their managers on how to work together with employees to better establish relevant, focused and valuable performance objectives; to communicate openly and honestly about performance to these objectives; and to recognize success.

Specific data on changes in the amount of training before and after SOA status are, unfortunately, rather sparse. One SOA did indicate that its training and development activities have more than tripled since becoming an SOA (from an average of 1.4 to 5 days per employee). Another Agency targeted 15 days of development time annually for each employee.

The stocktaking interviews did not indicate any agreement as to the “ideal” amount of training required. SOAs that primarily provide professional services (TDC, CAC) generally target much higher levels of annual employee training than do Agencies that are providing products. These latter organizations often require large periodic expenditures for capital improvements, whereas professional services agencies must invest higher annual expenditures in rigorous maintenance and upgrading of employees' knowledge and skills in their respective fields.

SOAs that experience difficulty in meeting financial performance targets, or whose budgets are reduced, may find themselves under pressure to reduce expenditures on training and development. This “short-term” solution can lead to longer-term problems in maintaining service quality. Strong leadership from management with a longer-term vision is required to ensure that the Agency maintains the required levels of training and development.

One final observation on training and development is the importance of measuring the *results* of these activities rather than only counting the days and dollars spent. The primary mission of the training function is Agency performance improvement, where training needs are identified through the analysis of performance problems and a diagnosis of causes. Agencies should expect and demand improved performance for their training dollar.

Recruitment

Some SOAs used recruitment from outside to facilitate a change in culture and to provide needed knowledge and skills. For example, one SOA recruited most of its management team and several new employees from the private sector in order to help their organization become more client focused, business-like, and bottom-line oriented. This Agency also implemented an industrial exchange program with the private sector to augment its technical expertise.

Another SOA is using Interchange Canada to import marketing skills and facilitate “knowledge transfer.” Other SOAs have hired new employees to bring technical expertise into their Agencies, both to help develop new products or services and to upgrade the knowledge and skills of existing staff.

Measurement of Agency and Individual Performance

The system established to measure the performance of the Agency, its business lines and its staff reflect those elements of performance that are deemed to be important. There are a number of different aspects of performance that the Agency head may choose to emphasize and measure. These include:

- *business*-related performance that measures financial information (such as unit costs, revenue, net-revenue) and organization health (for example, employee satisfaction);

- *service quality* performance to focus on client satisfaction with both the quality of products or services and service delivery behaviours (such as courtesy, cycle-time, language of choice); and

- *public purpose/mandate/mission* requirements which focus on those aspects of performance that describe why the Agency's services and business lines exist, and why they are delivered by government (rather than by the private sector).

Any organization, whether or not it is an SOA, explicitly or implicitly (by what it does or does not measure) sets a balance between these three types of performance. This balance is established through the number and types of indicators in each area; by the attention paid to gathering accurate data on performance; and by whether these data are used to implement improvements, where warranted. The six SOAs that provided detailed stocktaking profiles all are on revolving funds, have established information systems that provide regular detailed financial information, and in some cases, have developed efficiency measures. Most have also implemented at least one client survey to assess the service they were providing to clients. In the third area of performance measurement – public purpose/mandate/mission requirements – only two of the SOAs have developed quantitative measures, and a third has recognized that enhanced measures in this area are needed. Contribution to the Agency's public purpose is often the most difficult area to measure, but it is these performance measures that enable the SOA to demonstrate why its program should not be privatized or eliminated.

The system used to measure an individual employee's performance must be linked to the Agency's performance measures. Clear performance indicators and corresponding objectives, targets and service standards, and a system that tracks performance against these, will help to reinforce new directions. Little information is available on how SOAs measure the performance of individual employees. One SOA suggested that team (rather than individual) goals measuring client satisfaction, financial performance and business management are critical. Another SOA created account plans for each of its major customers, and intends to measure the productivity of the account management team against goals outlined in the plans. It also intends to try to benchmark personal performance and effectiveness and target the “best of the breed.”

The development of a performance appraisal process for individuals must also be balanced to recognize the various aspects of performance, and must be linked to the Agency's objectives. If only one or two elements of performance are measured (such as financial contribution) this will tend to de-emphasize other key results areas. Care must also be taken to ensure that individual performance measures are used correctly. Often “data” cannot be collected for all important elements of performance (for example, the best employees were given the hardest assignments, or time was spent on special projects or on coaching and mentoring), and emphasis should not be placed only on those aspects which have been quantified into a number. Individual productivity measures have often been used incorrectly in the past to “set quotas” which, in turn, can actually lead to reduced efficiency, as employees work to “standards” levels rather than adjusting their efforts to the requirements of the case. Individual measures can also be used incorrectly by focusing on blaming poor performers, rather than on supporting employee development and the identification of areas where business process improvements, such as clearer guidelines or more training, are needed.

Rewards and Recognition

As discussed in the third chapter, many SOAs identified the need for a recognition and rewards process to reinforce and encourage behaviours such as high levels of customer service, productivity improvements, high levels of job performance, revenue generation and cost-effectiveness initiatives. They also expressed concern about the challenge of how to reward employees, where the options are no different than in non-SOAs. Some of the methods used by SOAs to reward employees include:

- awards designed to recognize employees for their accomplishments
- special conferences
- business lunches or suppers
- T-shirts
- tickets to a sporting event, cinema, dinner or golfing.

Emphasis on Teamwork

Several SOAs are encouraging an increase in the teamwork within their organization. For example, CCG created a Quality Council to promote the Service Quality Management principle of teamwork. This SOA has also created multidisciplinary work teams. Indian Oil and Gas Canada has assembled teams that are capable of addressing the range of issues facing a single Indian band or a group of bands. GTA has indicated its intention to do more team selling to facilitate marketing more overall “business solutions” for their clients.

Marketing and Account Management

SOAs that offer optional services have made a number of organizational changes to strengthen their marketing and account management functions. For example, GTA has established a Marketing Group based on the classical private sector organizational model for this function. This Marketing Group consists of:

- *Account Management (Sales)*, comprised of well-trained, customer-oriented sales professionals. Account plans have been developed for each of their major customers, which GTA identified as a key to the success of this function.

- *Product Management*, where product managers are responsible for planning and managing the development of products with an appropriate gross profit margin, and for ensuring that customers are satisfied. These managers maintain specialized knowledge of the technology and the related business and markets of their product areas.

- *Marketing Support and Market Analysis*, composed of technical and analytical staff who support product and account management.

CCG has realigned its structure to establish a Business Development Division, comprised of the marketing and the product development functions. This new division was created to concentrate on sales, promotional material, market research and developments, as well as to strengthen the links between these functions and research and development.

Several SOAs have established or are planning to establish account managers (or service managers) to focus on major clients or departments. Account managers and account teams focus on providing a stronger customer orientation, better customer service management, more effective service delivery, consistent communication, and clear accountability between the SOA and the client. For example, CCG is in the early stages of moving away from a product-based structure to managing customers through a range of products. In CCG, account managers help customers with the full range of products, rather than on a product-by-product basis.

VI. Conclusion

The rationale behind the establishment of SOAs was to give discrete operational units increased managerial autonomy in exchange for greater accountability for performance results. Experience has shown that the extra authorities actually given to SOAs have been quite limited, especially in the area of personnel management. Furthermore, the charter documents have not served to protect SOAs from government-wide or department-wide policies that override SOAs' theoretical autonomy and limit their ability to meet performance objectives.

There currently exist several barriers against granting greater personnel management flexibilities and authorities to SOAs. These include: limitations defined in existing legislation and collective agreements; the lack of a minimum fixed set of flexibilities that define SOA status; the reluctance of deputy ministers to grant the authorities they have, while remaining accountable for their SOA's operation; and the reluctance of employees to accept a loss of benefits or protection.

If SOAs are not given the flexibilities needed to achieve performance objectives, then these limitations must be recognized in terms of what *can* be achieved. SOAs, being part of the public sector, are required to incur costs, including personnel costs, such as work force adjustment, that are unique to the government situation. SOAs also continue to be buffeted by decisions on budget cuts, salary freezes, and restrictions on management numbers and levels that are especially difficult to absorb when trying to operate in a business-like manner. The extent to which SOAs are given more distance from the rest of government, including more freedom from these constraints, will enable them to improve performance.

The extra costs of managing within the public service environment, together with limitations in staffing and compensation, can be particularly difficult for Agencies that operate in a competitive market. It is, in fact, erroneous to suggest that, given the existing flexibilities, a "level playing field" exists between optional service SOAs and their private sector competition. While an increase in flexibilities would enable SOAs to pursue bottom-line objectives more effectively, many such flexibilities cannot be granted under the existing public service legislation, regulations and practices.

The added costs to SOAs of operating within public sector norms are a "cost of doing business," and SOAs' budgets and the performance expectations of stakeholders must recognize and allow for these costs. Furthermore, these extra costs must not be used as an excuse for avoiding hard management decisions and actions (for example, adjusting the SOA's capacity to changing client needs and dealing with poor performance). No data have been collected by SOAs that would help to estimate the extent of these costs. Such data are needed if government is to better estimate the true costs of existing personnel policies.

SOA status can be a catalyst for change in corporate culture, attitude and focus, but this change takes many years to implement, and its magnitude and direction have varied in different SOAs. Because of the limitations in the flexibilities granted to SOAs, Agency heads have focused on making greater use of those flexibilities already available to them. None of the strategies commonly adopted by Agency heads to encourage, facilitate and manage change are limited to SOAs. Instead, all are available to any manager within the public service, although non-SOAs may face more severe limitations on the extent to which they can rely on staffing or spending money on training and development to improve their work force.

While this report has focused mainly on many of the existing human resources limitations in SOAs, most of these issues point to possible opportunities for strengthening the ability of SOAs to improve their performance. For example, SOAs and central agencies could work together to define a minimum set of flexibilities required by an SOA. Strategies could be developed to collect better data on the costs of operating under existing limitations. Collective experience in SOAs, together with creative ideas, could be used to develop better methods for linking performance appraisals to strategic business performance measures, to identify new and creative approaches related to appointment to level, to develop better awards and recognition programs, and, in general, to find innovative solutions to the issues identified.

Appendix

Separate Employer Status[7]

Separate employer status (SES) is seen by some as a potential solution to easing constraints in the area of human resources management, thus supporting the achievement of performance objectives. In fact the circumstances that may direct any organization in the public service to consider a move to SES are similar, whether the organization is a line department, a Special Operating Agency, or some other organizational form. These organizations all share similar objectives in investigating the benefits and costs of becoming a separate employer. They seek to have a greater degree of control over human resources, and, in particular, over the personnel management function, a very significant element affecting their operations, be this in terms of costs, staffing process, or overall organizational performance. Special Operating Agencies, with their focus on operational performance and results in return for increased flexibilities and authorities, may be drawn to consider SES. Those Agencies that operate on a cost-recovery basis (full or partial) have also questioned whether they could better control certain costs as a separate employer. There is no specific relationship between becoming a Special Operating Agency and becoming a separate employer. These are quite distinct transitions.

Of the present 22 organizations that are separate employers, only three are SOAs: CCG, Indian Oil and Gas Canada and the Canadian Retail Debt Agency. Each of these three Agencies is quite different in size, history and the nature of its operations, and each sought this status for different reasons. Furthermore, Indian Oil and Gas Canada was a separate employer before becoming an SOA.

This Appendix outlines the general features of separate employer status and the implications for any organization in making a transition to this status. Many of the key findings are summarized in Table A.1 included at the end of the Appendix.

What is a Separate Employer?

The organizations which comprise the public service are identified in Schedule I of the *Public Service Staff Relations Act* (PSSRA). By definition, the separate employers make up that portion of the public service which is listed in Part II of Schedule I. For the remaining organizations of the public service, being the majority and listed in Part I of Schedule I, the Treasury Board (as the representative of “Her Majesty”) is the employer. Separate employers are delegated the authority of the Treasury Board (TB) with respect to personnel management, and consequently, are responsible for their own collective bargaining. SES can be effected either through an Order-in-Council or through legislation.

Other government organizations, such as Crown corporations and other government corporate entities, are not listed in either Part I or II in the PSSRA, and automatically come under the Canada Labour Code. These organizations, although alternate employers to the Treasury Board, are not considered public service “separate employers” by definition.

Separate employers are each quite distinct organizations who use their delegated authorities to tailor their terms and conditions of employment to their own unique features. As a result of this diversity, there is no specific “model” that can be described.

The individual (that is, the head of the Agency) responsible as a separate employer is delegated the authority of the Treasury Board in broad areas of personnel management. In general terms this means that an organization with SES becomes responsible for its own personnel management, including its collective bargaining, and is no longer obligated to follow the personnel policies of the Treasury Board (those listed in the TB Personnel Management Manual). Since this authority is one that has been delegated, separate employers remain responsible and subject to the direction of the Board.

The delegated policies include the following: administration of hours of work; classification plans; travel and relocation; human resources planning; performance review; training and development; and work force adjustment. A separate employer may choose to continue to implement the Treasury Board policies, or it may establish its own policies in these areas. The extent to which a separate employer will adopt or modify Treasury Board policies will depend on the organization's needs. Some policies cannot be adopted intact. For example, the Work Force Adjustment directive defines a reasonable job offer as an offer in a part of the public service for which Treasury Board is the employer. If a separate employer's Work Force Adjustment directive includes a commitment of a reasonable job offer, this would refer to an offer of a position elsewhere within the same organization.

Common Rationales for Becoming a Separate Employer

Although each separate employer has been established for reasons unique to its own operating environment, there are certain common themes that are found within the separate employer population. The most common rationales for the pursuit and approval of SES include the following:

- The mandate of the organization is such that it warrants a degree of autonomy from the central administration (for example, regulatory or security agencies).

- Specific circumstances of the operations of the organization are not addressed as well within the existing collective agreement (for example, scheduling of hours of work).

- Human resource requirements unique to the organization suggest that a different classification and/or compensation plan be implemented (for example specific skills or specialized labour market requirements).

The basis for these rationales is the different or unique features of the organization which may be accommodated better through separate employer status than through the rules and provisions designed for that part of the public service for which the Treasury Board is the employer.

The case made by the three existing SOA separate employers falls primarily within the second and third categories, as both moved promptly to establish their own classification and compensation structures to meet their requirements. Both these organizations also have the potential to devolve their core functions to other orders of government or to the private sector.

Benefits and Implications

Flexibilities

Separate employers derive benefits from flexibilities in personnel management that allow them to better meet the organization's unique needs. A separate employer organization may exercise flexibilities and derive benefit in specific areas. For example:

- A classification system can be tailored to the specific nature of the organization's operations.

- The potential exists to rationalize the collective bargaining structure to one that more closely fits the operations of the organization (for example, fewer bargaining units).

- The compensation plan attached to the classification plan can be modified to reflect the compensation policy the organization feels will best represent the value that the organization places on different jobs[8] and can facilitate the recruitment of specially skilled individuals.

- The organization may negotiate terms and conditions of employment in other areas, such as hours of work, that may be more appropriate to its operations.

Not all of these benefits operate for every separate employer. Any benefits derived are dependent upon the manner in which the organization chooses to exercise its increased authority to meet its operational needs.

Implications for the New Employer

In addition to the potential flexibilities that can be exercised, the designation of a separate employer carries with it several functions and responsibilities that were formerly performed by the Treasury Board as the employer. An organization must examine these and determine whether it has the capacity to assume this enhanced personnel management function, and if not, how it will develop such a capacity.

Collective Bargaining Responsibility

As a separate employer, an organization obtains the mandate from Treasury Board to become responsible for carrying out its own collective bargaining. Any agreement negotiated will be reviewed by the Board for consistency with this mandate. The organization must not only ensure that sufficient resources are in place to carry out this function, it must also be prepared to assume the direct responsibility for the terms and conditions of employment that it negotiates with the bargaining unit. The separate employer can be held accountable for the effects that its collective agreements may have on the performance of the organization. At the present time, the process and content of collective bargaining, including possible reconciliation of various collective provisions, are subject to the provisions of the *Public Service Compensation Act* (PSCA).

Development of Personnel Management Policies

The application of the Treasury Board personnel management policies is no longer mandatory for a separate employer. It becomes the responsibility of the separate employer to examine these policies for their applicability and appropriateness to its unique situation. In adopting policies, the separate employer may adopt a new or existing Treasury Board policy as its own, modify the policy to suit the organization's needs, or establish its own unique policy. The resource requirements for evaluating the Treasury Board policies and for new policy development, however, must be borne by the separate employer. In addition, if the separate employer decides to adopt a classification system other than that utilized by the Treasury Board, the organization must bear the associated development and implementation costs.

Benefit Regime for Employees

Separate employers must also consider the nature of the benefit package that their employees will be entitled to and, if the employer is unionized, make arrangements for those benefits in the context of collective agreements.[9]

Implications for Employees and Bargaining Agents

The transition to SES for an organization means that employees have a new employer who is not a party to collective agreements entered into by the bargaining agents with the previous employer, the Treasury Board. Therefore, the existing employee-bargaining agent relationship ends with this change in status. Any bargaining agents that want to represent the employees in negotiations with the new separate employer can apply for certification with the Public Service Staff Relations Board (PSSRB). Modifications made to the classification system may result in a rationalization of the number of bargaining agents which are determined by the PSSRB to be appropriate representation for the organization.

Implications for Staffing (Application of the Public Service Employment Act)

A small number of separate employers conduct their staffing in accordance with the *Public Service Employment Act* (PSEA). This means that their staffing must comply with the requirements of the PSEA, the Public Service Employment Regulations, and the directives of the PSC. They can, however, receive delegated authority from the PSC to make certain appointments on their own.[10]

The remaining separate employers conduct their staffing in accordance with the appointment authorities granted to them through their own enabling legislation (which effectively takes the place of the PSEA provisions) and are not accountable to the PSC for their staffing activities. At the same time, employees of these separate employers are recognized as “persons employed in the public service” for a number of purposes related to the PSEA, such as being eligible to compete in closed competitions conducted pursuant to the PSEA which are open to persons employed in the public service.

Separate employers have to develop, in consultation with TBS, their own respective deployment rules and practices. Deployments (employee movements between departments) cannot take place between an occupational group in a particular separate employer and a different occupational group in another employer universe, unless otherwise regulated by the PSC. This leads to reduced mobility for employees of separate employers, which, in turn, may operate as a disincentive to attracting staff.

Assessment of Separate Employer Status as a Solution to the Concerns of SOA Heads

As indicated in the preceding overview of separate employer status, an organization that moves to SES can expect “less of some things and more of others.” Several of the individuals involved in transitions to SES have acknowledged that the transition involves moving out of one set of rules only to move into another set, but these are of their own making. The transition to separate employer status does not automatically free the organization of all the constraints or requirements that it faces as a public service employer, although it may provide a certain greater latitude of action in some areas within the personnel management function. SES is not a "quick fix" to all of the human resource constraints faced by SOAs, and it carries a considerable front-end effort before potential benefits can be reaped.

In light of the human resource constraints facing SOAs identified in the third chapter, SES can potentially address some of the issues raised, but by no means all. Although given some degree of autonomy from the "central administration," separate employers remain under the supervision of the Treasury Board Secretariat with respect to personnel management. The Treasury Board is given responsibility for personnel management in the public service pursuant to the *Financial Administration Act*, and it is this authority that is delegated by the Governor in Council to the separate employer. The Treasury Board monitors this delegated authority in order to ensure a coordinated policy approach to the establishment of terms and conditions of employment and to collective bargaining in the public service.

Staffing

Separate employers, like any public service organization, may not hire and fire at will. In fact, although private sector organizations do have certain flexibility in their staffing and dismissal options, they too have a legal obligation to adhere to certain rules and requirements.

In the area of staffing, separate employers do not have their own authority over staffing or the authority to bypass the PSC unless they have their own legislation that replaces the PSEA. Otherwise, the rules covering staffing may remain unchanged. Certain flexibilities can be negotiated from the parent department, as many of the Public Service Commission authorities have now been delegated to deputy heads. Salary freezes and promotions will also remain in effect so long as the *Public Service Compensation Act* is in place.

Work Force Adjustment

Another area of pressure on SOAs identified earlier was the cost of redeployment and the application of the Work Force Adjustment directive. This is a Treasury Board directive that applies to those employees for which Treasury Board (as representative of the Crown) is the employer. It is the responsibility of the separate employers to establish their own such policies in order to manage the process of work force adjustment from the perspective of both the employer obligations and employee benefits and options. This policy should be along the lines of the Treasury Board policy. Separate employers will naturally bear the cost of any adjustments or redeployments.

It is also important to note that the Public Service Staff Relations Board has recently determined that the creation of a separate employer out of a department constitutes a devolution, and employees are to be put through Work Force Adjustment.[11]

Performance Management

The management of performance continues to be a major consideration in all departments and organizations, including SOAs. Although SES cannot make performance issues disappear, it can provide some additional tools in order to manage performance in SOAs. Separate employers can establish their own reward and incentive mechanisms to recognize employee achievements, in essence, beyond the limits set out in Treasury Board policy. However, performance pay is still subject to limits derived from the *Public Service Compensation Act* among other politically based factors.

The flexibility to establish an organization-specific classification structure can deal potentially with some of the performance recognition issues by ensuring there are avenues for career progression and development for staff, and that the pay levels match the job attributes. This can be a powerful tool in the management of performance and incentives in an organization where the rigidity of an existing classification system has imposed impediments to advancement. The development of a unique classification system should not be taken lightly. It is a complex and potentially time-consuming process; however, the benefits for certain organizations will merit the investment.

By no means is there full autonomy for separate employers. If a separate employer wishes to introduce or significantly modify personnel policies or alter compensation policies, the Treasury Board must be consulted. In the context of collective bargaining, a separate employer must conduct these negotiations in accordance with mandate requests which are approved by the President of the Treasury Board on behalf of the Treasury Board. A separate employer is still part of the public service, and as such, must operate within the context of that environment and the policies that apply, such as employment equity and official languages legislation. As previously described, a separate employer operates within the context of the PSEA and the public service employment regime, unless specifically precluded.

Suggestions from the SOA Experience

The SOA experience with SES has been slight to date. The three Agencies which are separate employers are in other ways considerably different and came to be separate employers by different routes. Indian Oil and Gas was a separate employer before it actually became an SOA. It is relatively new as an organization; it is a small Agency of 67 full-time equivalents (FTEs), primarily professional staff. CCG, on the other hand, has over a thousand FTEs, many of them production oriented, and was more established in the public service community. It became a separate employer several years after being named an SOA, although it signalled its intention to do this from the start. The transition to separate employer status of this larger, older organization was considerably more complex. The following general comments relate to the practical transition process for SOAs and may be of interest to those further considering SES.

Both the transition to an SOA and to SES involve cultural change for the organization. The advice provided by SOA heads and central agencies is to not implement both changes at the same time, as the strain on internal resources may be excessive. In most instances, SOA status should be the first priority. However, it is appropriate to flag the intent to consider separate employer status at a future date in the charter document and note this in the submission to Treasury Board, not as a request for approval or permission to pursue, but to indicate an intent and to provide a foundation for any subsequent request.

It is essential to secure senior management support in the parent department early on in the development of the separate employer option. Both PSC and Treasury Board Secretariat officials should also be brought on side and plans discussed with them (official PSC approval is not required, but its support can be valuable).

The preparations in building the case for separate employer status for the Treasury Board submission may take as long as a year. They involve developing a plan to deal with classification, setting up a structure to undertake any necessary collective bargaining, and generally establishing how the organization will deal with its new responsibilities. This will all lead into the Treasury Board submission.

Another six months may be necessary to actually develop any new classification structure, if one is desired. If the new classification plan and related compensation plan are timed to become effective on the same date as the organization becomes a separate employer, this will make subsequent certification hearings easier. Since the Work Force Adjustment Directive may apply, it may be wise to set the date that SES becomes effective to six months after the Order in Council date approving the new status, as this will synchronize the process with the notice period required by the Work Force Adjustment Directive.

SOAs that are funded through appropriations may require additional funds in order to implement the transition to SES, as well as for ongoing increased responsibilities. In the current circumstances, it would be difficult to find these funds through appropriations; cost-recovery would be the most likely source. Separate employers will generally require dedicated officers in the area of personnel management to be responsible for the additional functions that fall to the organization. The handling of the transition to and implementation of SES would be easier for organizations that already have their own dedicated personnel operations group. The organization should also be prepared for protracted negotiations with unions, which may view the entire process as a downsizing exercise and a threat to existing unions and collective agreements. A number of challenges from unions may occur.

Separate employers have indicated that they anticipate cost reductions following the initial period to set up the new organizational culture arising from SES. However, separate employers do incur ongoing additional costs not assumed by organizations where Treasury Board is the employer. There are no benchmark data available to compare costs before and after the transition to SES in order to determine whether overall cost reductions actually do occur with the transition.

Table A.1
Examples of Changes With Separate Employer (SE) Regime

	TB Employer (Status Quo)	Separate Employer
Definition of Employer	Organizations listed in Schedule I, Part I of PSSRA.	Organizations listed in Schedule I, Part II of PSSRA. SE status obtained through Order-in-Council or legislation
Legislative Framework	***Public Service Staff Relations Act*** governs staff relations, bargaining, certification, etc.	No change.
	Public Service Employment Act governs appointment to Public Service by the PSC.	No change, unless excluded from the PSEA by the SE's own legislation.
	Financial Administration Act governs financial and administrative management and reporting.	No change.
	General government legislation and directives govern Employment Equity, Official Languages, etc.	No change.
	Government **wage restraint** legislation (PSCA) governs salary and increment increases.	An Order-in-Council adding the SE to the schedule of the PSCA will result in no change.
Policies and Directives	TB finance, administrative and contracting policies.	No change.
	TB **Personnel Management Policies** (as in the Personnel Management Manual) govern travel, training, terms and conditions of employment, Work Force Adjustment, etc.	These policies (including Work Force Adjustment) do not automatically apply. SE can adopt TB's policies; or can establish its own policies, subject to consultations with TBS and unions
Classification System	Developed by TB.	SE can develop its own system.
Collective Bargaining	TB undertakes collective bargaining.	SE must conduct its own negotiations, subject to TB mandate and PSCA.
Benefit Package	Negotiated by TB, subject to wage restraint legislation.	SE can negotiate its own benefit package, subject to wage restraint legislation.
Employee Mobility	Employees are eligible for **competitions** open to the Public Service.	No change.
	TB **deployment** policies facilitate employee movement between departments.	Employee mobility through deployment can be restricted by different classification systems.
	Priority referral lists govern appointments subject to referrals from the PSC priority list, and placement of surplus employees on this list.	SEs under the PSEA can place employees on this list.

Notes

1. Part of Correctional Service Canada, providing employment and employment-related training to help offenders find jobs upon their release.

2. The companion issue paper *Special Operating Agencies: Autonomy, Accountability and Performance Measurement* covers the role of the Charter in greater detail than does this paper. A second paper entitled *Special Operating Agencies: Business Plans and Annual Reports* discusses the theoretical and actual role that these two documents have in the management of SOAs.

3. About half of existing SOAs report to deputy ministers, and half to assistant deputy ministers (ADMs). For simplicity, throughout this paper we refer to the point of accountability with the host department as the DM, but the reader should read DM or ADM, as appropriate. The relationship between SOAs and their host department is discussed in detail in another issue paper entitled *Special Operating Agencies: Issues for Parent Departments and Central Agencies.*

4. "*Next Steps: Moving On*: An examination of the progress to date of Next Steps reform against a background of recommendations made in the Fraser Report (1991)," by Sylvia Trosa, February 1994.

5. One of the reasons that this type of information is not available is that no one has asked SOAs to collect it. A companion paper entitled *Special Operating Agencies: Audit and Evaluation* examines the types of data that should, in future, be collected by SOAs to assist in the evaluation of their progress.

6. See the Stocktaking report *Special Operating Agencies: Taking Stock*.

7. This Appendix was written by Jane Newcombe and Margaret Strysio, based on the companion paper *Separate Employer Status: Initial Considerations* which was developed by Consulting and Audit Canada in cooperation with Treasury Board Secretariat officials and deals with the area of separate employer status more fully. Copies are available from Consulting and Audit Canada; readers who are interested in exploring the concept of separate employer status further are encouraged to refer to this paper, which includes a listing of separate employers, the common misconceptions, and the process of transition to separate employer status.

8. Note that at the time this report was written, there was no flexibility to modify the compensation plan as the *Public Service Compensation Act* remains in force (the current salary freeze) and applies to separate employers. Although this Act applies only to employers listed in the schedule to the Act, any new separate employers would likely be added to this schedule by Order-in-Council.

9. It is the employer's choice whether to become a National Joint Council member, and as such, it may choose to opt into the National Joint Council directives as a participating employer. It should be noted that in doing so, the policies apply within its own context as an employer.

10. Authorities are generally granted to the deputy head on behalf of the separate employer. However, authorities can be delegated to the head of an agency if that person is deemed to be a deputy head by the PSC or by operation of the PSEA.

11. At the time of writing this report, Treasury Board had not yet decided on whether or not to appeal this decision.

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