

**NWT Business Development Agency
Organization Design & Implementation
Recommendations**

**Submitted to
Department of Resources, Wildlife & Economic Development
Government of the Northwest Territories**

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NWT Business Development Agency

Organization Design & Implementation

Recommendations

INTRODUCTION

The Department of Resources, Wildlife & Economic Development (RWED) intends to amalgamate all current government business development services under a single business development agency (BDA).

This new agency will bring together about 60 person years (Pys) and \$10 million in annual operating expenditures for investing in support of small businesses and the employment that these businesses provide. The agency will inherit the subsidy and equity investment assets of the NWT Development Corporation and the approximately \$30 million loan portfolio of the Business Credit Corporation. It will also take on operation of the Canada/NWT Business Service Centre as well as business grant and contribution funding of the Department.

The recommendations for the new agency's organizational design and implementation will outline the functions of the new agency and its relationship to RWED and existing organizations in the provision of financial assistance, including grants, contributions, loans, subsidies, equity, guarantees and direct ownership support to business. The report will also address the provision of business services, including planning, information and expert advice.

The following recommendations should be read in conjunction with the project terms of reference, the report of the Business Program Review Committee and the letter report of the Standing Committee on Governance and Economic Development on this subject.

Recommendations were developed based on discussions with senior management and from two workshops held with representatives from the Department, BCC, and NWT Development Corporation.

SIGNIFICANT POLICY ISSUES

The work and recommendations of the department and various advisory groups, including the Business Program Review Committee have highlighted many of the key objectives, concerns and potential limitations of a new consolidated agency.

It has become clear that there are no 'right answers' to the fundamental choices and trade-offs to be made in the design and function of the new agency. Consultations to date have not produced clear consensus on some of these issues. Significant policy decisions on the following four issues are required to shape the future direction of the agency.

1. Balancing Social and Economic Objectives

In bringing aspects of the three contributing organizations, i.e. the DevCorp, the BCC, and RWED's business programs together, the question as to the balance of social and economic objectives arose. One view is that investments by the new agency should be 'opportunity based' rather than formula driven. This view holds that investments should be made where there is the best chance of sustained business success. Wage and business subsidies for 'uneconomic' enterprises (those that have little prospect of becoming self-sufficient) may respond to social needs, but should be programmed as income assistance and community economic development rather than business development.

An alternate would hold that government intervention in the economy is needed most to fill the gaps in smaller communities and markets, where the opportunities are the fewest. Investment in marginal or even losing business enterprises can improve local economies, reduce dependence and improve skills. This is preferable to social assistance with little investment in community and individual capacity development. The private sector and commercial lenders will gravitate to the best opportunities. Equity demands at least equal treatment by government of those communities and regions that have fewer economic advantages.

One of the proposed operating principles for the new agency is that:

The territorial economy should be developed by private sector ownership and employment where possible, and public sector ownership and employment when necessary.

Clearly it is not the intent that the BDA would compete with the private sector, but rather complement and support business development. This will mean that the agency will be expected to operate in areas with limited markets or where collateral may not be recognized by conventional lenders and therefore considered too high a risk. Profitability will remain the key criteria, but with the acceptance of higher risk levels than commercial lenders may be willing to take on.

The agency will take over existing businesses operated by the NWT Development Corporation that are currently not profitable and require ongoing subsidies. It is intended that these businesses would be offered to community organizations to operate, with the subsidy provided directly to the community organization. These subsidies should be funded from a separate social fund, rather than draw funding from the commercially-focused program. .

Where the private sector is not prepared to provide financing, the agency may be able to share risk sufficient to lever private sector investment. The agency may also need to consider longer term investments (patient capital) beyond five years, without additional private sector financing.

It is assumed that business development funding will be allocated equitably to all regions and communities. It will be up to the Minister, the Board and management of the agency and regional delivery agencies to find an appropriate balance between business viability, social responsibility and fiscal limitations. Setting appropriate goals, ensuring consistent measurement of results, and equity of distribution criteria will be critical to maintaining this balance.

2. Governing Framework

Fundamental decisions about the governing framework for the new agency will be critical to how the BDA operates and to how it is viewed.

To what extent will the BDA be at arm's length, independent from the department? To what extent will the decisions of the agency be centralized and top down versus decentralized and bottom up? To what extent will the new agency be process-oriented, governed by legislation, rules and regulations versus mission-driven, focusing on broad objectives and results with few process controls?

In general, a centralized, department controlled agency with well defined rules and procedures is viewed as being more accountable and responsive to department and government policy. It maintains department capacity to intervene when necessary to ensure fair and equitable access to programs. This approach may be characterized as a low risk - low reward strategy.

A more independent agency with decentralized decision making and a clear focus on results rather than process is viewed as more responsive to client needs and to regional and local circumstances. This approach is regarded as higher risk and higher potential reward.

Solid arguments can and have been made to support both strategies. Current staff may tend to be more comfortable with a lower risk approach. Clients, board members and non-government advisors tend to want a shift towards greater independence and flexibility to improve results.

Experience suggests that either approach can "work", as long as everyone is clear on their job and are given the tools to do it. Failure is usually associated with lack of clarity on roles and a mismatch between responsibilities and resources and/or between accountabilities and authorities.

In today's environment, most organizations have made or are under pressure to make the policy shift shown below. Organizations that resist tend to suffer the ongoing dissatisfaction and criticism of their clients.

Organization Policy Shift

<u>From</u>		<u>To</u>
<i>Professional/program focus</i>	⇒	<i>Client Focus</i>
<i>Centralized/specialized</i>	⇒	<i>Community-based/integrated</i>
<i>Process orientation</i>	⇒	<i>Results orientation</i>
<i>Rules and regulations driven</i>	⇒	<i>Mission & values driven</i>
<i>Command</i>	⇒	<i>Consensus</i>
<i>Having it done for/to you</i>	⇒	<i>Making your own choices</i>

On balance, it appears that the government and department senior management are prepared to make the shift. In doing so, it must be recognized that this 'leap of faith' will require determination (change is hard work) and a willingness to accept some risks (and take measures to mitigate them).

A second dimension to the governance question is the degree to which the models for delivery are prescribed or mandated, versus flexible and enabling.

'Forcing' regional delivery through restructured CFDCs would provide a clear, consistent and well defined regional delivery model. It would result in a quicker move to separate the small business programming from the department and would empower CFDCs as the regional economic and business development agents. The model would seek to ensure that each community and each Aboriginal economic development organization would have at least one representative on the regional delivery board. To lesser developed regions, the intervention may be welcomed, bringing a new focus and emphasis, including a realignment of support resources to economic development.

On the other hand, not all regions have well established and representative CFDCs. Yet others may be unwilling or unable to take on the additional responsibilities. Some land claimant or self-government interests may well see community and regional economic development programs as candidates for transfer. More developed regions may object to the intervention, preferring to see the region self-organize based upon need and opportunity.

A less interventionist and more enabling developmental approach is to allow the BDA flexibility to contract with regional delivery agent(s) best positioned to provide services. (Currently, services are delivered largely through CFDCs and RWED regional offices and this would not likely change much on day one.) At the same time, the BDA would be mandated to promote and support the development of a single representative regional economic development agency (preferably but not necessarily the CFDC). This approach may result in a slower shift towards single window regional delivery agencies and away from departmental involvement in delivery. This approach may also address client concerns over lack of choice from there being only one delivery agent in a region.

Although each approach has pros and cons, the latter approach is proposed by the Department.

3. BDA Resource Allocation

An organizational design assumption is that the new agency will have a 'fair' share of the resources that accompany the programs and services being transferred.

The resources within the DevCorp, the BCC and the CBSC are all clearly defined and it is assumed, are all to move to the new BDA. The resources within the RWED structure at HQ and in the regions are less clear.

Given the role of the new BDA and based upon consultations with departmental officials, it is assumed that the agency will not manage programs in support of traditional or subsistence economy or arts and crafts. "Small Business" for the purposes of the new business development agency would include businesses that typically have business plans and balance sheets.

Analysis and negotiations will be required to allocate a share of RWED corporate support (HQ and regions) to the new BDA (finance, policy, HR, analysis, management). These are currently supporting programs, including the BCC, to be transferred to the new agency.

RWED positions within the regions should be moved to strengthen CFDCs or other regional development agencies as they take on existing RWED programs. This may include positions that now have some functions to be transferred and some to remain within the department or some of the 11 positions that have been transferred to community control.

It has been noted that creation of the new agency is not intended to be a cost-cutting effort and any savings from efficiencies will be available for reinvestment in programs. However, it has also been suggested that the new agency will bear a fair share of any overall reductions to the department budget allocation.

4. BDA Corporate HQ Location

The corporate headquarters for the BDA has not been decided. It should not be assumed that this needs to be (or should be) Yellowknife.

There are likely to be 10 to 20 positions in the agency. In itself the agency can provide significant stimulus to a smaller community or regional center. Yellowknife is likely the NWT community that least needs this stimulus (and likely least needs the services of the BDA).

The GNWT should consider the following criteria in selecting a location for its corporate headquarters:

1. The community must have access to high speed internet services.
2. The community should have reasonable transportation connections to the rest of the NWT.

3. The community should have affordable housing, office space and the basic amenities required to attract and retain a core of skilled staff.
4. The selection of a community should consider the relative location costs and community economic benefit.

RECOMMENDATIONS

1. *The New BDA should be Independent and Decentralized with a Focus on its Mission.*

The recommendations that follow are based on working towards an independent agency and delivery model with decentralized decision making. It should be guided by a clear mission and accountability framework and given the flexibility to be innovative and build partnerships necessary to achieve the desired results. The model proposed is enabling and developmental rather than prescriptive and mandated.

2. *Selection of a Location for Corporate Headquarters*

The government should evaluate, select and announce the location for the new agency headquarters. This should be the regional center that best meets the criteria outlined above. A decision should be made before any staffing decisions are made.

Appendix 1 provides recommendations on alternate locations.

3. *Early Appointment of CEO*

Creation of the new BDA requires the leadership of a champion to represent the agency and advise the Minister in detailed negotiations, business planning, communications, consultation and staffing decisions. This role cannot adequately be fulfilled by consultants or department management.

The current plan calls for appointment of the CEO after most key decisions have been made on legislation, roles and responsibilities, service agreements, resource allocation (staff and dollars), business plan and board appointments. It is strongly recommended that the Minister select and appoint a CEO (or interim CEO) as soon as practical (early fall at the latest). The CEO should have the required skills to drive and support creation of the new BDA

In the interim (between appointment of the CEO and implementation of the new BDA) the CEO should be provided with senior management status and staff support to prepare for the transition.

4. *Adoption of Organization Structure*

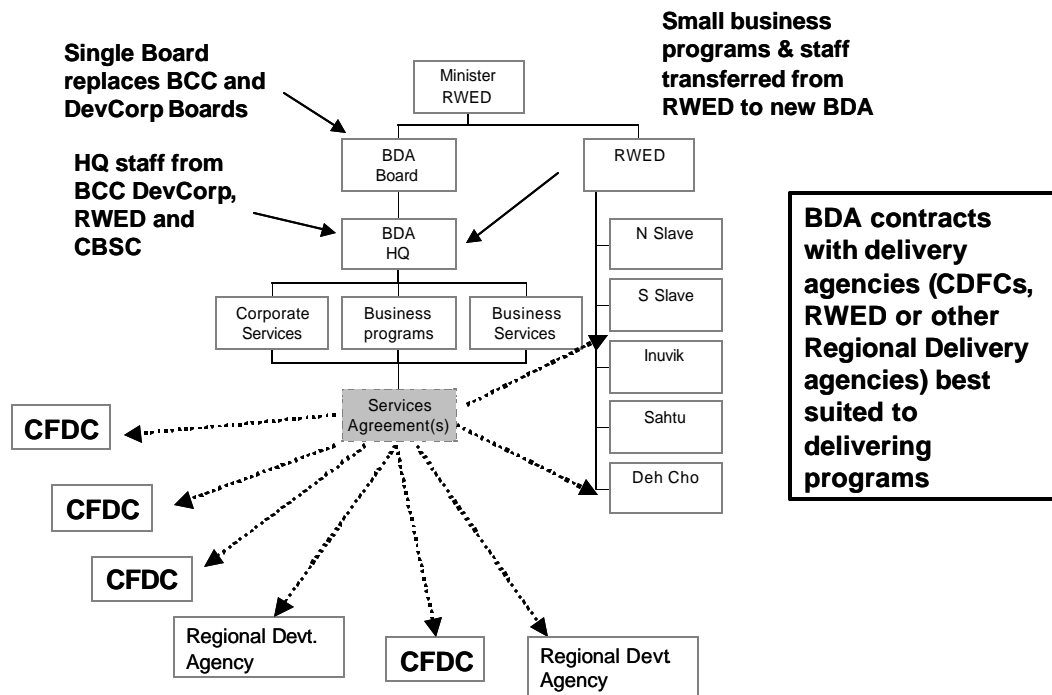
The recommended organization structure shown below includes a single BDA Board and small BDA headquarters organization with no regional

presence. It would provide policy direction, resource allocation, information services and expert advice to regional delivery 'agents'. It would also monitor and report on results.

Designated regional delivery organizations would be contracted to provide delivery of programs as agents of the BDA. Initially, the delivery would be very much the status quo, with delivery through Community Futures Development Corporations (CFDCs) and RWED regional offices.

The BDA would be mandated to support the strengthening of CFDCs or alternative regional development agencies and move towards delivery through fully independent, arm's length regional agencies. Designated regional agencies must be representative of all communities and business sectors in the region. The BDA should resist any moves that would further fragment delivery into smaller units. The goal should be a single regional agency delivering all GNWT business programs. Ideally, these agencies will also seek partnerships with Aboriginal and Federal small business programs and result in a truly 'one window' service.

Proposed Organization Structure



As they take on new delivery responsibilities, the CFDCs/regional agencies would be strengthened by addition of designated RWED regional and community staff and resources currently delivering business programs. A transition phase would be required to:

- manage staffing issues;

Act will provide broad direction and a clear mission, with the fewest possible restrictions.

The Act should allow for Ministerial policy direction and provide for clear accountabilities for performance and results. Desired controls on process, authorities and program design should be defined in Ministerial Directives, Board Policies and where necessary, regulations, directives, guidelines and procedures. This should include transparent and workable appeals procedures.

To ensure Ministerial accountability, the Act should provide for annual audit and annual reporting for the agency.

The legislation may include special provisions to ensure a smooth transition from current structures to the new model.

7. Further Define the Human and Financial Resources to be Included within the New BDA

Decisions are required on the direct and indirect staff and financial resources to be provided to the new agency.

8. Accept interim Vision, Mission, Values and Operating Principles

The interim vision, mission, values and principles provided in the report on the first workshop, attached as Appendix 2, should be accepted for planning purposes. Future revisions may be recommended by BDA Board and management in the normal course of business planning.

NEXT STEPS

1. Stakeholder consultation and finalize recommendations – Mid August.
2. Selection of corporate HQ location – August.
3. Draft legislation to Standing Committee – September.
4. Appointment of CEO - October.
5. Develop Business plan, including transition plan, for BDA – Fall 2002.
6. Introduce legislation – February 2003.
7. Enact Legislation – April 1, 2003.

APPENDICES

- I. Location of Corporate HQ for New Single Business Development Agency.
- II. Draft Mission, Vision, Values and Principles of the new agency

DRAFT

Appendix I

New Business Development Agency Corporate HQ Location

Introduction

The corporate headquarters for the New BDA has not been decided. There are likely to be 10 to 20 positions in the agency. The agency can provide significant stimulus to a smaller community or regional center.

It has been recommended that the GNWT evaluate, select and announce the location for the new agency headquarters before any staffing decisions are made. It has also been recommended that the GNWT consider the following criteria in selecting a location for its corporate headquarters:

5. The community must have access to high speed internet services.
6. The community should have reasonable transportation connections to the rest of the NWT.
7. The community should have affordable housing, office space and the basic amenities required to attract and retain a core of skilled staff.
8. The selection of a community should consider the relative location costs and community economic benefit.

The following outlines an objective screening and rating of NWT communities as candidates for location of the BDA headquarters. The screening is used to identify candidate communities, meeting minimum requirements for communications and having a 'critical mass' of population as a proxy for basic amenities.

Communities are ranked in terms of their attractiveness to potential employees, using population, food prices, housing stock and prices. Communities are also ranked in terms of access to other communities and potential employment economic benefit.

All data (except current air fares) are from the NWT Bureau of statistics.

Overall, Hay River and Ft. Smith appear to rank first and second as candidate communities, based on the criteria used.

Initial Screening

Initial screening is based on two criteria. Access to high speed internet is considered essential to the new agency headquarters and provision of business information services. It has been recommended that internet requirements are best served via digital microwave. These services are, or will soon be available in the communities listed below.

As an initial proxy for minimum amenities, housing and office space, communities with a population less than 1,000 are screened out. These two criteria provide a list of 6 candidate communities.

COMMUNITY	DIGITAL MICROWAVE INTERNET	POPULATION July, 2000
Yellowknife	Yes	18,028
Hay River	Yes	3,835
Inuvik	within 1-2 yrs.	3,451
Ft. Smith	within 1 yr.	2,625
Rae-Edzo	Yes	1,864
Ft. Simpson	Yes	1,273
Norman Wells	Yes	882
Fort Providence	Yes	837
Fort Liard	Yes	524
Jean Marie River	Yes	<100
Enterprise	Yes	<100
Kakisa	Yes	<100

Housing and Amenities

Four criteria have been used to rate and rank the six potential communities for the new corporate HQ, from the viewpoint of potential employees. Together, these provide reasonable proxies for the above criteria.

1. **Population** – Communities are ranked by population, with the highest population scoring 5 and the lowest scoring 0.

COMMUNITY	POPULATION	Score
Yellowknife	18,028	5
Hay River	3,835	4
Inuvik	3,451	3
Ft. Smith	2,625	2
Rae-Edzo	1,864	1
Ft. Simpson	1,273	0

2. **Food price Indices** –Communities are ranked by the food price index, with lowest prices ranking 5.

COMMUNITY	FOOD PRICE INDEX 2000	Score
Yellowknife	100	5
Hay River	110-120	3.5
Inuvik	140-150	0
Ft. Smith	110-120	3.5
Rae-Edzo	130-140	1.5
Ft. Simpson	130-140	1.5

3. **Housing Availability** – Communities are ranked by number of private dwellings (highest number ranking 5). It should be noted that some communities (Yellowknife and Inuvik) are currently experiencing very low vacancy rates. This is not necessarily long term and is likely reflected in the housing prices.

COMMUNITY	Occupied Private Dwellings	Score
Yellowknife	5765	5
Hay River	1220	4
Inuvik	1125	3
Ft. Smith	785	2
Rae-Edzo	370	0
Ft. Simpson	420	1

4. **Housing Prices** – Communities are ranked by average house value with lowest average value ranking 5 (price difference of less than 10% not considered).

COMMUNITY	Average House Value \$	Score
Yellowknife	174,204	0
Hay River	106,580	2
Inuvik	139,367	1
Ft. Smith	83,794	4.5
Rae-Edzo	79,693	4.5
Ft. Simpson	94,205	3

Housing & Amenities –Total Score

Yellowknife, Hay River and Ft. Smith would all appear to rate highest in terms of amenities and costs for potential employees.

COMMUNITY	Pop.	Food Prices	Housing		Total	Rank
			Avail.	price		
Yellowknife	5.0	5.0	5.0	0.0	15.0	1
Hay River	4.0	3.5	4.0	2.0	13.5	2
Inuvik	3.0	0.0	3.0	1.0	7.0	4
Ft. Smith	2.0	3.5	2.0	4.5	12.0	3
Rae-Edzo	1.0	1.5	0.0	4.5	7.0	4
Ft. Simpson	0.0	1.5	1.0	3.0	5.5	5

Transportation, Employment and Economy

Three criteria have been used to rate and rank the communities in terms of potential cost and economic benefit, from the viewpoint of government.

- 1. Transportation** – Air travel cost is used as a measure of overall transportation cost and access to other communities. The round trip airfare is shown below is from each candidate community to each regional center (Yellowknife, Hay River, Inuvik, Ft. Smith, Ft. Simpson, Norman Wells).

The total cost is the cost of one return airfare from community to each of the other regional centres (Communities are ranked with the lowest total air cost scoring 5).

COMMUNITY	Yellowknife	Hay River	Inuvik	Ft. Smith	Ft. Simpson	Norman Wells	TOTAL	Rating
Yellowknife	-	239	593	300	440	541	2,113	5
Hay River	239	-	832	539	647	780	3,037	4
Inuvik	593	832	-	893	1,033	541	3,892	0.5
Ft. Smith	300	539	893	-	740	841	3,313	2.5
Rae-Edzo	200	439	793	500	640	741	3,313	2.5
Ft. Simpson	440	647	1,033	740	-	991	3,851	0.5

* For Rae-Edzo add \$200 round trip to Yellowknife fares for cost of commuting

2. **Employment** – Communities with highest unemployment rates are most likely to benefit from the employment stimulus provided by the new agency. Communities are ranked by unemployment rate, with the highest rate ranking 5.

COMMUNITY	Unemployment rate	RANK
Yellowknife	6.4	0
Hay River	12.5	2.5
Inuvik	11.0	1
Ft. Smith	12.6	2.5
Rae-Edzo	31.5	5
Ft. Simpson	18.8	4

3. **Incomes** – Average incomes are used as a second measure of potential economic benefit. Communities are ranked by average income, with the lowest ranking 5.

COMMUNITY	Average Income (\$)	RANK
Yellowknife	41,482	0
Hay River	32,000	2
Inuvik	34,308	1
Ft. Smith	29,352	3
Rae-Edzo	18,630	5
Ft. Simpson	27,511	4

Employment and Economy – Total Score

Rae-Edzo, Ft. Smith, Hay River and Ft. Simpson rank higher, in terms of potential for economic stimulus and cost of operation.

COMMUNITY	airfare	Unemployment	Incomes	Total	Rank
Yellowknife	5.0	0.0	0.0	5.0	4
Hay River	4.0	2.5	2.0	8.5	2
Inuvik	0.5	1.0	1.0	2.5	5
Ft. Smith	2.5	2.5	3.0	8.0	3
Rae-Edzo	2.5	5.0	5.0	12.5	1
Ft. Simpson	0.5	4.0	4.0	8.5	2

Summary

Only 2 communities, Hay River and Ft. Smith, rank in the top 3 for each of the categories above.

These two communities have similar food prices and unemployment rates. Hay River has a higher population, a larger housing stock and is more centrally located, while housing prices and incomes in Ft Smith are somewhat lower. Hay River currently has digital microwave internet service, while Ft. Smith is scheduled to have it within a year. The population of Hay River has been growing more quickly than Ft. Smith.

Either community would appear to be a good choice. Other factors, such as existing infrastructure and availability of office space and shared services may improve the relative rating of one community. There may also be other government policy objectives to consider.

COMMUNITY	Housing and Amenities		Employment and Economy		Overall	
	Total	Rank	Total	Rank	Total	Rank
Hay River	13.5	2	8.5	2	22.0	1
Ft. Smith	12.0	3	8.0	3	20.0	2
Yellowknife	15.0	1	5.0	4	20.0	3
Rae-Edzo	7.0	4	12.5	1	19.5	4
Ft. Simpson	5.5	5	8.5	2	7.0	6
Inuvik	7.0	4	2.5	5	9.5	5

Appendix 2

DRAFT MISSION, VISION, VALUES AND PRINCIPLES OF THE NEW AGENCY

Vision:

A NWT Business Sector leading a diversified, sustainable economy that attracts investment and provides Northerners with opportunities to be productive and self-reliant.

Mission:

To strive for excellence in providing community and regional economic development services that include:

- **Provision of financial assistance;**
- **Accurate, timely and relevant business information;**
- **Support, promotion and mentoring to existing and potential businesses.**

Values:

In carrying out its mission, the Agency will be guided by the following values:

➤ **Commitment to service**

As an agency, we exist to provide programs and services for development and growth of the business sector in the NWT contributing to a healthy and sustainable society. We are committed to ensuring that we offer the best possible and high quality service at all times.

➤ **Value and respect for diversity**

We recognise that everyone is unique and that there is strength in diversity. We will foster a climate where individual, regional and cultural diversity differences are respected; and where equal opportunity and fair treatment are offered to everyone.

➤ **Integrity and confidentiality**

Our reputation depends on the way on which we carry out our work. In order to enhance our credibility as an organisation, our approach to our work, to our staff and to the public we serve will be open, honest, sincere and respectful. The confidentiality of our client files is of utmost importance.

➤ **Respect for staff and partners in program service delivery**

Agency staff and partners in program delivery are valued and the contribution that each makes to achieve our mission is recognised. An attitude of mutual respect and trust will be fostered, and individual responsibility and teamwork will be encouraged as a means of sharing and benefiting from everyone's knowledge and skills.

➤ **Commitment to excellence**

We want to excel at what we do. We are committed to fostering a climate of continuous improvement by encouraging dedication, creativity, initiative, efficiency and responsibility. We will focus on our results as a way of improving our planning and decision-making.

Operating Principles:

The agency will adhere to the following principles in its work as it strives to achieve its vision and mission:

- The territorial economy should be developed by private sector ownership and employment where possible, and public sector ownership and employment when necessary.
- Creation of a diversified and ecologically sustainable economy, should emphasize import replacement, local purchasing and export development, in order to achieve economic stability and self-sufficiency.
- Decisions relating to the management the territorial economy should be directed towards enhancing territorial and community self-sufficiency and should incorporate public input, scientific knowledge, and traditional knowledge.
- Programs and services should be delivered in an effective and accountable manner and as close as practical to the people being served.
- The design and delivery of programs and services should be based on a clear demonstration of need, benefit, sustainability and shared risk.
- Business proposals should remain confidential and client confidentiality should be maintained.
- Funding decisions should be timely and objective, in a process that is transparent, and perceived to be so by clients
- The agency will strive to ensure resources are distributed in a fair, equitable, and transparent manner, while being responsive to development opportunities.