

Good governance... the right track

by Toby Fyfe

The governance challenge for alternative service delivery (ASD) arrangements is to make sure they succeed in meeting what can be called the public interest. This is not just an academic issue. As governments focus on core activities, the scope of ASD is growing and now encompasses what the Organisation for Economic Co-operation and Development (OECD) calls the “wider state sector.” Also, governments are moving beyond the challenge of service improvement to that of measuring what has been called “organizational success.” In Canada, the high profile management issues facing specific ASD arrangements in areas as diverse as water purification, hydro and privacy have made the measure of governance a very practical issue.

Governance is about relationship management and decision-making based on the complex interplay of interests, differences, rights and obligations of a society’s public, private and voluntary sectors, groups and citizens. Governance provides a context for planning and implementing measures to improve performance, consistent with government policy.

In the context of ASD, governance is the way in which the underlying values of the entity are “institutionalized.” It takes into account the need to ensure appropriate accountability to elected representatives and to maintain public sector values. It indicates how the ASD arrangement will serve and interface with citizens, and what redress mechanisms will be in place.

When ASD arrangements are set up, traditional governance arrangements are often inadequate. A government may respond by attempting to develop single ASD and governance models. This one-size-fits-all approach

is the route that the UK took in the Thatcher revolution, and that a number of developing nations are doing under pressure from the UK and other donor countries.

The difficulty with this approach is twofold. First, one-size does *not* fit all. The type of ASD arrangement should respect culture and context, as well as the performance needs of the government. Following from that, specific governance measures should reflect the nature of the chosen ASD entity – a partnership will need different governance arrangements than a small, arm’s-length agency or a major Crown corporation.

Governments need a principles-based approach to ASD and governance that encourages flexibility in determining and implementing ASD arrangements and protects the public interest. Such an approach should recognize that governance is dynamic, and is, as Janice Gross Stein, professor of conflict management in the Department of Political Science and director of the Munk Centre for International Studies (both at the University of Toronto), has noted, “contingent rather than determined.” This means that governance is about ensuring the best course of action in response to specific realities, such as, the form of ASD.

What are the core elements of a principles-based governance approach? Central to good governance is accountability. The Auditor General of Canada defines accountability as “a relationship based on obligations to demonstrate, review, and take responsibility for performance, both the results achieved in light of agreed expectations and the means used.” This definition encompasses the need to not only ensure results, but also to make sure that the “means” or processes are appropriate.

Accountability implies agreement on roles and responsibilities, performance expectations with regard to results, outcomes and capacity, reporting and redress mechanisms, and values.

The fact is that there are literally dozens of different ASD arrangements, including Crown corporations, agencies, contractual arrangements and partnerships. To further complicate matters, different countries use different terms. For example, many developing countries refer to agencies as “parastatals.” And there are many ways in which this variety can be classified – whether they are internal or external to government, by their financing arrangements, by the extent of change they bring about, and by the degree of government responsibility they hold, ranging from high to joint (collaboration) to low (privatization).

They can also be classified according to the governance structure, breaking them down into two broad categories: collaborative or delegated arrangements.

Collaborative arrangements are partnerships, including intergovernmental and intersectoral arrangements. They include the specific category of public-private partnerships (P3s). Many partnerships are informal: in fact, an intergovernmental committee on collaboration noted that many partnerships fail because there is pressure to quickly put in place formal governance arrangements. That being said, other partnerships require not only good governance up front but a strong legal framework as well: a major, long-term P3 arrangement with substantial financial investment from the private sector would be an example.

Governance involves understanding the relationships between various players. A principles-based approach to governance for a collaborative arrangement would look at the relationship between the partners by considering the accountability of each partner and of the partnership itself. Take the example of a partnership between the government and the private sector to manage waste disposal. The government partner is responsible to its elected representatives and citizens for the service result and the “means” of the partnership, making sure, for example, that public funds are not misspent. The private sector partner is accountable to its shareholders for making a profit. The partnership, in this case, can be considered to be accountable for managing waste

Editor’s Note: See “More than one way: considering alternate service delivery procurement,” *Summit*, November 2003, for an outline of ASD options.



disposal so that both the public and shareholder interests are met.

Such an approach to governance also involves a shared understanding of each partner's roles and responsibilities. It would consider performance measures, both results and outcomes. The former can be relatively straightforward: a result common to each partner might be efficiently managed waste disposal. Outcomes can be more complicated. In this case, the government outcome might be framed in terms of the longer-term objective of improving the environment by reducing waste pollution. For the private sector partner, longer-term outcomes would probably be stated in terms of the company's growth. Partnerships may fail if each participant does not understand, or appreciate the implications of, the needs of its partner.

The principles-based approach to governance involves suitable reporting mechanisms. The government partner reports to the elected representatives and citizens. The private sector partner reports to shareholders. What about the partnership itself? How will it report on its progress toward the agreed-upon objectives and results, and to whom?

Corrective measures should be in place so that the partnership does not collapse if circumstances change. And, the partnership will need to consider the values under which

it will operate. Public sector concerns can include financial probity, human resources issues such as equity, and ethical behaviour. Private sector values on issues such as fairness and transparency can be quite different from those of the public sector.

Delegated arrangements occur when the government delegates functions, activities and responsibilities to arm's-length arrangements or other sectors. Once again, a principles-based approach to governance will mean that, depending on the nature of the entity, accountability arrangements are put in place based on a shared understanding of the expected results, outcomes and performance measures.

Take the example of the government delegating responsibility to a community corporation for running a public facility. While the government can delegate specific responsibilities, in the end it remains accountable to the public for the ability of the corporation to achieve results in a suitable manner.

In this case, then, a principles-based approach to governance could mean that the government monitors the entity to make sure it retains the capacity to meet performance expectations. Similarly, specific reporting mechanisms will be put in place: in this case, the corporation might be expected to present an annual business plan and report to the government that could be submitted to elected

representatives. A shared understanding of the expected outcomes, results and operational values of the corporation will need to reflect both the unique characteristics of the corporation and the need to protect the public interest.

To make sure that each ASD entity has suitable governance arrangements, governments need to take a principles-based approach. First, they need to follow a non-ideological method to ASD, focusing on determining specific results and outcomes, assessing the management options (including ASD) and choosing the best ASD option.

Second, when creating the ASD entity, either by delegation or collaboration, governments need to develop governance arrangements specific to the new ASD entity, which reflect the unique relationships, interplay and obligations of each player.

Even though precise governance arrangements will be different in each case, a principles-based approach based on values will ensure that those values are reflected in each entity and its operations. With these steps in mind, and with care and planning, governments can build the right ASD arrangements to operate in the public interest. ♪♪

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