INNOVATION RISK & CONTROL

A public sector guide to encouraging innovation, understanding control, managing risk, reducing red tape…
and delivering better results for citizens

CCAF-FCVI INC

About CCAF

CCAF-FCVI Inc. is a Canadian non-profit research and educational foundation. Created in 1980, our mission is to provide exemplary thought leadership and build knowledge and capacity for effective governance, accountability, management and audit. The focus for, and beneficiary of, our work is the public sector.

CCAF works closely with Canadian auditors, elected officials and government executives. The Foundation receives core funding from Canada's legislative audit community, from government central agencies, from the Canadian Institute of Chartered Accountants, and from some of Canada's major accounting firms.

Innovation, Risk and Control

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EXECUTIVE SUMMARY

"I HAVE NO CONCERN WHATSOEVER ABOUT THE CAPACITY OF THE PUBLIC SERVICE TO BE INNOVATIVE."

A senior deputy minister

Public institutions are critical to Canada's well being and must be managed to a high professional standard. **This document discusses how executive managers in the public sector can support innovation and in so doing, solve difficult problems and deliver better value to citizens.**

For better or worse, new technologies and personal experience with service providers continually shape citizens' attitudes toward the public sector. Citizens expect governments to resolve complex problems seamlessly, even when those problems breach economic and geo-political boundaries. And citizens can now comment on the design and delivery of policies and programs from anywhere at any time, often from a hand held device.[1]

These are new frontiers and public sector managers must innovate if they want to remain relevant to the citizens they serve.

In late 2008, CCAF invited 100 managers, auditors, legislators and academics to meet in Ottawa and discuss ways to improve innovation, risk management and control. We then published a discussion paper (*"Taking Chances"*) on our web site and debated its content with public officials from across Canada. CCAF asked about risks and risk management, barriers and incentives to innovation, sources of red tape and other things. Some people kindly provided additional views through a survey.[2]

"OUR GUIDANCE IS BASED ON A SIMPLE FOUNDATIONAL IDEA... MANAGERS SHOULD ENCOURAGE INNOVATION."

The result is a rich body of advice and insight, which we now express in the form of four management principles, aimed at guiding and provoking thought in management, legislative and audit communities across Canada.

FOUR MANAGEMENT PRINCIPLES

The public sector should never be a place where good ideas go to die. CCAF believes that public entities can serve citizens better when executive managers set the right **tone at the top** – when they remove barriers to innovation and encourage others to take intelligent risks in a secure environment.

Our guidance is based on a simple foundational idea set out in **principle one: managers should encourage innovation**. Innovation is nothing more than finding, testing and exploiting creative ideas to solve problems and achieve better value for citizens. It occurs when managers align incentives, remove barriers and build trust with employees. Innovation combines a good idea with the encouragement and project management discipline required to test it and bring it to life. Innovation is a management job.

But while encouragement is necessary, officials from across Canada have told us that it is not sufficient. They suggest that three other factors should come into play as discussed in **principles two to four**:

- As a foundation for innovation, managers should first establish a **robust environment of control**. A control environment is shaped by the actions and procedures necessary to support people in three areas – the stewardship of resources, the achievement of intended results and the practice of accountability. Managers who launch innovative projects but fail to protect public resources will inevitably find themselves in crisis. Those who protect resources, but fail to achieve anything of worth will find themselves in the same place. And those who resist accountability will damage trust. There is no substitute for a healthy control environment.
- Governments should also improve their ability to **accept risk and embrace opportunity**. Public officials across Canada have told us that their organizations are risk averse.

PUBLIC ENTITIES CAN SERVE CITIZENS BETTER WHEN EXECUTIVE MANAGERS SET THE RIGHT TONE AT THE TOP – WHEN THEY REMOVE BARRIERS TO INNOVATION AND ENCOURAGE OTHERS TO TAKE INTELLIGENT RISKS IN A SECURE ENVIRONMENT.

When managers assess the uncertainties in their environment, they are able to mitigate risk and take informed action. Risk savvy entities are more likely to innovate because they understand both threats and opportunities and are unafraid to act. Entities that avoid risk tend to shift the focus from performance to the service of process.[3]

- Finally, public sector entities should **reduce red tape.** When managers strengthen competence and reinforce public service values, they rarely create a web of rules. And when rules are well attuned to risk – and reduced where risk is low – officials are able to focus more of their energy on finding ways to improve value for citizens. As one senior official said in our consultations "no one joins the public service just to follow a bunch of rules."

Drawing on the advice of officials from across Canada, this document sets out four principles that describe what managers can do to advance innovation in the core ministries of government. Distilled to their essence, these principles express four large ideas:

"ORGANIZATIONS THAT ACHIEVE INTENDED OUTCOMES … BUT FAIL TO PROTECT PUBLIC RESOURCES … WILL INEVITABLY FIND THEMSELVES IN CRISIS."

A former public servant

ENCOURAGE INNOVATION

MANAGEMENT SHOULD TEST AND APPLY CREATIVE IDEAS TO SOLVE PROBLEMS AND IMPROVE PERFORMANCE

BE IN CONTROL

MANAGEMENT SHOULD CREATE A CONTROL ENVIRONMENT THAT PROTECTS RESOURCES AND ENABLES RESULTS

ACT ON OPPORTUNITY

MANAGEMENT SHOULD INVEST IN A RISK-SMART CULTURE

REDUCE RED TAPE

MANAGEMENT SHOULD ELIMINATE UNNECESSARY RULES AND CHALLENGE THE CREATION OF NEW ONES

These four principles should be viewed as integrated. It is unlikely that a government wanting to encourage innovation and deliver better value to citizens can achieve principle one without paying attention in some way or another to the remaining three. Put another way, there is little point in encouraging innovation without working to create the underlying conditions – a sound control environment, a capacity to manage risk and a willingness to reduce red tape – that are necessary to make it happen.

FOLLOWING THIS GUIDANCE WILL NOT BE EASY, BUT IT IS WORTH THE EFFORT

By most comparisons, Canada's public institutions rank highly.[4] Still, there is always room for improvement and managers have choices to make in how they lead. They can be paralyzed by uncertainty and avoid innovation, or they can decide to mitigate risks, seize opportunities and focus on results for citizens. CCAF believes that its four management principles can help to build confident organizations that citizens will trust, knowing that their interests are being advanced.

No one should think that these four principles will be easy to implement in their entirety. In our travels across Canada, CCAF saw many examples of excellence against each of the individual principles. Yet, no officials claimed that their organization demonstrates consistent excellence in each of the four areas.

Because most public sector entities will find that their self-assessed capacity falls short of the practices implied by these CCAF principles, several thoughts are worth advancing:

- **First, the principles deliberately describe performance at a high level.** There is little point in setting recommended practices at the level of average performance or mediocrity. But because the principles describe a state that will stretch most public entities, advancement toward them will take time. There are no quick fixes.
- **Second, these principles describe recommended practice, but they are not standards.** Wherever managers and auditors come together, they should discuss the principles and agree on what is reasonable in each case. Although the principles can support a general exchange on good management practices relative to innovation, risk and control, they are no substitute for the more specific discussions that must still take place.
- **Third, each jurisdiction and entity has a different set of challenges.** For example, in our discussions across Canada some officials argued that red tape is an important issue while others did not. We also saw evidence of attitudes on red tape shifting from one time period to another. Managers should draw from the principles those aspects that are most relevant to improving performance in their time and place.
- **Fourth, there is a natural tension built into the principles and implementation will need to occur in a balanced way.** For example principle two calls for managers to nurture a sound environment of control while principle four calls for a reduction in red tape. In the final analysis, management needs to choose how far it can push principle four (loosening up the rules) without compromising the achievement of principle two. No one principle should be pushed in an unqualified way at the expense of the others – the principles are neither absolute, nor a substitute for common sense and judgment.
- **Fifth, cost will determine how far, and how fast, to move.** Capacity building is rarely cost free. Managers should put proposals to implement the principles to two tests (1) practicality and (2) clear net benefit associated with moving forward.

CCAF's four management principles can be applied in any core public sector entity, whether a large ministry, a smaller unit, or a central agency. **Our underlying aim is to encourage dialogue among leaders in the federal and provincial governments of Canada and abroad. CCAF believes that when managers, auditors and legislators discuss these issues and share their different perspectives, friction is reduced, performance is improved and citizens benefit.**

CCAF thanks the many public officials and private citizens from across Canada who contributed so richly to this work.

INTRODUCTION TO THE FOUR MANAGEMENT PRINCIPLES

GOVERNMENTS FACE DIFFICULT PROBLEMS - INNOVATION IS PART OF THE ANSWER

Innovation and the prudent management of risk should be standard practice throughout the public sector. Because they are not, public entities are more challenged than they need to be in responding to the problems they face.[5]

Today, information is connected, decisions are taken quickly, citizens want engagement and the inner workings of government are transparent. Canada's Westminster style legislatures and civil services were developed in the late 19th and early 20th centuries, before international air travel and the Internet. A management paradigm focused on caution and aversion to risk can scarcely support managers who must anticipate difficult problems before they arise, yet maintain control over resources and results.

Public management issues are becoming more complex than ever before.

As Canada enters the second decade of the new century, **economic and environmental challenges** are returning governments to areas that many had vacated. When they intervene in the economy through re-regulation, stimulus programs or equity participation in failing companies, governments strain budgets and create downstream issues. And when they invest in responses to climate change or other global concerns, public confidence and the basic welfare of all citizens are at stake.

More broadly, **changes in society** (technology, skills, complexity and workforce turnover) increase risk and call for innovation as a path to improving the efficiency and effectiveness of operations. But these challenges grind against the **limits of public sector structure** when the mandates of entities (each has its own silo) conflict with the need to work seamlessly across barriers. Although some entities can deliver cost-effective policy and program solutions through storefronts, self-serve kiosks and the Internet (routinely operating across boundaries) most cannot.

While some governments **manage for results**, others lack a basic inventory of their lowest level programs, an understanding of how those programs align to advance higher-level societal outcomes, and an appreciation of what they aim to (and actually) achieve.

Finally, many public officials work in an opaque world of **administrative complexity.**[6] First they must protect and optimize the use of resources, often navigating through a web of rules. Second, they must design and manage programs to achieve results for citizens. And third, they must account for what was achieved (and how it was done) in a risk-averse environment that tolerates few mistakes. Managers must find ways to do these things even when they have no additional resources, and little practical guidance.

Innovation will not solve all public management problems but it will help.

After meeting with public officials in governments across Canada, CCAF believes that managers at all levels can better serve the interests of citizens when they seek to …

ENCOURAGE INNOVATION

MANAGEMENT SHOULD TEST AND APPLY CREATIVE IDEAS TO SOLVE PROBLEMS AND IMPROVE PERFORMANCE

Management should encourage a trust-based culture where staff can test creative ways to improve performance. Successful tests of new ideas should be rewarded, and well-managed tests that fail to deliver desired results should be accepted and learned from.

But Canadian officials have also told us that barriers to innovation are many and encouragement alone is insufficient to bring about the necessary change. For this reason, **CCAF believes that managers should consider implementing three additional principles – in effect creating a set of underlying conditions that are conducive to public sector innovation …**

BE IN CONTROL

MANAGEMENT SHOULD CREATE A CONTROL ENVIRONMENT THAT PROTECTS RESOURCES AND ENABLES RESULTS

In setting the tone at the top, management should shape an environment of control that strengthens public service values and capacity – and enables stewardship, accountability and results.

ACT ON OPPORTUNITY

MANAGEMENT SHOULD INVEST IN A RISK-SMART CULTURE

Organizations should develop the capacity to assess risks and confidently act on opportunities to innovate, to simplify administrative rules and to improve performance.

REDUCE RED TAPE

MANAGEMENT SHOULD ELIMINATE UNNECESSARY RULES AND CHALLENGE THE CREATION OF NEW ONES

Administrative rules should be clear, linked to objectives and proportionate to risk. To limit red tape, managers should review existing rules and modify those that lack a clear purpose, or whose burden is greater than the risk at hand. Proposed new rules should be challenged and promised benefits should exceed expected costs.

Guidance on implementing these principles is set out in the following text.

THE FOUR PRINCIPLES WITH DISCUSSION AND ANALYSIS

PRINCIPLE ONE

ENCOURAGE INNOVATION

MANAGEMENT SHOULD TEST AND APPLY CREATIVE IDEAS TO SOLVE PROBLEMS AND IMPROVE PERFORMANCE

Management should encourage a trust-based culture where staff can test creative ways to improve performance. Successful tests of new ideas should be rewarded, and well-managed tests that fail to deliver desired results should be accepted and learned from.

"YOU CAN'T INNOVATE IF YOU DON'T TAKE RISKS."

A senior official

INNOVATION REQUIRES FOUR CONDITIONS:

1. **SUPPORT**
2. **MOTIVATION**
3. **SKILL DEVELOPMENT**
4. **TRUST**

THE FOUNDATION IS TRUST

DISCUSSION, ANALYSIS AND GUIDANCE:

Overview

Whether a creative idea comes from structured thinking or serendipity, it is an asset. Innovation happens when people test and apply creative ideas to **solve a problem or improve** a policy, program, product or process. Innovation breaks new ground and includes the project follow-through needed to test and implement a better way of doing things. Creativity is about the idea. Innovation is about implementing that idea.[7]

Innovation rarely happens by chance and depends on four conditions easily influenced by senior managers – **support** (communication, alleviating time pressures, accepting risk and providing resources), **motivation** (empowering, engaging end-users, building diverse teams and rewarding), **skill development** (in creative problem solving and project management) and **trust**.[8]

Trust is hard to obtain but easy to lose. Innovation implies risk and failure and knowing this, a private corporation may launch ten pilot projects accepting that several will fail to achieve much. But, if the problem is solved it may not matter if two projects worked well, three retained some promise and five were abandoned. The failure of well-managed pilot projects to achieve results is poorly tolerated in the public sector where auditors and managers tend to place an equal focus on each and every initiative. **Employees must have good reason to believe that they will be defended when well-managed innovative projects fail. Any other attitude is corrosive to trust.** When the costs of failure far outweigh the rewards of success, innovation is seen as an optional extra or a burden, rather than as a core activity. This needs to change.[9]

Academics often argue about the definition of innovation. Some say that small improvements can add up to dramatic change over time, while others see this as fine-tuning. Unfortunately these debates do little to guide managers on how to act. In reality, all innovation involves risk – and risk appetite (or tolerance for failure) varies both from entity to entity, and from time to time. A solution viewed as highly innovative in one place may be seen as "no big deal" in another, if managers in the second entity have a higher tolerance for risk. **Every entity has its own practical definition of innovation, and the tipping point from "fine tuning" to "real innovation" rests on how much tolerance senior managers have for risk.**[10]

Wherever they sit, **managers at all levels should take a practical and inclusive approach.** This means encouraging people to make small and persistent changes that can solve immediate problems and add up to larger gains in efficiency or effectiveness over time. Managers should also open themselves to breakthroughs – to more radical innovation aimed at introducing fundamentally new processes or service delivery approaches. And in rare cases when opportunities to make transformative change arise, managers should assess risks and potential benefits, and take informed chances.[11]

EMPLOYEES MUST HAVE GOOD REASON TO BELIEVE THAT THEY WILL BE DEFENDED WHEN WELL-MANAGED INNOVATIVE PROJECTS FAIL. ANY OTHER ATTITUDE IS CORROSIVE TO TRUST.

SIX ATTRIBUTES OF A WELL MANAGED, INNOVATIVE PROJECT

Innovation occurs when people apply creative ideas to solve problems or improve policies, programs, products or processes. In public sector entities, **innovation most often occurs through the work of teams, operating in the context of a managed project.**

Some may think that innovation thrives where there is little structure – where ideas are tested without the restraint of rules or normal management discipline. This cannot work in the public sector for two reasons. First, unfocused energy rarely solves problems and second, taxpayers' dollars are at play. Poor stewardship leads to the misuse of funds or worse, and reinforces a risk-averse attitude that can kill innovation.

Bringing a new idea to a practical result requires sound project management and structure. This supports confidence between the project manager and employees – and between that manager and more senior officials. There are six attributes or underlying conditions of a properly managed innovative project:

Prior Knowledge: *Senior management must be aware of the initiative at the front end, and support an adequately resourced project plan setting out intended results.*

Risk Assessment: *An assessment of the risks should be made and the probability and possible consequences of failure understood.*

Risk Acceptance: *Risk mitigation strategies should be identified and residual risk accepted at the outset of the project.*

Monitoring: *Project managers and their superiors should monitor progress.*

Sufficient Authority: *Senior management should be prepared to offer sufficient authority to project managers – this may well mean loosening rules to facilitate experimentation over the course of the project.*

Mature Expectations: All participants should enter the project with the idea that:

- There are no absolute successes or failures,
- The objective is to learn how to improve performance and deliver more for citizens,
- Unexpected results are inevitable and will be learned from, and
- Well-managed projects yielding disappointing results will be defended by the entity in front of governance bodies.[12]

The mark of a healthy organization rests on how it handles failure, of which there are two types – good and bad. When resources are well managed but hoped-for results are not achieved, the project can **"fail forward"** as long as learning takes place. Good failure reinforces good management. Contrary to this, bad failure occurs when resources were misallocated, mismanaged or left unprotected, regardless of result.

ACCOUNTABILITY

At the end of the day both management and the minister are accountable for innovative projects – for the sound control of the initiative and for explaining what did not work well, and why. Accountability is 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.[13] Accountable managers **start the project on the right foot, adjust to stay on course, and fairly report on what was achieved**. None of these things require extensive bureaucratic process but managers should pay attention to them.

"IF YOU DON'T HAVE FAILURE, YOU DON'T INNOVATE."

A retired senior public servant

"Give us the time to think about things and make proposals."

A middle manager

Starting on the right foot requires **clear roles and responsibilities** for the project. Objectives and operating constraints should also be understood and agreed on at the start. Where these are lacking, the issues must be sorted out.

Senior management should understand the **risks** and mitigation strategy for the project and be satisfied that residual risk is acceptable. Managers should ask a key question – **"are you prepared to accept a failure?"** Depending on residual risks, managers may want to ask this question well up the hierarchy – sometimes to the deputy minister, the minister or the Cabinet – or alternatively abandon the project.

Overall performance expectations should reflect capacity (authorities, skills, and resources). **The presumption should be that demonstrated capacity to manage the project should allow for a reasonable reduction in constraint**.

Staying on course is important. Feedback on progress should be provided and corrections made. More fundamentally, staying the course depends on leadership and a **willingness to clear obstacles** that impede progress. Finally, simple, balanced and timely information should be available to close the loop, demonstrating what was achieved, how it was done, and what was learned.

Well-managed pilot projects test ways to solve problems, learn, and build the trust that can deliver better value for citizens. When this happens, innovation is undertaken not as an adjunct to good management but as a fundamental and reinforcing element of it.

Building teams

SOUND PROJECT MANAGEMENT REQUIRES:

- **Prior Knowledge**
- **Risk Assessment**
- **Risk Acceptance**
- **Monitoring**
- **Sufficient Authority**
- **Mature Expectations**

Some people are adept at translating ideas into action while others are not. Because of this, organizations should always try to identify innovation champions.[14] Champions view their role broadly. They convey belief, they have strategic knowledge, and they are able to enlist the support of others. Champions look widely for ideas, and sell them formally and informally. Finally they tend to see new ideas as opportunities, not threats.

Diversity is important to any team and project managers should be aware that each stage of the innovation cycle requires a different set of skills and thought patterns.[15] As **ideas are generated**, managers should validate them against the needs of the entity and its clients.[16] As ideas move more tangibly to the **project design and testing stages** key skills include leadership, risk mitigation, and project planning and control. And when tested solutions are being broadly **diffused**, other "soft" skills come to the fore – among them diplomacy, social marketing, network building and resource acquisition.

Some may believe that a single project manager and team should conduct innovative work from the original idea to the end state. This comforting idea is likely wrong. Because people have different thinking and problem solving styles, some are well suited to idea generation, while others excel in the follow-through required to complete a task. Innovative thinkers tend to question everything, have a strong desire for change, and excel in generating ideas. But once the idea moves to a project design and testing stage, innovative thinkers should give way to people who solve problems in a more adaptive way.[17] In effect, project managers should **engage both innovative and adaptive styles of thinking – but in different mixes at different stages of the innovation cycle. If the mix is wrong, the project will be stressed.**

Barriers to innovation are many

Any combination of gaps in knowledge, incentives and skills can hinder innovation.[18] Barriers to innovation can arise within an entity, within the broader government environment or within society at large.[19] Because change alters comfortable work patterns and requires the local acceptance of risk, many significant barriers originate within entities and become deeply rooted in the culture.

SOME MAY BELIEVE THAT A SINGLE PROJECT MANAGER AND TEAM SHOULD CONDUCT INNOVATIVE WORK FROM THE ORIGINAL IDEA TO THE END STATE. THIS COMFORTING IDEA IS LIKELY WRONG.

BARRIERS TO INNOVATION:	
THE MAIN TWO:	
DELIVERY PRESSURES & ADMINISTRATIVE BURDENS	1
LACK OF RESOURCES	2
THE REST:	
LOW TOLERANCE OF RISK	
RESTRICTIVE RULES, SOME "PHANTOM"	
POOR PROJECT MANAGEMENT SKILLS	
INSUFFICIENT REWARDS AND ENCOURAGEMENT	

INCENTIVES FOR INNOVATION:	
THE MAIN THREE:	
SUPPORT FROM THE TOP	1
EMPOWERING MIDDLE MANAGERS AND FRONT LINE STAFF	2
TRUST	3
THE REST:	
STAKEHOLDER INVOLVEMENT	
RESOURCES	
MONITORING AND LEARNING	
DIVERSITY	
OWNERSHIP	
SAFE PLACES TO EXPERIMENT	
REWARDS AND RECOGNITION	

Regardless of origin, the most important barriers (in rank order of importance) are:[20]

Delivery pressures and administrative burdens: Managers at all levels rarely take time to think about innovation. A typical manager rates day-to-day pressures, delivering services and reporting to superiors as more important than innovation – something commonly viewed as a peripheral activity.

Lack of Resources: Pilot projects require financial, technical and human resources. Where these are deficient, projects are likely to fail. This barrier, as well as the previous one, highlights the idea that creating fertile ground for innovation (both time and resources) is fundamental – but often lacking.

Low tolerance for risk: Managers see little upside in taking risk, and report that risk tolerance is low.[21] Although a program may perform at an average level, this receives less criticism than an attempt at improvement that fails. Managers associate project failure with career downsides, even if the intent was positive.

Restrictive rules, some "phantom": Red tape inhibits innovation, a concern so significant that we dedicate our fourth principle to it. Worse yet, phantom rules (those that are believed to exist, but do not) have the same effect. Where employees operate under constraint that is more imaginary than real, management should bring their attention to the authority that they actually possess.[22]

Poor project management skills: Although project managers should have a mastery of creative problem solving, risk management and control practices, these teachable skills are inadequately supported. Given that skills must be honed with experience, some form of "apprenticing" in these areas might usefully support new or aspiring managers.

Insufficient rewards and encouragement: The phenomenon of higher penalties for failed innovations than rewards for successful ones is common in the public sector. Performance appraisal systems do not sufficiently value innovation and innovation is rarely taught in public sector management schools.

BUT THE RIGHT INCENTIVES CAN COUNTERACT THESE BARRIERS

Barriers can be overcome when the most important incentives are identified and reinforced to build trust.[23] In this context, **three incentives are so fundamental that little can be done without them:**

- First, an innovative culture depends on tone and **support from the top** where power, influence and leverage reside. Executive managers should be persistent – confirming that innovation is important, encouraging and recognizing innovators, reducing red tape and

"THE PUBLIC SECTOR CANNOT AFFORD TO BE THE PLACE WHERE GOOD IDEAS GO TO DIE."

A retired senior public servant

allowing time to experiment. They should support networking activities, risk management and creative problem solving courses, suggestion boxes and other tools. Finally, the most senior officers in the entity should communicate their risk appetite (or tolerance) and establish a positive way to diffuse the lessons learned from innovative projects, whether those projects worked or not.

- Second, organizations should look for ways to **empower middle managers**. When executives encourage middle managers and front line staff – the culture bearers in most ministries – they dispel the unhelpful idea that innovation can only come from headquarters. And when middle managers believe that innovation is everyone's business (and trust that honest mistakes will be tolerated) the opportunities to better serve citizens are multiplied.
- Third, senior management must earn **trust**. Honest mistakes or projects that fail to pan out are normal. Employees must believe that they will be protected from undue sanction in the event of an honest failure. All managers should accept the idea of "failing forward" and model supportive behaviour. An honest but unsuccessful risk taken should never hamper an employee's opportunities and advancement.[24]

Other enablers of a lesser though significant importance include:

- **Stakeholder Involvement:** Managers should seek and respect the views of end-users. Attention to user needs at an early stage can identify and correct obvious problems and pave the way for acceptance and diffusion of the new approach.
- **Resources:** Central agencies and ministries might consider the creation of financial reserves to support promising ideas when they are backed up by a project plan.
- **Monitoring and learning:** Employees respond positively when lessons learned from projects are fed back quickly to inform policy and management practice. When this happens, organizations turn a corner. Entities that learn through testing, benchmarking, professional networks and ongoing employee development treat creativity and innovation as teachable practices. They also link training and development plans to those skills and practices.
- **Diversity:** Innovation requires an ability to see things differently. Different personality types and ways of thinking come to the fore as innovative projects move through the lifecycle from early idea, to tested idea, to diffused innovation (and problem solved).
- **Ownership:** Concentrating innovation in "skunk works" units can generate results when strong technical skills and experience are required. But concentrated effort can limit the leverage gained when innovation is seen as the responsibility of every employee. Managers at all levels should reinforce the value of broad employee engagement, and celebrate success whenever possible.
- **Safe places:** Creating safe places to test ideas such as pilot projects is an effective way to experiment, provided that well-managed failures are defended, learning takes place, and the project "fails forward."
- Finally, **rewards and recognition** can help but are generally less potent incentives than some may believe. Rewards are most effective when they impact status, advancement, or the provision of additional authority (often seen as a vote of confidence). The simple act of thanking people for special efforts can have a positive impact on performance, particularly if it occurs promptly, on or about the time of the event. Awards should recognize both successes and the honest failures that led to valuable learning. **Contrasting this, financial rewards (cash bonuses) are not seen as a motivator for innovation and are unlikely to be more than marginally successful in the public sector.**[25]

Trust and the Innovation Bargain

Executive managers aiming to encourage innovation should focus on those areas most likely to have the **greatest positive impact – top-level support** (communication, alleviating time pressures, accepting risk and providing resources), **motivation** (empowering, teaching, engaging end-users, building diverse teams and rewarding) and **skill development** (in creative problem solving and project management). And then, there is the overriding factor – **trust** – an asset that is hard to gain but easy to lose.[26]

Roughly 2,400 years ago Aristotle argued that troops look for a leader whose actions demonstrate competence and integrity (aretê), practical wisdom (phronêsis) and goodwill and respect (eúnoia).[27] Little has changed. People judge themselves by their own intentions and others by their behaviour. When managers behave consistently, predictably and supportively they build trust and are able to take considered risks and innovate. Those that lack trust create barriers to communication, bury new ideas, reduce productivity and create stress.

A trust-based culture requires managers to listen, find innovative thinkers, respect ideas, and intelligently risk resources in projects that may or may not work.[28] Managers who do these things reinforce the idea that innovation is normal and essential.

Trust occurs most naturally in the public sector when an implicit bargain is set:

- Senior managers buy into the need for change and innovation – they are aware of the project, accept its risks, and are able to offer sensible relief from administrative constraint;
- Project managers demonstrate control, sound values and competence; and
- All those involved practice an enlightened form of accountability based on the understanding that some innovative projects will not pan out.

Managers, auditors and legislators should collectively accept that some well-controlled projects will fail to deliver hoped-for results – and when this happens, the object is not to sanction the project manager but to ensure that **learning** is widely shared.[29] Managers must be prepared to account for what was done, for what worked (and did not) and for what was learned. But there should be no contrition for a well-managed innovative project that yielded few, or unexpected, results. On the contrary, senior managers, auditors and elected officials should explain and defend, if necessary, the work that was done. **The clear lesson is that people who take responsible risks should be supported, regardless of the outcome. That is the only way to build trust.**

The Innovation Bargain...
Senior managers accept risk, and provide resources and administrative relief
Project managers are competent and responsible
Everyone practices enlightened accountability

"You have to trust that senior management has 'got your back' when you take a risk."

A middle manager

PRINCIPLE TWO

BE IN CONTROL

MANAGEMENT SHOULD CREATE A CONTROL ENVIRONMENT THAT PROTECTS RESOURCES AND ENABLES RESULTS

In setting the tone at the top, management should shape an environment of control that strengthens public service values and capacity – and enables stewardship, accountability and results.

"POLICY ADVICE IS NOT THE 'BE ALL AND END ALL' ROLE OF THE DEPUTY MINISTER. THE ROLE HAS EVOLVED. NOW MANAGEMENT IS A MORE CENTRAL FOCUS."

A deputy minister

FIVE ATTRIBUTES OF AN EFFECTIVE CONTROL ENVIRONMENT:

1. VALUES & ETHICS
2. COMPETENCY
3. LINK RESOURCES TO RESULTS
4. MANAGE RISKS
5. PROTECT RESOURCES

DISCUSSION, ANALYSIS AND GUIDANCE:

Overview

No organization can innovate without first ensuring a sound environment of control – the resources, systems, processes, culture, structure and tasks that taken together, support people in the achievement of objectives.[30] **A robust control environment is built on the processes, procedures and capacities required to mitigate risk to an acceptable level, support the stewardship of resources, encourage the monitoring and reporting of performance, and increase the probability of an intended result.**

Some equate "control" with its narrow supervisory activities – checking, reviewing, authorizing and the like – and warn that it has, or may, evolve into micro management or a "web of rules." Ironically, when employees are micro-managed – or when they focus inordinate energy on process, and less than they should on the achievement of results – the entity faces weaknesses in its control environment. More rules and process do not necessarily translate to better control.

Control never relies on process to replace common sense – it is about mitigating risk and supporting stewardship, effectiveness and accountability together – ensuring that people are competent, applying restrictive rules only where they are justified, and promoting innovation to improve value for citizens.[31]

Control is both **restricting and enabling.** It restricts discretion when it protects against unwanted events such as waste, lapses of probity, or non-compliance with authority. But it also helps managers to align activities and outputs to intended results, and sets the boundaries within which employees can innovate and take informed decisions.[32]

Error free administration is not an attainable goal. Some public programs are inherently risky and breaches of control do occur. In these cases management must assess the problem purposefully, communicate clearly with legislators and citizens, and take the action necessary to maintain public trust.

All public entities exist to serve citizens, achieve their objectives and promote the public interest. This requires a capacity to measure and report on performance – thereby strengthening control and setting the stage for innovative practice. Well-managed entities monitor their performance, use performance information throughout the management cycle and regularly ask citizens how they can improve service quality.

FIVE ATTRIBUTES OF AN EFFECTIVE CONTROL ENVIRONMENT

An effective control environment exists when five basic conditions are met:[33]

- Employees demonstrate sound **values and ethics** so that laws, regulations and authorities are respected;
- People are **competent** in their jobs so that the delivery of programs and services is efficient and effective;

Employees need the freedom to act and innovate – provided that they operate within the entity's risk tolerances and apply sound management practices and public service values in their work.

- Program activities and resources are focused on **results** and reliable financial and non-financial information is used to adjust operations and **report** on performance;[34]
- **Risks** are managed to encourage intelligent risk taking and protect against fraud, theft or other events that compromise the achievement of results; and
- **Essential resources** (human, physical, informational and intellectual) are protected – they are maintained, renewed or replaced when necessary.

Ultimately, a sound control environment depends on the actions of people – on the combination of knowledge, capacity, motivation, supporting resources and leadership. Control is strongest where public service **values** are ingrained (people aim to do the right thing), where **capacity** is sound (people know how to do their jobs) and where **risk management** is practiced (the entity looks over the horizon and prepares). Where these things exist:

- People focus on objectives and demonstrate sound judgment and values;
- They innovate in light of known risks and tolerances;
- They use reliable financial and non-financial information to guide decisions and account for performance; and
- The entity earns the confidence of legislators and the public.[35]

"The political and public sectors have a tendency to send out mixed messages: to be innovative and yet don't make mistakes."

A senior official

"Hard" controls	"Soft" controls
Rules	Culture
Processes	Capacity
Oversight Activities	Supporting Tone at the Top

Balancing soft and hard controls … "loose-tight"

For any public entity, control is not an option – the issue is how best to effect it. Managers should try to find the right balance between soft and hard control instruments – or what some call between trusting and checking. At the "hard" controls side of the spectrum are the firm rules, uniform processes, centralization and oversight intended to ensure that employees are responsible in their actions and accountable for what they did, how they did it, and what they achieved.[36] On the "soft side" are culture and capacity, a permissive tone at the top that encourages sound values and intelligent risk-taking – and a consequent reduction in rules and processes.

All other things being equal, where management capacity is strengthened, the risk of control failures is diminished and the need for hard controls is lessened. Similarly, the more that managers reinforce public sector values and ethics, the less their entities will depend on hard control instruments.[37] **When these two factors (management capacity and values) are reinforced, the entity becomes more resilient**, something that requires sustained attention, but is the foundation for control.

In most public entities the balance between hard and soft controls continually shifts and tends to move toward checking when new governments come to power, when control failures are within recent memory, or when capacity in key areas (say, financial management) is thought to be weak.[38] When these conditions exist, risk appetite diminishes and the demand for innovation is likely to be overcome by the layering of administrative rules.

"UPPER MANAGEMENT MUST BELIEVE IN THE NEED FOR INNOVATION OR IT WILL NOT BE CARRIED THROUGH."

A senior provincial official

An ideal balance between hard and soft controls can be described as "loose-tight." **In the loose-tight model a few critical "hard" rules are set and tightly monitored. But within that framework, employees have freedom to act and innovate – provided that they operate within the entity's risk tolerances and apply sound management practices and public service values in their work.**

CONTROL OF HIGH RISK PROGRAMS

Hard control instruments are critical for high-risk initiatives, including investment-based programs where delivery occurs through third parties. Strict norms must be respected where two or more orders of government partner with the private (or non-profit) sectors in project delivery. Programs of this nature must be managed with care.

Hard controls can ensure that programs (both existing and under development) are **well designed and accountable**, that decision-making is **transparent and fair** and that legislative **authorities are respected.** To these ends, management should ensure that:

- The foundation is solid – the program logic and structure respects authorities and the program is aimed at measurable results;
- Decisions are announced openly and project proponents understand the basis on which they were made;
- Laws and authorities are respected – stakeholders exercise due diligence and there are adequate measures to prevent or detect fraud, theft, waste or abuse;
- Managers have the information required to monitor investments and performance;
- Parliament and the legislatures receive adequate financial and non-financial performance information on the program; and
- Oversight authorities have access to the information required to audit or evaluate the program and its investments.[39]

THE "RESULTS" SIDE OF CONTROL – INNOVATING IN PERFORMANCE MEASUREMENT

Ministries form the core of the executive branch of government and serve citizens through programs, authorized and funded by the legislature.[40] Because legislatures supply public money, ministries should report back on program control – on how resources were managed and what was achieved. And because legislatures represent taxpayers, management should provide performance reports that are clear, concise and responsive to citizens' needs.

Although public sector entities exist to serve citizens, some officials may resist the normal requirement to monitor performance and report on results. **Managers who intend to measure program performance in government should be idealistic, but under no illusion that it will be initially welcomed or easy to defend.**[41]

Performance measurement is critical to accountability but is difficult to do. First there is the natural tendency for managers and elected officials to put their best foot forward, even when there are deficiencies in program performance. Second, implementing performance measurement is an innovative act in itself, and will be met with the barriers noted earlier. And third, it requires hard work. Managing for results asks a public entity to identify desirable outcomes, measure them, stick to those measures, and use performance information purposefully. When this occurs, performance information is used throughout the management cycle – from planning and doing, to checking, learning, adjusting and reporting. There is real value in moving toward this ideal state, even if the period necessary to build capacity and change the underlying culture is measured in years, not months.

Experience indicates that a number of factors are key:

Central leadership: It is difficult for individual managers, or even ministries, to design the protocols required to measure and manage for results, and if they did, an incompatible mix of approaches would arise. Some central authority – possibly a central resource management agency – will always be required to set standards, build capacity, monitor progress and offer the right incentives.

Alignment: Performance measurement needs logic, structure and alignment. First, the activities and outputs of each program must be logically aligned to an achievable set of intended results. Second, the many programs in a ministry should be aligned to a small set of high-level strategic outcomes – long-term, enduring goals that are intrinsic to the entity's mandate. Third, results statements need to be measurable, with incentives aligned to give people the courage to take on the job.

Skill development: Skills are required in two areas, ongoing program performance measurement and periodic evaluation. Ongoing measurement is a legitimate role for all managers. But evaluation, (which is the periodic assessment of relevance and effectiveness), should be done by analysts who have no connection to the program under scrutiny. To build these capacities, entities must invest in and draw on central leadership in areas such as standard setting, recruitment and training.

Bench strength: Managers should avoid delegating their performance measurement responsibilities to "experts" on the grounds that this work is too tedious or technical. In reality, the basics of logical program design and ongoing performance measurement are intuitive and learnable. Because this knowledge is at the core of control, it is important that mandatory courses for executive managers include an overview of the basic elements of managing for results.

Starting up: Ideally, performance information will be used throughout the management cycle – through planning, delivering programs, monitoring, learning and reporting. In reality, no entity can start so broadly and must choose where to break in. **Many jurisdictions start with performance planning and reporting**.[42] When ministries are required to table the equivalent of strategic plans and year-end performance reports in the legislature, there is a tangible incentive to build capacity.

Scaling back: Most entities embarking on a results-based management initiative make a common mistake – trying to do too much, too fast. And when they realize the cost, they normally scale back on the amount of data they collect and report. Entities are well advised to start their performance monitoring with a few measures for each program, while restricting their public reporting on an even smaller subset of those measures. The best public performance reports and internal monitoring systems focus on a few critical issues and performance measures – and measures are not added unless their value exceeds their cost.

Elected officials: Ideally elected officials should demand and use performance information to support their work on resource allocation and accountability. In jurisdictions where the legislature spends little time in reviewing the government's planned spending and estimated appropriations, it is unlikely that officials will place much effort in improving performance measurement and reporting.

Resource links: Entities are far more likely to invest in capacity when performance information is built into central executive decision-making. In jurisdictions where legislators fail to use this information, government entities must look to create the demand from within. This can start when central agencies and the cabinet committees they serve demand performance information to support the renewal of existing programs. Governments that are prepared to go a step beyond this and embark on periodic reviews of the overall spending base are well on their way to sustaining a viable results-based management capacity.

Looking outward: At one time or another, many OECD jurisdictions have launched results-based management initiatives and there is broad experience on what works, what does not, and what makes the difference. Public sector entities aiming to improve performance measurement are well advised to build on this experience. [43]

"DO NOT WAIT FOR A CRISIS UNTIL YOU START EXPLAINING YOUR RISK – DO IT AT THE START, MAYBE AS AN INTEGRAL PART OF THE STRATEGY."

A senior legislative auditor

THE BOTTOM LINE ON CONTROL IS VALUE FOR CITIZENS

Government services (e.g., the delivery of passports, birth certificates, medical services or drivers' licenses) are commonly delivered through multiple channels – kiosks, office visits, mail, telephone, home-based internet or all of the above.[44] But these channels represent the old world. Because voice communication, web surfing, photo taking, media playing, shopping, researching, global positioning, text messaging and other activities now occur from a portable device, private sector **service delivery is continuously transformed** on a global basis. While few can predict the implications for government, two things are certain – first, managers must **find ways to innovate** if they are to stay abreast of citizens' growing expectations and second, they must take a **citizen-centered approach** to the design and delivery of their programs.

Taking a citizen's perspective requires managers to address the five main drivers of satisfaction: timeliness, outcome, going the extra mile, fairness of treatment and knowledge displayed by the service deliverer.[45] Additionally, managers should periodically ask citizens to rate their satisfaction with the services they use. In most cases, timeliness, outcome and going the extra mile are the factors in greatest need of improvement.[46]

Canada has much experience in the measurement of program performance and service satisfaction and some entities have set measurable targets for improvement. Given sufficient leadership, any civil service can build the capacity to manage for results. And when managers combine results management with sound stewardship, they are in control. Well-controlled organizations have little difficulty in reporting what was done, what was learned and what was achieved. And they are likely to build public trust.

MANAGERS, MINISTERS, LEGISLATORS AND AUDITORS SHOULD DISCUSS CONTROL

FIVE FACTORS DRIVE SERVICE SATISFACTION:

1 TIMELINESS
2 OUTCOME
3 EXTRA MILE
4 FAIRNESS
5 KNOWLEDGE

Managers should seek the advice of internal auditors and other specialists as they design the control environment for new, innovative and risky programs. When responding to a request, internal auditors will always protect their independence and avoid being drawn into the formal program approval process. But they should be willing to draw on their experience with similar programs and provide advice on the adequacy (from a design standpoint) of the control framework that management intends to apply. Audit committees should also be prepared to provide advice if requested. For their part, **specialists in financial management, risk management and performance measurement** are also available in larger ministries and management should seek their advice as new programs are being designed. The senior financial officer in particular should be fully in the loop.

Ultimately, any program may be audited, either by internal auditors or external "legislative" auditors (who report to Parliament or a legislature). Both internal and legislative auditors should be prepared to share with potential auditees the general criteria that could apply to a subsequent examination of those high-risk programs.

In these respects, management must be prepared to ask the right questions of auditors at the right time. The principal onus to ask lies here. But when called upon, internal auditors should be ready to assume a more pro-active "consulting, educating or enabling" role in the ministry.

Early and ongoing communication between senior management, ministers and legislative committees is also advisable. The deputy head and senior officials must keep their minister (and staff) informed of the material issues respecting control in the ministry and its programs. Ministers should be well aware of the key risks to effective operations and these should be addressed in departmental reports on plans, priorities and performance. Elected and non-elected officials should discuss control and feel confident that residual risks are being monitored – and are within the tolerance of the government as a whole. Where concerns persist, internal auditors should likely be engaged to proactively examine the situation and recommend remedial action.

When ministers, deputy heads or others appear before legislative committees to discuss plans, appropriations, performance reports or other matters they should acknowledge the key risks faced by the entity and the steps being taken to address them. **Witnesses should reinforce the idea that while no one can guarantee immunity from a control failure, steps have been taken to manage key risks in a responsible manner.**

Early communication between management, ministers, their officials, auditors and legislators can give comfort that reasonable control provisions were considered and put in place. This helps to build trust and reduce the risk of things going wrong later on.

PREPARING FOR A FAILURE OF CONTROL

No public entity is immune to crisis – a situation requiring action to limit damage to persons, property, the environment, or to the reputation of the government itself. A crisis can be triggered by an external emergency (say a health or weather event) or by an internal failure of management control. Whether the trigger is inside or outside the entity, management must act quickly and effectively to maintain public trust. [47]

Over the years many Canadian officials have managed their way through significant failures of management control and shared their experience with others. The following paragraphs draw on that experience and summarize some of the main lessons learned.

When significant management control failures occur, the stakes are high, there is little time to act, there are few options and public perceptions can quickly gravitate to the negative. If the legislature is in session, it is likely that the problem will be played out in that forum, in real time. In most jurisdictions, significant control failures become politicized quickly and the responsible minister becomes the main spokesperson, backed on factual matters by the designated spokesperson of the ministry. **A control failure puts pressure on ministers, staff and executive management to get organized and grasp the facts fast, and to clearly communicate them to each other before informing legislators, citizens and the media.**[48]

Effective responses cannot be made up on the spot. They depend on planning in advance for a failure and running the plan past experienced and trusted people to test it and identify gaps. Entities facing a significant probability of control failure should work through four main areas well <u>before</u> an event occurs:

Mitigation work is continuous and includes identifying and assessing important risks, studying worst-case scenarios, understanding previous situations, arranging for expertise, and monitoring the daily environment.

Preparedness means (a) developing a plan for action and communications in the event of a failure and (b) tentatively designating the key members of a **response team**. Just as emergency planners conduct drills, it may be prudent to test the plan in a simulated fashion from time to time. An entity that has a tested plan may face three hours of preparation once the crisis hits. An entity that lacks one may face seventy-two hours of confusion in the important early period when opinions on its competence are formed by the minister, the media and the public.

Response kicks in when the plan is implemented. The response team should act confidently – assessing the situation, taking purposeful corrective steps, drawing on investigative, legal or other specialized capacity, and clearly communicating with the minister, the media and others.

Recovery effort aims to remedy the problem by maintaining a dialogue with the media, helping employees to identify "lessons learned", and bringing the operation back into control. This may call for internal auditors to identify true causes of the problem and identify control activities tailored to risk. Here the entity should avoid the temptation to add many new administrative rules, "just to be safe."[49]

RESPONDING TO A CONTROL FAILURE – MANAGEMENT SHOULD:

1. **ACKNOWLEDGE THE PROBLEM, PURPOSEFULLY ADDRESS IT AND SPEAK WITH ONE VOICE**
2. **BRIEF THE MINISTER AND SENIOR STAFF EARLY, CONTINUOUSLY AND THOROUGHLY**
3. **BE OPEN AND DECISIVE**
4. **SUPPORT THE MINISTER AND WORK DIRECTLY WITH THE MEDIA**
5. **RECOGNIZE THAT INTERNET-BASED CHANNELS ARE THE NEWS SOURCE OF CHOICE FOR MANY CITIZENS**
6. **DILIGENTLY FOCUS ON RESTORING NORMAL OPERATIONS ONCE THE DUST HAS SETTLED**

MINISTERS AND DEPUTIES SHOULD NEVER APPEAR BEFORE LEGISLATIVE COMMITTEES WITHOUT A CREDIBLE ACTION PLAN

SUBSTANCE OVER SPIN

When a major failure occurs, **the deputy head of the lead ministry should immediately review the response plan, adjust it to current circumstances, discuss it with the minister, and act.** Roles and responsibilities should be clarified in an adjusted plan and a team of full-time members mobilized to manage the file. At this point, deputy heads may want to talk with trusted colleagues to review the adequacy of the plan or arrange for ongoing informal advice as the event develops. In many cases, central agencies will need to be brought into the loop on the plan.

Management should acknowledge the problem, purposefully address it and speak with one voice. If there are partners involved, early and ongoing representation on the response team will allow them to share information and expertise, and provide a common response to the situation.

The minister and senior political staff must be briefed early, continuously and thoroughly. In the final analysis it is the minister who must consult with cabinet, internalize the government's direction, make decisions quickly and defend them publicly. Deputy heads should provide ministers with digestible analysis and advice to help them navigate through cabinet and media briefings, interviews, questions in the legislature and (down the road) meetings of legislative committees. **Briefing materials should be clear, concise and factual.** There are many examples of events that garnered more attention than warranted because the ministry was unable to discern and communicate the basic facts (the who, what, where, when and how much) in a timely manner.[50]

Management should be open and decisive. This requires a confident handle on the facts and a credible set of messages. Frequently asked questions should be developed to explain what happened, how it will affect citizens, how the entity is responding and who to contact for further information.

Management should be prepared to both support the minister and work directly with the media. The lead ministry should identify main media contacts and target audiences. **In most cases, the initial public appearance of a spokesperson will strongly influence public attitudes thereafter.** As the event moves through its normal cycle, entities may want to engage additional spokespersons, able to address the problem from different angles while sticking to established facts. The media may well want to broaden the initial story, looking for who knew what, where and when. Communications should aim to pre-empt rumours, while providing confirmed information and admitting information deficiencies, if they occur.

Public officials should recognize that internet-based channels are the news source of choice for many citizens. Just as citizens consult blogs and web pages, management should monitor these sources and quickly respond to email or electronic traffic. **In the past, ministers and officials were at the mercy of the "news day" and its firm production deadlines. This is no longer the case.** Spokespersons should respect deadlines – but recognize that their own government web pages can distribute accurate and timely information at any time. Internet-savvy entities can now refute rumours or correct facts in the middle of the night if they wish, allowing the entity to tell its own story, in its own way, on a proactive basis.

"Spin" should never trump substance. Management should diligently focus on restoring normal operations once the dust has settled. The deputy head may choose to engage internal audit resources to identify the true causes of the problem and support the development of an action plan to restore control. Having a plan and demonstrating its implementation rebuilds trust – whether during legislative hearings or in ongoing media relations.

Ministers and their deputies should never appear before legislative committees without a credible action plan in hand. And where the original problem involved unethical or inappropriate activity, management should take fair, firm and visible action against those at fault. There is no license for illegal or unethical behaviour and there is a place for the assignment of blame to people when their actions have violated basic norms of propriety, or good stewardship.

A gram of prevention is worth a kilo of cure. Prevention of wrongdoing – whether through values and ethics codes, training in proper conduct, positive tone at the top, or all of these – is essential to integrity. And when integrity is challenged, managers need to act to sustain it.[51]

"IT'S NOT THE MISTAKES YOU MAKE AS MUCH AS HOW YOU DEAL WITH THEM THAT IS IMPORTANT."

A Public Accounts Committee member

PRINCIPLE THREE

ACT ON OPPORTUNITY

MANAGEMENT SHOULD INVEST IN A RISK-SMART CULTURE

Organizations should develop the capacity to assess risks and confidently act on opportunities to innovate, simplify administrative rules and improve performance.

"RISK AND RISK TAKING ARE PART OF INNOVATION, AND WITH RISK, MISTAKES WILL BE MADE. THIS IS PART OF THE GROWTH PROCESS."

A legislator

DISCUSSION, ANALYSIS AND GUIDANCE:

Overview[52]

Organizations exist for a purpose. Successful private sector firms earn profit, generate value for shareholders and act in a socially responsible manner. Public sector entities develop policies, deliver services and support the achievement of societal goals. Regardless of their objectives, both public and private sector entities face uncertainty.

Risk is generally thought of as an uncertain action or event that could impact negatively the achievement of objectives or performance.[53] But there is another side to uncertainty – many potential management actions have uncertain, but potentially positive, impacts which represent opportunities. **When a public entity avoids opportunities because they involve even low probability-low impact risk, it becomes rigid in its outlook and trades off ways to improve the efficiency and effectiveness of its operations. There is a positive side to taking reasonable risk.**

A well-managed public entity should be able to identify uncertainties (both their potential likelihood and impact) and use this knowledge to support innovative projects, improve results for citizens and eliminate unnecessary administrative constraints.[54] **Delivering better value to citizens requires public entities to act on opportunity.** Although there is no real way to avoid uncertainty, there are ways to understand it and take positive action. In the final analysis, risk management means using intelligence and judgment to address threats – and act on opportunities to improve value for citizens. This is something that managers need to do in a disciplined way.[55]

RISK MANAGEMENT GOES TO THE HEART OF INNOVATION AND CONTROL

No public sector entity can move safely from a "checking" to a "trusting" control environment without first ensuring that sound risk management practices are in place. Risk management allows an entity to assess threats (and mitigate them to acceptable levels), to reduce administrative rules to those that are necessary, and to take informed decisions on opportunities to innovate.[56] When an organization understands risk, it can gradually move the workplace culture to one less dependent on hard controls and one more inclined to focus its energy on the achievement of results.

Typical risks in the public sector include those generated outside ("**environmental"**) or inside ("**enterprise"**) the entity. Either way, they manifest themselves in the minds of managers and employees who may see **personal risks** (for example, diminished advancement prospects) where failure is a possibility. Every entity has a risk appetite and an individual's assessment of personal risk is an inverse function of that appetite.[57]

Risks may come from changes in technical, economic or political conditions or from previous decisions – for example, those associated with delivering services through corporations, boards, commissions, foundations or other third parties.[58]

WHEN AN ORGANIZATION UNDERSTANDS RISK, IT CAN GRADUALLY SHIFT THE WORKPLACE CULTURE TO ONE LESS DEPENDENT ON HARD CONTROLS AND ONE MORE FOCUSSED ON RESULTS.

Regardless of source, public sector risks often arise from several related conditions:

- A **lack of agreement** on desired outcomes and acceptable means of achievement;
- **Unclear roles and responsibilities** or **gaps in skill**;
- Management **competence** issues or **short job rotation cycles** for senior leaders;
- Poor **compliance,** relative to matters of health, safety or the environment;
- Poor **stewardship** or failure to guard against theft or waste;
- Anything that damages **reputation**, or undermines public confidence;
- Anything that poses a **threat to the delivery of services**;
- High **opportunity costs** – failure to seize opportunities to **innovate**; and
- Failure to link rules to risk, to the point where a **web of rules** develops and the efficient achievement of objectives is compromised.[59]

A risk profile is never constant and managers should update them when changes occur: in roles or responsibilities, in downsizing or growth, in operational methods, in turnover or instability, in the degree of automation or in large budget increases or decreases.[60]

There is no one right way to manage risk in a public sector organization. Managers should learn what works in comparable entities and adapt those lessons to their own environment. They should **resist the temptation to use complicated language to explain ideas that are intuitive and simple.** Central or coordinating agencies have an important role in setting simple risk management frameworks for broad application, and in providing training and experience sharing for ministry staff.

For any potential opportunity, risk management starts with identifying and assessing risk from two angles, likelihood and possible negative impact. Following this, managers should identify ways to reduce (or mitigate) the risk, and decide whether the remaining (or residual) risk is within the entity's appetite (or tolerance). Where management decides to go ahead, it has a duty of care to monitor progress and control the project. **Central agencies and management committees in ministries should ensure that their approaches to risk management cover these main elements, and that risk management is integrated into the daily management practices of the organization.**[61]

PROMOTING A RISK-SMART CULTURE

Tone at the top matters. Public sector culture (the values, ethics, behaviours, assumptions and beliefs that underpin action) is **risk averse** and, without management attention, this attitude may well grow.[62] With few incentives to take risks, employees often link uncertainty with the probability of something going wrong or of project failure. Conversely, in successful firms, risk taking is viewed as necessary to improve service or product quality – the core of competitive advantage.[63] Private sector culture places greater value on taking informed chances.

Step one in changing culture is to do something different. Step two is to sustain it. Public sector entities can start by regularly monitoring both internal conditions and the external environment for changes that suggest threat or opportunity. Managers should discuss risks and come to a general understanding on the entity's **risk tolerance or appetite.** Senior management should then commit to a risk management process (tied to innovative project and entity-wide planning), communicate risk tolerances to staff and promote a considered response to residual risk exposure.[64]

Risk management work should never be isolated to a few specialists for two reasons**.** First, interaction among risks can compound the severity of impact and add up to a "perfect storm." The simultaneous occurrence of even two low probability but high-impact events can have a cascading effect. Managers should encourage broad communication to avoid this.[65] Second, entities must be confident that all significant risks, once identified, are assigned to an **owner** who assumes monitoring responsibility. This is the only way to know that someone is paying attention.[66]

Cultural change requires reinforcement from many angles. **The benefits of risk management should be communicated widely and gradually embedded into the cycle of planning, doing, checking, learning, adjusting and reporting.** Risk management will never go beyond a checklist activity until managers make it a commonly understood reference point throughout the year. And if risk assessments are not embedded in the public plans and reports of the entity, legislators, auditors and citizens are likely to discount the credibility of those documents.

FOUR QUESTIONS MANAGERS SHOULD ASK WHEN ASSESSING CORPORATE RISK CULTURE:

1. **IS RISK MANAGEMENT EVERYONE'S BUSINESS OR A SPECIALIST-CHECKLIST FUNCTION?**
2. **DO LEARNING PLANS INCLUDE RISK MANAGEMENT SKILLS?**
3. **IS RISK MANAGEMENT EMBEDDED IN THE MINISTRY'S MANAGEMENT CYCLE?**
4. **DO ADMINISTRATIVE RULE MAKERS LINK THE RULES THEY ARE RESPONSIBLE FOR AND THE RISK THAT THOSE RULES AIM TO MITIGATE, AND ARE THE TWO IN REASONABLE BALANCE?**[67]

Cultural change begins with people and no entity can move from a risk averse to a risk-smart culture without preparing its employees. Ideally, employees should have access to the training, tools, information and encouragement necessary to support change. Practically, there are limits to the investments that a public sector entity can make – a reality that calls for a development plan that offers timely and focused risk management training for key managers and employees.

In a risk-smart entity, rule makers are able to move the balance from hard to soft control instruments because employees are competent – learning plans are in place, risk management capacity is improving, risks are linked to rules, and there is relative organizational stability. In other words, the entity is developing capacity and a control environment that values the opportunity side of risk.[68]

PRINCIPLE FOUR

REDUCE RED TAPE

MANAGEMENT SHOULD ELIMINATE UNNECESSARY RULES AND CHALLENGE THE CREATION OF NEW ONES

Administrative rules should be clear, linked to objectives and proportionate to risk. To limit red tape, managers should review existing rules and modify those that lack a clear purpose, or whose burden is greater than the risk at hand. Proposed new rules should be challenged and promised benefits should exceed expected costs.

DISCUSSION, ANALYSIS AND GUIDANCE:

"WHEN BAD EVENTS HAPPEN, THE REACTION CANNOT BE TO OVERREACT AND ADD MORE RULES."

A senior official

Overview

More rules do not necessarily equal more or better control and they can never take the place of common sense, competence and character. Managers hoping to encourage innovation can learn from the **"loose-tight"** model, under which a few critical "hard" rules are set and tightly monitored. But within that hard rules framework, employees should be given the freedom to identify opportunities and innovate – provided that they respect the entity's risk tolerances and apply sound management practices and public service values in their work.[69]

Innovation requires time and room, to think and act. Managers therefore have an obligation to reduce administrative constraint where it is not well linked to risk or clearly justified.[70] By the same token, where breaches of core policies, procedures or codes of conduct take place, managers must quickly understand the causes of the problem and ensure compliance. **The quid pro quo for organizations that challenge and restrict their rules to those that are clear, integrated and meaningful is that those rules must be respected and followed.**

Public sector red tape has its own pathology and like the common cold, it is difficult to eradicate. Occasionally basic norms of stewardship are violated. When this happens, the problem may be played out in the legislature, in the media, in the courts – or in all of these. Control failures, whether through incompetence or fraud, impact managers, auditors and elected officials. And they damage public trust. **A common tendency when the dust settles is for managers to reinforce their administrative rules in order to demonstrate that the problem has been addressed and will never happen again.**[71]

Over time, administrative rules focusing on the prevention, detection and correction of potential problems can overlap without reference to whether the underlying causes of the problem are well understood, whether original risks continue to exist, or whether the rules work at cross-purposes. Like an unkempt garden, rules can grow in sheer volume to the point where managers and staff are overwhelmed. At a certain point – as compliance consumes increasing attention – sound management control (which focuses on stewardship, efficiency and the achievement of objectives) can be compromised.

When the reasons behind administrative rules are unclear, when constraints overlap or lose their connection to underlying risk, when their volume becomes daunting, when rules divert attention from the achievement of objectives to the service of process, or when they inhibit common sense and innovation, the entity is caught in a web of rules.

Administrative rules should never grow to the point where they become burdensome or negatively impact on the achievement of objectives.[72] Central agency and ministry officials should review the most burdensome elements of the existing rules base – and challenge proposals for new rules.[73]

CRITERIA FOR INTRODUCING NEW RULES / RULES SHOULD…
1 … BE CLEAR, UNDERSTANDABLE AND ACCESSIBLE
2 … ADDRESS AREAS OF CONCERN IN AN ADMINISTRATIVELY EFFICIENT MANNER
3 … BE PROPORTIONATE TO RISK
4 … NOT CONFLICT WITH OTHER RULES
5 … BE TAILORED TO THE ORGANIZATIONAL CIRCUMSTANCES IN WHICH THEY WILL APPLY
6 … HAVE BENEFITS THAT EXCEED THEIR COSTS
WHEN THESE THINGS OCCUR, THE RULES ARE MORE LIKELY TO BE RESPECTED.[74]

CONTROL ACTIVITIES FOR ANY RULE MAY INCLUDE ANY OR ALL OF THE FOLLOWING …

- OBSERVING
- COMPARING
- APPROVING
- REPORTING
- COORDINATING
- CHECKING
- ANALYZING
- AUTHORIZING
- RECONCILING
- SUPERVISING
- REVIEWING
- SEGREGATING
- FOLLOWING UP

… SHEER VOLUME IS THE ISSUE

RULES SHOULD BE LINKED TO VALUES AND THE ACHIEVEMENT OF OBJECTIVES

Few people can follow rules that lack a clear purpose or are poorly presented. Whether the rule comes from a central agency or from inside a ministry, management should explain what it aims to achieve, why it is in place, to whom it applies and what needs to be done. **Rules should be presented in a way that shows how they fit together.**

Meaningful rules are those that support democratic, professional, ethical, and people values and the principles of fairness, propriety and stewardship of public funds. **Management must communicate the values that underpin ethical behaviour and demonstrate them to employees.** When values are reinforced by discussion, training and action they help managers in many ways – to prevent conflict of interest, to guide behaviour, to identify improper behaviour promptly, to remove temptation for unethical behaviour, and to provide discipline, where appropriate.[75]

Managers must demonstrate that core values will not be compromised. They should reinforce them in all daily activities. Management might also consider implementing a **values and ethics code**, ensuring that employees acknowledge compliance with it. Such a code could be simple, intuitive and defendable – and it might show examples of behaviours that are acceptable and others that are not.[76]

MANY ADMINISTRATIVE COSTS ARE HIDDEN

Core rules serve valid purposes including resource stewardship or the recovery from undesirable events. However, any significant rule establishes many related **activities**, few of which are ever identified or assessed as to cost. **Every activity imposes a repetitive, mostly hidden cost.**

Public entities must also control the personal information of citizens whether related to tax records, employment history, the cross-indexing of records, or any private matter. Many additional activities apply to public sector information systems, including logical and physical access restrictions, back up and recovery, job scheduling and completion checks, system edits and software selection and testing.[77]

Given these many activities, it is not surprising that public sector managers – whose personal authorities are limited by legislation and detailed instruments of delegation – may become overwhelmed. **The sheer volume of control activities can become a major impediment to innovation.** This is particularly so when new control instruments are implemented without due regard to the burdens imposed by those that already exist.

REVIEWING EXISTING RULES: WEEDING OUT, AND TAILORING RULES TO CAPACITY

Moving from a control environment dominated by "checking" to one that is more trust-based obliges governments to ensure that the existing base of rules reflects the real risk environment.

INNOVATION REQUIRES ROOM TO THINK AND ACT.
MANAGERS SHOULD REDUCE ADMINISTRATIVE CONSTRAINT
WHERE IT IS NOT WELL CONNECTED TO RISK OR CLEARLY JUSTIFIED.

Rule makers should therefore be prepared to:

- **Eliminate (or "weed out")** those rules that no longer have a continuing rationale or are unduly burdensome, given the risks they aim to address, and
- **"Tailor" the remaining rules to specific cases**, taking into account the management capacity of the entity.

Rule reduction is not an absolute objective. In judging where best to aim on the checking-trusting spectrum, managers should carefully consider capacity in the entity. Where management capacity is strong, operational risk is generally low – and management can safely reduce administrative constraint. Where capacity is weak, safe opportunities to strip away rules are diminished.

AREAS OF GREATEST RED TAPE BURDEN:

Staffing and HR management	1
Contracting	2
Procurement	3
Labour-Management relations	4
Program approval	5
Information management/ technology	6
Hospitality policies	7
Grants & Contributions	8

TAILORED RULES CAN GIVE MORE AUTHORITY, BUT THIS SHOULD BE EARNED

Demonstrated capacity should translate into fewer rules and less invasive control at the operational level. **Tailored rules imply the issuance of administrative policies that allow levels of local discretion to vary, based on management capacity and risk.**[78]

For example, it is common for central agencies to set policies requiring Cabinet approval of high value capital purchases. But it may make sense to tailor the rule by allowing some ministries additional latitude, provided that they demonstrate sound capacity. This could allow well-managed entities to purchase at higher dollar thresholds without central approval, or it could allow exemptions from other general restrictions.[79]

Similarly, when central agencies set common ministry standards for the performance of certain functions (e.g., enterprise-wide rules for evaluation or internal audit) it is unlikely that the smallest agencies will have, or can build, the capacity required to meet those standards. In these cases, **central agencies may need to tailor the rules for small agencies.** Otherwise, they should accept that additional resources may be necessary to allow small agencies to build capacity and meet the common standard.

FOCUSING WHERE THE PROBLEMS AND BENEFITS ARE GREATEST

Red tape reduction to improve efficiency can take inspiration from the idea that 20% of the rules may be responsible for 80% of the irritation. Organizations wishing to weed out and tailor their rules should make a distinction between high and low benefit areas and focus on areas of greatest return.

Our research indicates that for public servants, the **burden** of red tape is most acutely felt in **human resource management (especially staffing).** Second tier areas of irritation include contracting and procurement. And several other areas make the list, including labour-management relations, project or program approval processes, information management/technology, hospitality policies and the management of grants and contributions.[80]

But where you sit often determines what you see. In Canada, red tape is more likely to be viewed as a serious problem at the Federal level (and as a significant, though less acute, concern in some larger Provincial governments).[81] Across all governments, **the most senior levels of the entity tend to experience fewer problems with red tape than do people lower in the hierarchy.**[82] This means that deputy heads and other senior officials should consult lower level managers and staff to find the most beneficial areas for intervention.

"TOO MANY PEOPLE HAVE THE POWER TO SAY NO."

A senior manager

TESTS FOR EXISTING RULES – ARE THEY…

… JUSTIFIED?

… EFFICIENT?

… TAILORED?

ARE THERE…

… ALTERNATIVES?

… UNINTENDED IMPACTS?

HURDLES FOR NEW PROPOSED RULES:

RISK-BASED RATIONALE?

REASONABLE COSTS?

Some rules originate with central bodies, but many do not.[83] **Because many burdensome rules originate locally, central agencies and ministries alike should be prepared to modify any control activity or process** where acceptable management capacity (and risk) suggest that the cost of applying the rule outweighs the benefits. Systematic review of functional management capacity is one way to build an understanding of strengths and weaknesses across the government. Although the cost associated with assessment can be high, there is little doubt that a credible understanding of management strengths and weaknesses can support the weeding and tailoring of burdensome rules.[84]

THE NEED FOR STRUCTURED REVIEW

The removal of red tape represents transformational change and even a well-intentioned effort may be met with resistance from those who view it as additional work. Because a poorly implemented review can add as much burden as it eliminates, managers should ensure that costs are reasonable and containable. It is also important to ensure that success stories in reducing red tape are communicated to all staff.

Managers may decide to support a limited number of study groups involving officials from both central agencies and ministries.[85] In the absence of experience, pilot projects aimed at delayering rules in carefully scoped areas can help to learn which project management approaches work best.

Public sector organizations may want to consider **five possible tests**:

- Does the rule have a sound **rationale or justification** – is it clear on what is required and who is responsible to monitor, does it address a real risk, does it overlap or conflict with other rules and does it make sense?
- Is the rule **efficient** – does it impose a reasonable burden and do the benefits of following the rule outweigh the costs?
- Can the rule be **tailored** to avoid a one-size-fits-all approach? Can some entities be exempt if they demonstrate sound management capacity in the area?
- Are there less burdensome **alternatives** (voluntary measures or information strategies) that might reduce risk and still meet the control objectives?
- Are there **unintended impacts** – does this rule spill over or create distortions in unintended areas?[86]

Managers should resist the temptation to review the existing base of rules on a tight schedule. Rather, entities should identify those rules and activities that pose the greatest cost. Opportunities to reduce red tape are likely to be found in areas where risk is low and capacity is strong. Middle managers and employees have an intuitive sense of where these opportunities lie and senior management should seek their input.

In the end, an authoritative body must reach a decision. Study teams engaged in reducing red tape should be visibly encouraged and participating employees should be rewarded for their corporate effort. An entity that is prepared to weed and tailor its ongoing base of rules is better equipped to move toward the loose-tight ideal, focusing less on process and more on value for citizens.

CHALLENGING NEWLY PROPOSED RULES: BENEFITS SHOULD EXCEED COSTS

Just as parts of the existing base should be reviewed, proposals for new rules should be challenged.[87] New rules should effectively address the risk at hand, be the most efficient option, provide benefits that exceed their costs, and be well integrated. **If a clear relationship between risk and the proposed rule cannot be demonstrated, it is unlikely that the rule should be put into place.**

Restricting new rules to those that are necessary requires focused attention:

- Define the risk or issue of concern,
- Identify viable options to achieve the desired control objective,
- Assess the impact (costs and benefits) of the proposed rule and consult with stakeholders,
- Develop a strategy to implement the rule, and
- Ensure that a responsible authority reviews and approves the new rule.[88]

Proposed rules should be put to two basic tests: 1) is there a sound **rationale** - does the proposal address a real risk and make sense, and 2) are the estimated **costs** reasonable given the risk exposure? **It is counterproductive to implement new rules without considering potential costs.** Compliance costs include the administrative and paperwork required to meet the rule plus other matters such as equipment purchases, training, and the development of new information and reporting systems. Because these costs can be substantial, it is important that they be considered and, to the extent practical, brought to light.[89]

> **"The web of rules squeezes initiative out of managers. It is easier not to do anything, than to get requests through the system."**
>
> *A middle manager*

Getting help from outside people

Whether reviewing the existing rules or challenging the creation of new ones, managers should seek outside or independent advice.[90] Outside advisors, internal auditors or audit committees can introduce new perspectives or pass a second opinion on the analysis that was done. Stakeholders can identify:

- Obstacles to successful implementation,
- The extent of required changes to systems and business processes,
- Additional administrative burdens and costs,
- Implications for other aspects of the entity's administration, and
- Alternatives that may not have been considered in earlier analysis.

Outside advisors should have full access to the analysis and be given a chance to provide feedback on how their views were addressed.[91] At the same time, managers should be aware that external advisors can be costly and will add time to the review process. As with any investment, managers will need to balance the benefits with the costs.

Assessing administrative rules against a set of criteria will cost money. Senior officials should first agree that the short-term costs of structured challenge are worth the ongoing administrative savings. In that sense, challenging proposed rules is analogous to a person thinking about quitting smoking. It takes a substantial commitment to make the initial effort but the returns can be significant and ongoing.

When rules are aligned with values and risks, they are more likely to be understood and followed. And all other things being equal, where management capacity is improving, risk is diminished and entities are more able to assess (and sensibly reduce) their hard controls. Building capacity and calibrating rules to risk are the key challenges for managers hoping to reduce red tape and promote innovation in the public sector.

Respecting the rules that remain

Very infrequently, but inevitably, core rules within any well-managed public entity will be breached. Compliance is a shared responsibility where central agencies and ministries should ensure that core rules are appropriate (linked to risk) and understandable – while employees are obliged to know the rules and abide by them.[92]

In a "loose-tight" control environment, managers ensure that suspected violations of core policies, procedures or codes of conduct are investigated and that prompt action is taken.[93] Where important rules have been disregarded, the **consequences should be fair**, **timely and balanced**, ensuring that the severity of consequences is reasonable given the harm caused.[94]

Finally, **central agencies and ministries should correct the problem locally – avoiding the application of restrictive rules to entities that were not involved.** Elected and non-elected officials should resist the temptation to declare that a local problem has been fixed through broadly applied restriction of authority. When local control failures are addressed with rules that are unconnected to local risk, taxpayers pay the price of too many public servants focusing on process, not innovation and results.

A FINAL WORD

COMPARED WITH PREVIOUS GENERATIONS, CITIZENS OF TODAY EXPECT MORE, BUT TRUST LESS.[95]

Innovation occurs when management encourages people to solve problems creatively and find better ways to deliver results for citizens. Some managers may be tempted to call for innovation, nominate a single "champion", mount a social marketing campaign, and hope for the best. Unfortunately innovation is easy to talk about, but much more difficult to deliver, in the public sector.

Innovation requires senior management leadership, what some call tone at the top. As part of our consultations, CCAF conducted a survey of Canadian public officials. **Respondents identified "management that is supportive," "empowering front line staff and middle management," and "trust that you will be supported if honest mistakes occur" as the top three incentives for innovation in the public sector.**

Confident public organizations know where they are going, what worked (and did not), what risks they face, and how they plan to take informed chances to achieve results for citizens. But building trust and the courage to innovate can be difficult if the underlying management culture shuns risk, rather than embraces it. **An entity that fails to understand risk, fears it. And one that fears the unknown is likely to create new administrative rules, "just to be safe."** At a certain point, as compliance consumes increasing attention, innovation can be inhibited, public value compromised and public trust diminished. No public entity can afford these things.

CCAF believes that some significant part of the solution rests in the guidance supporting its four management principles: **Encourage Innovation, Be in Control, Act on Opportunity, and Reduce Red Tape.** We also believe that managers, auditors and legislators should discuss this guidance, find out where the tensions lie and explore practical ways to make it work.

Public entities face recruitment, retention and capacity challenges as an educated and mobile workforce replaces the current generation. People with options are unlikely to choose a risk-averse environment that creates barriers to innovation and fails to engender trust. But they will opt for an employer that values innovation and puts it at the core of its management practices.

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ENDNOTES

[1] Some governments consult citizens through internet-based performance reports that allow immediate feedback, or the drill down into detailed, evergreen information. At least one Canadian jurisdiction, the Government of Newfoundland and Labrador, provides "community accounts" – detailed economic and social performance data broken out by individual communities, allowing easy comparison of one community's socio-economic data to another's. Comparative, evergreen, electronically accessible performance information is likely to become common practice in the near future.

[2] The Canadian government's Auditor General and Treasury Board Secretary co-chaired this symposium, entitled "Practical Ways to Embrace Innovation, Risk, and Control" in government organizations. A report of this event may be found at the CCAF main web site, http://www.ccaf-fcvi.com/

In subsequent discussions among federal, provincial and territorial government officials, many were kind enough to fill out a questionnaire seeking their opinions on issues related to innovation, risk management, red tape and control. This input forms a part of our analysis. **It is important to note that survey respondents do <u>not</u> form a random, representative sample of public servants across Canada.** First, not all provinces and territories were visited. Second, survey respondents are those who voluntarily attended presentations or discussion groups. (In effect, this is a purposeful sample of public sector managers and employees who are knowledgeable of, and interested in, the issues at hand.) Third, given the subject matter, the sample is weighted toward public sector managers and includes a much lower than representative percentage of staff members.

The surveys were completed in meetings sponsored by the CCAF and by the National Managers' Community of the Government of Canada (an association of middle managers). The meetings occurred across Canada from March to October 2009. CCAF thanks the National Managers' community for including our survey in its 2009 consultations with members.

CCAF continues to collect information through this survey and the numbers quoted in these endnotes are based on the 269 officials who had responded at the time of publishing. This sample includes 15% senior executive management (deputies and assistant deputy ministers), 24% executive management (directors, executive directors and directors-general), 47% middle management and 14% staff (analysts and senior analysts). No purely administrative or clerical support employees were included. Thirty eight percent of respondents worked for provincial governments while 62% were federal public servants. CCAF may choose to update and publish its survey results in separate documents in the future, if demand warrants.

This document focuses mainly, though not exclusively, on the roles and responsibilities of executive managers in the core ministries, departments and agencies of the federal and provincial governments of Canada. In this context, the words "managers, executive managers, senior managers, management, executive management" and other variants are intended to mean the same thing, and are used interchangeably. In Canadian governments, executive managers form a cadre of non-unionized officials who manage departments and agencies at the highest levels. At the same time, much essential management activity occurs at lower hierarchical levels. **Middle managers and project managers at various levels are important culture bearers and their work is critical to the success of all public entities.** CCAF resists the temptation to complicate its text by designating a hierarchical level each and every time that the word "manager" is used, trusting that the reader will be able to discern from the text whether the reference is to senior managers, middle managers, or both.

[3] The idea of enhanced or improved performance appears in these principles and elsewhere in the text. Some public officials use a structured definition of performance comprising, for example, the underlying ideas of efficiency, effectiveness and economy. Some would add to this list the idea of measuring and reporting on results achieved relative to resources spent (the underlying concepts of cost-effectiveness and accountability). Others view performance relative to citizen satisfaction with public services (the Common Measurement Tool) and still others apply the term, value for money. All of these ideas are compatible with "performance" as it is discussed in this document.

[4] In the 2008 World Bank, "Government Effectiveness" scores, Canada ranked number 6 among the 30 OECD countries. Those interested in the raw scores for all countries should see: The World Bank, Development Research Group, *Governance Matters VIII, policy research working paper 4978*, (June 2009). Canada also ranks well in other indexes that measure government performance, societal performance, or both (See the Bertelsmann Sustainable Governance Indicators 2009 and the UN Human Development Index.)

[5] As part of its research, CCAF spoke with civil servants at all management levels in the Federal and Provincial governments of Canada. We also administered a survey to those who attended our discussion groups, and the National Managers' Network of the Federal government used this survey instrument in its 2009 consultations. About 39% of respondents to this survey agreed with the statement "the right tools are present to support intelligent risk-taking." Respondents also identified a number of incentives and barriers in relation to innovation. The two most important barriers are "day to day delivery pressures/not enough time" and "lack of resources," cited by over 77% and over 72% of respondents, respectively.

[6] The unique nature of public sector culture and administrative complexity in government is well described by Peter Larson and David Zussman. These authors interviewed twenty senior federal public servants who joined at mid-career from outside organizations – either from the private sector, from not-for-profit organizations, or from provincial governments. Issues related to red tape, particularly in the area of human resources management were strongly reflected in these interviews, as they were in CCAF's own consultation groups and survey. See Peter Larson and David Zussman, *Canadian Federal Public Service: The View from Recent Executive Recruits*. Optimum Online, Vol. 36, Issue 4 (December 2006).

[7] Some innovative solutions go to the core of how an entity is structured or operates. For example innovation can involve alternative service delivery approaches or public/private partnerships where an entity gets out of direct program delivery altogether. In these cases, the entity innovates by fundamentally changing its operations and delivering the service on a contractual, rather than a direct, basis. Where this occurs, managers must ensure that the change is within authorities granted by Parliament or the legislature.

Some may guess that innovation normally occurs through a single "big bang" project. In fact, the implementation of innovation more often involves the coordinated management of a number of projects, each representing a piece of the bigger picture. It is rarely possible to implement transformative change in a single, big project.

[8] These factors are based on CCAF consultations with managers and auditors across Canada. We asked them in discussion groups and via a short survey to identify the main incentives and barriers to innovation as they experience them in their daily work.

[9] See both Mulgan and Albury as quoted in IDEA Knowledge, *Innovation in Public Services: Literature Review* (September 2005), p. 2; and Public Policy Forum, *Innovation and Risk-Taking*. These ideas were reinforced in many CCAF consultations supporting this document.

[10] As Einstein might have said, but most certainly did not, innovation is relative to time, place and tolerance for risk.

[11] In Canada, examples of breakthroughs include the application of online technology to process tax returns or the introduction of smart card technology in health programming and administration. Overall, the magnitude or impact of innovative projects can range widely:

Incremental innovations represent minor changes to existing services or processes. These do not attract headlines and rarely change how entities are structured. However, they can add up over time to improve operational efficiency, program effectiveness and value for citizens.

Radical innovations are less frequent and involve either the development of new services or the introduction of fundamentally new ways of doing things. For example, when governments enter into new forms of public-private partnerships to deliver services, they can significantly impact performance for the new entity and alter the expectations of service users.

Transformative/Systemic innovations give rise to new workforce or information management structures and new types of interaction between citizens and governments. They transform entire sectors and dramatically change relationships. Internet-based, citizen-engaged health care services will eventually become transformative, when they occur on a broad basis. Transformative innovations are rare and take decades to have their full effect, requiring fundamental changes in organizational, social and cultural arrangements.

(See Mulgan and Albury, *Innovation in the Public Sector,* as quoted in *Innovation in Public Services Literature Review*, *op. cit.*, p.6. The categories and examples have been adjusted based on CCAF consultations.)

[12] Some of these ideas are adapted from the Office of the Auditor General of Canada, *2002 Report*, Chapter 9, p. 2. A governance or accountability body could be a committee (eg. a legislative Public Accounts Committee) or an individual, say the deputy head of the Ministry.

[13] *Ibid*., p. 1. Until recently, the concept of accountability was seen as a simple relationship – managers were to be given the responsibility and resources to do a job and then held to account for what was achieved. More modern notions of accountability require managers to account not only for <u>what</u> was achieved, but also for <u>how</u> it was done. Modern notions of control require this latter definition of accountability.

[14] (J.M. Howell, C.M. Shea & C.A. Higgins, "Champions of Product Innovations: Defining, Developing and Validating a Measure of Champion Behavior" in *Journal of Business Venturing*, vol. 20, no. 5, pp. 641-661), as quoted in *Innovation in Public Services: Literature Review*, op. cit., p. 22. CCAF believes that it is important to distinguish between champions and specialized units. Separate units or "skunk works" may disappoint because they signal that innovation is a specialist activity, distinct from the responsibilities of employees. When innovation is seen as a specialist function, it is unlikely to grow as a broad-based practice. Entities wanting to promote innovation usefully can set up "skunk works" operations but this should not occur at the expense of identifying and encouraging many champions.

[15] (Tom Ling, *Innovation: Lessons from the Private Sector,* A 'think piece' in support of the Invest to Save Study [November 2002]), as quoted in *Innovation in Public Services: Literature Review*, *op. cit.*, p. 22.

[16] This is essentially a program evaluator's needs assessment tool kit. For example, a subsequent section of this document discusses citizens' expectations for service delivery, which can be determined through the use of a survey, in this case the 'common measurements tool'.

[17] See M.J. Kirton, *Adaption-Innovation: In the Context of Diversity and Change* (Routledge, New York: 2003). Kirton's Adaption-Innovation theory posits that people approach problem solving in two distinct ways: adapters thrive in a structured setting, while innovators do well with less structure and boundaries. (This goes to the heart of how peoples' brains process information. It is important to note that no individual fits one model or the other, rather any person can be positioned on a continuum between the poles.) Managers should recognize that innovation depends on finding and mixing people who are strong in both of these problem-solving approaches to varying degrees. Innovative thinkers are often willing to work with little structure and much ambiguity. Adaptive thinkers prefer precision, reliability, discipline, safety and soundness. No creative idea can progress successfully without the problem solving abilities that both of these thinking styles bring to the table. CCAF thanks Ed Bernacki for drawing our attention to the importance of this factor.

[18] Mulgan and Albury (2003) as quoted in IDEA Knowledge, *Innovation in Public Services*, op. cit., p. 24; and as supplemented by CCAF analysis. Note that in any public sector organization, innovation is likely to move through four main stages:

Creativity and generating possibilities (how ideas are stimulated and supported).

Incubating and prototyping (approaches used to test and develop ideas, and manage risks).

Replicating and scaling up (the promotion of effective and timely diffusion of successful innovation).

Analyzing and learning (evaluation of what worked and did not, to promote continuous learning and improvement).

(See D. Albury & G. Mulgan, *Innovation in the Public Sector* [UK Cabinet Strategy Unit, October 2003], p. 10. Although critical, learning tends to be an often neglected element in the innovation process.)

[19] Barriers to innovation tend to fall into three main classes:

Those that arise **within** the organization include hostile or skeptical attitudes; turf fights; difficulty in coordinating units; logistical problems; difficulty in maintaining enthusiasm; difficulty in introducing new technology; union opposition; middle management resistance; and general opposition to entrepreneurial action.

Obstacles that arise **in the government environment** might include resource, legislative or regulatory constraints, or the opposition of elected officials.

Barriers that exist in the **external** environment include public doubts about the effectiveness of programs; difficulty in reaching the program's target group; opposition by those affected in the private sector (including entities that would experience increased competition) and general public opposition or skepticism.

(See Sandford Borins, *The Challenge of Innovating in Government* (PricewaterhouseCoopers Endowment for *The Business of Government – Innovation*, Abramson & Littman ed. 2002), pp. 59-105. This is as it is quoted in *Innovating in Public Services: Literature Review, op. cit.*, pp. 25-26.) Becoming entrepreneurial represents a major cultural shift, something that can only be achieved through a persistent breaking down of barriers and a realignment of incentives. **Cultural change** is difficult to effect but, if persistent signals are sent from leaders and predictable rewards, sanctions and incentives are offered – it can occur.

[20] These barriers were initially identified from Albury, *Innovation in the Public Sector, op. cit*. as quoted in *Innovation in Public Services; Literature Review, op. cit*., pp. 24-25. In a series of consultations with public officials across Canada, CCAF asked participants to identify which impediments were the least and most important based on their personal experience. Participants used a 10-point scale ranging from "not an issue" to "highly important issue". This survey and the focused discussions that took place around it allow CCAF to rank the barriers from the least to the most important. All the barriers listed were seen by participants as significant, although two ("delivery pressures" and "lack of resources") stand out as the most important.

[21] Roughly 56% of those surveyed in CCAF consultations felt that risk tolerance in their organization was low (scoring 4 or less on a 10 point scale).

[22] The idea of phantom rules was raised in consultations supporting this document. On a related point, respondents to CCAF's survey indicate that "innovation not encouraged" is the least important of the main barriers. (We asked them the following question (#6): "to what extent do you view each of the following items as an impediment to your personal - emphasis added - ability to be innovative?") This seems to conflict with responses to question #7 where they identified "management that is supportive" as the most important enabler for innovation. In reconciling these views it is important to note that about 80% of respondents felt that they receive moderate to high support from their immediate manager in adopting innovative practices (question #5). Respondents are reflecting an overall view that they feel supported by their immediate manager, that this support is important, but that it is not sufficient to overcome the many barriers to innovation. Support by an immediate manager is not enough to overcome time pressures, lack of resources, poor project management skills and other barriers.

[23] The factors discussed in the text were first identified in a number of sources quoted in *Innovation in Public Services; Literature Review*, *op. cit.*, pp. 20-23. These underlying sources include Osbourne and Plastrik's (2000) field book for government re-inventors, Light's (1998) work on innovative non-profits and small public sector organizations and Borins (2002).

CCAF then held discussion meetings in a number of Canadian cities and asked federal and provincial officials to rank the factors that encourage innovation "within your department, agency or ministry." The results are reproduced and discussed in the text. "Learning," "ownership" and "experimentation" which are all noted in the text, were not included in the survey instrument. They were however noted in the background literature and were discussed by participants in CCAF's meetings.

[24] Respondents to CCAF's survey clearly indicated that "management that is supportive," "empowering front line and middle management," and "trust that one will be supported if honest mistakes occur" are the three most important factors in encouraging innovation.

[25] Although it may seem counterintuitive to some, "financial rewards" were consistently identified in our discussion group and survey results as the least important enabler to innovation. Based on our consultations, cash bonuses for successful innovative projects appear to be, at best, neutral as a motivator.

[26] These areas and factors are based on feedback provided in discussion groups and through a survey conducted by CCAF.

[27] See Aristotle's *Rhetoric*, public domain. The *Rhetoric* was written in 350 B.C.E. The translation is approximate.

[28] Ed Bernacki, *Wow! That's a Great Idea, Yearly Idea Leadership Navigation Guide*. The Idea Factory (2008), back cover. CCAF has added the idea of paying attention to the control of projects aimed at implementing creative ideas.

[29] As the Auditor General of Canada once put it, it is inevitable that errors or unintended impacts will occur in innovative projects. When they do, organizations should be able to tolerate mistakes or adverse results, provided that any risk taken could be shown to have been reasonable and the management of the risk to have been sound. Office of the Auditor General of Canada, *2002 Report of the Auditor General of Canada – Chapter 9: Modernizing Accountability in the Public Service* (December 2002), p. 2.

[30] This is essentially the definition set out by the Canadian Institute of Chartered Accountants (CICA) in its *Guidance on Control,* Control and Governance Series – Number 1 (November 1995). In common parlance, this guidance has come to be known as the "criteria of control" or more colloquially, "CoCo". For all practical purposes the words "control," "internal control" and "management control" mean the same thing.

[31] *Ibid.*, paragraphs 6 and 7. CoCo states that control focuses on three main categories of organizational objective – effectiveness and efficiency of operations, reliability of internal and external reporting and compliance with applicable laws, regulations and internal policies. It goes on to state that control includes the identification and mitigation of risks which encompass (1) those related to the achievement of an objective (2) failure to maintain the entity's capacity to identify and exploit opportunities and (3) failure to maintain resilience. Resilience is defined as the entity's capacity to adapt and respond to unexpected risks and opportunities and to make decisions on the basis of telltale indications, in the absence of definitive information.

[32] Office of the Auditor General of Canada, *1992 Report of the Auditor General of Canada – Chapter 4: Change and Control in the Federal Government* (1992), paragraph 4.13. CCAF analysis, as set out in the text above, goes beyond this OAG Report paragraph.

[33] This view of "control" is similar in form to the COSO definition but CCAF has added several concepts that are very important in the public sector: strong alignment to objectives, non-financial performance information; use of information to support operations, reporting and accountability; authorities; values and ethics; and renewal of resources to ensure sustainability.

The British Columbia Office of the Auditor General has an interesting perspective on these issues. In defining "good governance" the Office cites two main factors (1) deliver goods, services or program effectively – "good performance" and (2) meet the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness – "good conformance." See Office of the Auditor General of B.C., *Public Sector Governance, A Guide to the Principles of Good Practice* (December 2008), p. 5.

Some would argue that the definition of control should also include strategic planning, as that management function is critical to setting an organization on the right path with agreed-on expected results. The definition of control adopted by CCAF leaves out planning, along with other traditionally-understood management functions (organizing and directing) on the grounds that control is but one function of management, not all of it. The underlying thought is that control is one of four functions of management – the others being planning, organizing and directing. Some argue for a fifth management function (accounting/reporting) but CCAF and most others include this in the definition of control.

[34] It is worthwhile noting that the information used for public performance reporting should be a small subset of the sum of performance information used to control operations. As the CCAF and the Public Sector Accounting Board of Canada indicate in their seminal documents on performance reporting (Principles of Public Performance Reporting and Statement of Recommended Practices II, respectively) public performance reports should focus on a "few, critical issues." This argues for a tight selection of measures to be provided in public performance reports. Although public performance reports should generally emphasize the "outcomes or results" spectrum of measures, operational control must focus on the full spectrum – with measurement of efficiency, economy and effectiveness. And there must be only one set of books – the measures used in public performance reports must be entirely consistent with those used for internal control.

[35] Adapted from Canadian Institute of Chartered Accountants, *Guidance on Control, op. cit.*, Intro, paragraph 2.

[36] There are likely five main purposes to hard controls:

Directive – providing high level, obligatory direction from legislatures, governance bodies, standards organizations, central agencies and other authoritative groups. These can range from the strategic (legislation setting out organizational mandate) to the operational (government-wide administrative policies).
Preventive – activities or processes designed to prevent or reduce the impact of errors or malfeasance. An example is the segregation of incompatible duties (where a person is not able to both commit and conceal). Another is a simple inventory of assets.
Detective – activities or processes designed to detect errors or malfeasance, for example internal audit or a periodic inventory count.
Corrective – activities or processes that correct errors or malice in a timely manner.
Recovery – activities or processes designed to recover from errors, malice or other undesirable events; for example, disaster recovery or business continuation plans.

(See the University of Victoria Internal Audit Website – Activities Section.)

[37] Office of the Auditor General of Canada, *2002 Report,* Chapter 9, *op. cit.*, p. 8.

[38] Geneviève Lépine, *The Web of Rules: A Study of the Relationship Between Regulation of Public Servants and Past Public Service Reform Initiatives* (Public Policy Forum) September 2007); & Sandra Nutley, "Public Manager 2010: A Recognizable Future?" in *Public Money & Management* (January-March 2000), p. 6-8.

[39] These criteria are based on CCAF analysis as also reflected in two documents:

A Memorandum for the Heads of Departments and Agencies (Initial Implementation Guidance for the American Recovery and Investment Act of 2009) from the Director of the Office of Management and Budget, February 18, 2009; and

A letter from the Auditor General of Canada to the Secretary of the Treasury Board of Canada on implementing the Budget 2009 Economic Action Plan, March 5, 2009.

[40] Authorization of programs normally occurs through an Appropriation, Budget or Special Act.

Programs deliver a set of activities (actions taken) and outputs (things produced) to achieve a common set of objectives. They are always budgetary units, headed by managers responsible for resource stewardship and for moving the organization toward its intended results. (In the Government of Canada, the budgetary unit must be at least $1 million to meet the definition of a program.) Programs normally house a number of projects that operate for a period of time and terminate, hopefully with their objectives achieved. Under basic program theory, projects are treated as "activities", which produce certain "outputs", or products. In other words, projects tend to be short-term, narrowly scoped, output oriented, and housed within a broader program.

For the purposes of this paper the words "results" and "outcomes" are treated as synonymous, as are "intended outcomes," "intended results" and "objectives."

In program theory, the intended results of any program may be broken down into "immediate, intermediate or ultimate" categories. Immediate results are closely linked to the program's outputs and are often measured by changes in the knowledge of program recipients. Intermediate results normally occur after a few years of program operation and are measured by changes (hopefully positive) in recipients' behavior. Ultimate results – sometimes called strategic outcomes in the Government of Canada – are long-term and societal in nature. Programs should be aligned to support (and make a contribution toward) the improvement of these high-level outcomes and societal indicators. But no one program, or indeed the action of any one government, can make significant improvements in societal outcomes, when acting alone.

Program theory is described in many texts and articles related to program evaluation or results management. A very succinct overview may be found in the Public Sector Accounting Board's Statement of Recommended Practice on Public Performance Reporting (September 2006).

Ministries (or programs within a ministry) established under a Special Act often have multi-year spending authority governed by the Act and its regulations. For example, at the Federal level in Canada, national health services and insurance for loss of employment are largely governed by Special Acts. Other "non-statutory" programs (those not authorized under a Special Act) commonly have a one-year spending authority that must be renewed periodically by Parliament or the legislature under a more general Appropriation Act.

[41] The quote "I am an idealist without illusions" is commonly attributed to President John F. Kennedy, who was asked to describe his political philosophy.

[42] Normally, the first performance reporting efforts focus on outputs and activities until a capacity is developed to measure outcomes, or real results. Even then, sound reporting depends on a consistent and persistent demand from legislators and from standing committees.

[43] Another take on these lessons-learned may be found in Lee McCormack, *Performance Budgeting in Canada*. OECD Journal on Budgeting, volume 7, no. 4 (2007).

[44] Canadian governments deliver these services through departments, agencies, ministries, crown corporations, boards, tribunals, foundations, local authorities and many other forms.

[45] Brian Marson and Ralph Heintzman, *From Research to Results: A Decade of Results-Based Service Improvement in Canada*. Institute of Public Administration of Canada (2009), p.23. These drivers are derived from the periodic Citizens First Survey, initiated in 1998.

[46] *Ibid*, p. 14 and p.23. Measuring and benchmarking government service performance is relatively easy in Canada. A "Common Measurements Tool" – essentially a common questions bank – has been used by many federal and provincial organizations since 1998. Because a large number of surveys are available over an extended period, those using the tool have easy access to relevant benchmarks, allowing them to understand their results in context.

[47] Adapted from Canada, Canadian Centre for Management Development, *Crisis and Emergency Management: A Guide for Managers in the Public Service of Canada* (2004), Section 1.

[48] Adapted from Peter Meyboom, *Crisis Management in Government*, unpublished paper of the Department of Fisheries and Oceans, abstract and p.1. (February 1988).

[49] CCMD, *Crisis and Emergency Management*, *op. cit.,* Section 2.

[50] Sometimes, the "why" takes a little longer to answer than the first five questions. One way to think about these issues is that management must always provide "truth to power" even when the message may be difficult to deliver. The values and ethics of this "truth to power" idea are discussed at length in Canadian Centre for Management Development, *A Strong Foundation – Report of the Task Force on Public Service Values and Ethics* (1996, reprinted in 2000).

[51] Office of the Auditor General of Canada, *2002 Report*, Chapter 9, *op. cit.*, paragraph 9.49. The idea of the "primacy of prevention" was discussed in a symposium hosted by the Public Sector Integrity Commissioner of Canada. See *Building Trust Together: The Public and Private Sector Experience,* Report from the September 22, 2008 Symposium. This document is available from the main web page of Public Sector Integrity Canada.

[52] Readers should note that the following discussion focuses mostly on the discipline of risk management as it relates to the reduction of red tape and the encouragement of innovation to improve productivity. It does not aim to instruct the reader in the mechanics of risk management for all kinds of purposes. While CCAF could have made many finer distinctions – for example, between strategic, operational and enterprise-wide risks – a choice was made to use the simple generic terms, "risk" and "risk management" wherever possible in this document.

[53] Managers normally assess risks in terms of their probability of occurrence and potential impact.

[54] A well-managed public sector entity should be guided by a sound understanding of risk and the costs required to administer any new rules. Administrative rules should not go into place unless they are proportional to risk. Rules already in place – and whose burden is disproportionate to the risks they address – should be reviewed, modified or eliminated (principle four). Either way, the proper design and adjustment of rules requires first, a capacity to assess and manage risk.

[55] Knowledge of risks and opportunities allow managers to deliver better public services, improve efficiency, reduce red tape, make more informed decisions and support innovation.

The UK, National Audit Office did an interesting study of how risk management supported these aims in the UK government. See Report by the Comptroller and Auditor General, *Managing Risks to Improve Public Services,* HC 1078-1 Session 2003-2004: 22 October 2004.

[56] Her Majesty's Treasury (UK), *The Orange Book: Management of Risk – Principles and Concepts* (Her Majesty's Stationary Office, October 2004), p. 7.

[57] Where the entity's risk appetite is very low, managers will sense a high degree of personal risk and will be unlikely to take chances. Where organizational risk appetite is high, managers will sense their personal risk to be low, and become more likely to take informed risks. Managerial discussions on risk appetite are therefore important.

[58] When service delivery becomes highly complex and disaggregated, a variety of governance models are at play and governments may face difficulty in designing and maintaining accountability to the ministry or to the legislature and its officers.

[59] Uncertainties in the operating environment are a daily reality. It is worth noting that some programs with ambiguous objectives reached that state in the normal give and take of a democratic political arena. Many risks are unique to the entity and result from the size, complexity, reach and public visibility of the entity; the size of the budget; differences in clients and their expectations; the sensitivity and value of financial or citizen-related data; and the requirements for system reliability, availability and performance. The risks noted in the main text are a combination of those from the UK NAO, *Supporting Innovation*, *op. cit.*, and from CCAF training manuals, including the "Risk Assessment and Audit Selection" component of its *Performance Audit, Level II* Course.

[60] CCAF, "Risk Assessment and Audit Selection" - *Performance Audit, Level II* Course.

[61] This CCAF document does not detail how to conduct a risk assessment, as this territory is covered in many other publications including the *UK HM Treasury's Orange Book*, *op. cit*. The main features of risk management are:

Step 1: Identify Risks
Initial risk identification occurs when an organization is beginning to incorporate risk management into its work, and continuous risk identification occurs when the entity has bought into the approach and begun to identify risks on a routine basis.

Step 2: Assess Threats and Opportunities
In step 2, managers categorize risks and create a risk profile. They then assess those risks to judge likelihood of occurrence and potential impact. As organizations establish risk tolerances and overall risk appetite, managers should take two perspectives. When considering threats, they should judge the level of exposure considered acceptable should that risk be realized; when considering opportunities to innovate and improve performance (positive risks), they should assess how much they are willing to risk to obtain the possible benefits.

Step 3: Address the Risks
Public sector managers may decide to address uncertainty in any of four ways:

Tolerate – This may be the only reasonable course if the proposed activity is necessary or the costs of taking action are prohibitive.
Treat – Managers can treat or mitigate the risk, while continuing the activity. This makes sense when the administrative costs of treatment are reasonable. The "residual risk" after treatment should be acceptable, justifiable, and within the risk appetite.
Transfer – This often applies to financial matters where a risk might be transferred to another party. Financial risk is often transferred in the private sector through conventional insurance, though this option is not always available to public sector managers.
Terminate – Where risks jeopardize the reputation or even the existence of the entity, managers may conclude that the underlying activities are unacceptable.

Step 4: Monitoring, Reporting, Communicating and Learning
Managers should regularly monitor the environment in order to keep the risk profile current, relevant and applicable. They should be prepared to eliminate administrative rules that are costly, out of proportion to the risks they purport to mitigate, or which no longer make sense.

Managers should disseminate good practices from one unit to another. In particular, they should communicate the "opportunity side" of risk and encourage employees to take reasonable risks to implement projects that can improve productivity.

[62] In discussion groups and the survey accompanying this CCAF research we asked participants to think about and rank their organization's tolerance to risk on a scale of 1 to 10. We also asked whether the level of risk in their organization has increased or decreased in the last five years. Roughly 56% of respondents felt that risk tolerance was low, 21% indicated a moderate tolerance and 23% indicated a high level of tolerance. We further found that, of those who responded to the question on inherent risk, about 67% felt that the level of risk in their organization has increased over the past five years. This suggests that aversion to risk may grow in the coming years unless steps are taken to reduce it.

[63] UK NAO, *Supporting Innovation*, *op. cit.,* p. 2.

[64] Office of the Comptroller General of Canada. *Core Management Controls* (November 2007), section on risk management. When it comes to external monitoring, public sector organizations might include the scanning of economic, regulatory and commercial factors, as well as the measurement of client satisfaction. Internally, managers should monitor factors such as employee demographics, labour relations, and financial and operational results.

Communicating risk tolerances is not easy in most public sector environments and some managers may feel uncomfortable in putting general views to paper. General risk tolerances should be discussed regularly in the governance committees of the entity and individual managers should discuss generally accepted behaviours with staff. Decisions on risk mitigation and the acceptance of residual risk should be documented for significant projects.

[65] See Global Audit Information Network, *A World in Economic Crisis: Key Themes for Refocusing Internal Audit Strategy*, Institute of Internal Auditors Publications (2009) p.10.

[66] Congruent with this, organizations should identify the owners of their main administrative rules and each owner should know whether the costs of administering the rule are proportional to the risk being mitigated. Although the risk and rule owners do not need to be the same person, they should regularly talk. This relationship between rules and risk is discussed under principle four, reduce red tape.

[67] Office of the Comptroller General of Canada. *Core Management Controls op. cit.,* Annex 1, supplemented by a review of the Government of Canada's Management Accountability Framework, and by CCAF analysis.

[68] *Ibid*., Section on people management.

[69] It should be noted that for many, if not most, public organizations some hard control activities are required by law – for example requiring procedural fairness for citizens. The point is that there is always a strong place for competence, common sense and character.

[70] For many years, new employees in Nordstrom, a Seattle based retail company, were given a copy of the famous **Employee Handbook** – a document of very few words:

> "Welcome to Nordstrom. We're glad to have you with our company. Our number one goal is to provide outstanding customer service. Set both your personal and professional goals high. We have great confidence in your ability to achieve them.
> Nordstrom Rules: Rule #1: Use good judgment in all situations. There will be no additional rules. Please feel free to ask your department manager, store manager, or division general manager any question at any time."

Understandably, no civil service would feel confident with such a sparse handbook and Nordstrom itself now provides additional material to new employees. But the core of rule number one remains – use good judgment in all situations – and it sets the right tone at the top.

[71] In a public sector organization there is a hierarchy of administrative constraint that begins with legislation, as enacted by parliament or a legislature. This cascades through subordinate legislation (regulations) – and then through to policies, executive orders, guidelines and processes. Changes to regulations and to other constraints are largely within the authority of the executive branch – the Cabinet as supported by ministries and central agencies.

The executive branch cannot change legislation on its own behalf but it has discretion on how to go about administering the authorities provided to it and then delegated (through formal instruments) to civil servants across the government.

In this document CCAF uses the terms "rules" or "administrative rules" to cover constraints put in place by central agencies and ministries to administer the executive branch operations of government – the regulations, policies, executive orders, guidelines, procedures, processes and other instruments that a government uses to manage itself. The focus of this document is on internal red tape – the administrative web of rules that can grow up over time as governments manage their own operations – it does not deal with external rules imposed on others. Governments can and do create regulatory burdens on citizens and businesses, but those instruments are outside the scope of this document.

[72] Office of the Auditor General of Canada, *2002 Report*, Chapter 9, *op. cit*., paragraph 9.68. In order to innovate, take reasonable risks, and learn from mistakes, managers need a degree of discretion and flexibility to act. Too many rules and procedures can impede innovation and lead to inefficiency, ineffectiveness, and frustration.

[73] Treasury Board of Canada Secretariat, *Untangling the "Web of Rules": Towards a New Management Regime*, Presentation by Wayne G. Wouters to the Advisory Committee on the Public Service (January 2008), Annex A "The Smart Rules Charter".

[74] When a rule is respected, the underlying determinants are that it has clear accountabilities regarding who is required to do what, it is easily monitored and there are consequences for non-compliance.

[75] Four sets of values are at play here:

Respect for democracy recognizes that authority rests with elected officials who are accountable to legislatures and to citizens. A well-performing public sector organization emphasizes respect for democracy. It manages delegated authority in a professional manner and provides ministers, legislators and Canadians with timely and accurate information on the results of its work.

Professional values require employees to provide high-quality, impartial policy advice while committing to the design, delivery and continuous improvement of programs and services. Professional values emphasize stewardship, duty of office and care, and protection of assets. They also emphasize innovation aimed at improving the cost-effectiveness of processes, programs and services, provided that this occurs with due regard to risks and the need for sound management control.

Ethical values (integrity, trust and honesty) are the cornerstone of sound control. They require public servants to support the common good at all times. They recognize the need for openness, transparency and accountability in what is done and how it is done.

People values include courage, decency, responsibility and humanity. In a healthy workplace they demonstrate themselves in respect, civility, fairness and caring. Values-driven organizations support learning and are led through participation, openness, communication and a respect for diversity.

See "Sheila Fraser, *Efficacy and Adaptability of Government*",. See also Canada, Treasury Board Secretariat, *Results for Canadians* (2000), and Canada, Canadian Centre for Management Development, *A Strong Foundation* (1996, reprinted in 2000). It is notable that innovation (mentioned here under "professional values") does not always make its way into values and ethics codes.

[76] Office of the Comptroller General of Canada, *Core Management Controls*, *op. cit.,* pp. 15-16.

[77] CICA, *Guidance on Control*, *op. cit.*, paragraphs 98-99.

[78] Risk in this case means both operational risk and risk associated with possible changes in the outside environment.

[79] Although the idea of tailored rules can apply to both internal administrative matters and to external activities – for example, to the rules that apply to organizations in receipt of government grants and contributions – the management principles in this document are meant to deal with the "internal" web of rules only. At the federal level, an excellent report on external administrative burdens associated with Grant & Contributions programming was produced by a blue ribbon panel. (See *From Red Tape to Clear Results*, Government of Canada, 2007.)

[80] In discussion groups supporting this research, participants were asked to fill out a short survey. When given a list of 12 administrative areas and asked "to what extent does red tape pose challenges for you in undertaking each of the following activities?," those who responded listed staffing and general HR management as the most challenging areas. Other important areas are listed in the text. Several areas had relatively low "irritation" rankings including financial management, and the management of access-to-information and travel policies. **There is a great variation in the data, indicating that certain areas pose serious red tape challenges while others do not.** For example, over three quarters of respondents indicated that there is a significant burden associated with human resource management. Roughly 60% have significant concerns in the areas of procurement and contracting. By comparison, financial management and the management of access-to-information requests are much less burdonsome – and only 36% feel that there are significant red tape burdens associated with travel policies.

[81] For example, based on CCAF survey results, roughly 42% of Federal respondents agree with the statement "the level of administrative rules in my organization is about right given the risks we face." Contrasting this, about 62% of provincial government respondents agreed.

The trend across all 12 administrative areas tested in the survey is that red tape is a greater issue for the federal government than it is for most provincial administrations. That is not to say that red tape is unimportant in provincial jurisdictions – some provincial consultations noted it clearly. And some administrative areas such as "HR staffing" are identified by a strong majority of provincial government respondents (about 70%) as posing a significant issue. But if one looks at 'HR staffing' for federal officials alone, that number jumps close to 90%.

On the issue of organizational level, the CCAF survey covered senior executive management (e.g., Deputy and Assistant Deputy Ministers), executive management, middle management and staff levels. Over 66% of senior executive managers felt that the level of administrative rules in their organization is "about right, given the risks that (we) face." For executive and middle managers and for staff, the numbers were about 44%, 50% and 49%, respectively.

Senior executives diverged significantly from lower organizational levels in the areas of "Project and Program Approvals" and "Financial Management." In respect of "Project and Program Approvals," about 40% of senior executives indicated that it posed a significant challenge, while that number increases to about 55% for lower organizational levels. In regard to "Financial Management," only 32% of senior executives indicated that it poses significant red tape challenges, while this number peaks at close to 50% for executive managers.

[82] The exception to this trend was the management of grant and contribution and other transfer payments where senior and executive managers reported higher degrees of red tape than did those lower in the hierarchy.

[83] Over 60% of Federal and Provincial government respondents in our CCAF survey indicated that a significant amount of red tape they encountered comes from both internal and external sources. In a 2009 meeting of federal executives, the Treasury Board Secretariat of Canada asked about serious barriers to innovation. Of the roughly 60 respondents, 22% cited Treasury Board (central agency) requirements as a major barrier, while 44% (twice as many) cited internal departmental rules. (Unpublished notes from the Web of Rules Roundtable, October 6, 2009.)

[84] When central agencies and senior ministry officials are considering tailored rules, they should ask whether the demonstration of public service values and sound management capacity are sufficient to mitigate risk. At the highest general level, central agencies and the executive committees of ministries might start by asking ten main questions:

Have we put in place the conditions for effective **strategic direction** and delivery of results?
Have we taken unequivocal steps to reinforce the importance of public sector **values and ethics** (democratic, professional, ethical and people values)?
Have we secured the **right people and work environment** to assure success?
Is our **resource stewardship** (relative to assets, money and people) acceptable, and are its underlying principles clear to all staff?
Have we built capacity and integrated **risk assessments** into corporate decision-making?
Is information on program **results** gathered and used to support decision-making, and is performance reporting balanced, defensible, and easy to understand?
Do we have the **policy development capacity** required to serve our Minister and support government-wide priorities effectively?
Are **responsibilities and authorities** for results clearly assigned and consistent with resources and capabilities?
Are partnerships skilfully managed, policies and programs developed from the 'outside in', and **services** delivered on a citizen-centred basis?
Do we encourage **innovation,** promote **learning** and anticipate and adapt to change?

These questions originate from work done in January 2003 by the Office of the Comptroller General of Canada as a precursor to the development of the Management Accountability Framework (MAF). The Government of Canada now uses this MAF tool to assess the management capacity of its departments and agencies on an annual basis.

[85] If the study group is within a ministry, some combination of headquarters and regional staff, including a good mix of middle managers, operational employees and functional specialists, may be appropriate.

[86] These tests were developed from initial work done by the Treasury Board Secretariat of Canada in early 2008. Test 2 on cost estimation would require some form of an administrative rules costing model able to estimate the "internal" costs of a given rule. A standard cost model is used in some OECD countries but to our knowledge has yet to be applied in the determination of administrative costs within a civil service. Tests 3 and 4 were added based on CCAF analysis with some reference to the document, Reducing Red Tape in the Australian Public Service. The responses to these tests are likely to depend on existing risks and the internal management capacity of the entity. Where risks are mitigated and management capacity is adequate, control may be exercised less through formal rules and processes (hard controls) and more through the ongoing monitoring of performance.

[87] Australia Public Service Commission, *Reducing Red Tape in the Australian Public Service – Management Advisory Report No. 7*. (2007): executive summary as modified by CCAF analysis.

[88] *Ibid.,* pp. 5 and 9.

[89] Only about 30% of respondents in CCAF's survey agreed with the statement "the costs of complying with rules are considered before implementation." (Within this aggregate figure, about 24% of Federal respondents and 37% of Provincial respondents agreed with the statement.)

In assessing rationale (the first test), managers might ask whether:

The area of concern – the risk – is defined at the outset and the proposed rule is roughly proportional to that risk;
Reasons behind the proposed rule and administrative requirements seem reasonable; and
Alternatives such as the use of moral suasion, education, or the building of management capacity have been considered and found to be insufficient.

Because few government ministries use activity-based costing, it is unlikely that the potential costs of a proposed rule can be determined with either ease or precision. Examples of administrative rule costing models exist (see *Cutting Red Tape: Comparing Administrative Burdens Across Countries* – OECD 2007). However, the most common of these (the Standard Cost Model) is used to assess the costs borne by <u>external</u> parties (e.g., businesses and individuals) impacted by government regulations. **Because CCAF has yet to find a fully functioning cost model that is commonly applied to the <u>internal</u> processes of a civil service, we believe that the prudent course of action is to estimate costs in whatever manner seems reasonable to the entity and "learn as you go."**

The Australian *Business Cost Calculator User Guide* (Department of Finance and Deregulation, October 2006) sets out a categorization of costs (summarized and adapted below) that may be useful:

Notification: Reporting transactions to a ministerial or central agency authority before or after the event – for example on expenses made or people hired.
Education: Maintaining awareness of the rule and the costs of keeping abreast of changes. Education costs occur even when an area is deregulated, as employees must get used to the new environment.
Permission: Seeking permission inside or outside the ministry to undertake an activity, for example spending from a controlled budgetary allotment, or purchasing a capital good, or hiring a new employee. Delay and cost accompany procedures associated with permission.
Purchases: Costs of all materials and equipment purchased in order to comply with the rule.
Records: Keeping all transactional documents up to date and accessible.
Enforcement: Inspections, audits and evaluations as well as the costs of remedial action.
Publication: Costs associated with reporting compliance, for example in reports from a ministry to the legislature in respect of a given piece of legislation.
Procedural: Costs of doing non-paperwork tasks, for example in hiring new people to implement or enforce the rule or in conducting normal management monitoring to ensure that the rule is being followed.

[90] Australian Public Service Commission*, op. cit.,* p. 15.

[91] *Ibid.,* p. 13.

[92] Treasury Board of Canada Secretariat, *Framework for Management Compliance*, (2009), paragraph 3.2.

[93] Buttressing this, managers should ask whether formal channels of communication exist for people to report suspected improprieties. In many public entities, anonymity of reporting is permitted. See Office of the Comptroller General of Canada, *Core*, *op. cit*.

However, some observers have noted the reluctance of employees to come forward and disclose suspected wrongdoing. This may be because employees are simply afraid of the risks, because there is no guarantee of anonymity, because disclosure may lead to a stigma of personal disloyalty or because some may doubt the likelihood of management action in any event. For a discussion of this see Public Sector Integrity Commissioner of Canada, *Building, op. cit.,* p 5-6.

[94] In considering the possible mix of consequences, managers should balance various considerations:

Impact. This includes consideration of the seriousness of actual or potential harm. Factors at play include the impact on resources, on the workforce, or on the reputation of the government. Others might include the impact on assets (including loss, waste or misallocation of funds), or whether there was personal gain.
History. Factors to be considered include previous cases and seriousness of non-compliance, including whether the incident was isolated to one individual or unit, or reflective of a broader systemic problem.
Intent. Was the behaviour culpable or non-culpable? Consideration should be given as to whether there has been a deliberate contravention of laws or policy.
Other circumstances. Consideration should be given as to whether the public good and the interest of taxpayers were ultimately served or harmed.

Treasury Board of Canada Secretariat*, Framework*, *op. cit*., paragraph 9.2.

For control failures at an **organizational level** consequences may range from suasion (collaborative effort to improve control systems), through formal consent (a commitment to develop capacity in order to avoid future problems), to counteraction (imposed redress measures or conditions placed on funding) and finally, in extreme cases, to removal of senior officials or severely constrained authorities.

A similar set of graduated consequences may also apply to **individuals**. Least severe consequences at the level of suasion might include the requirement for training, an oral reprimand or observations in a performance appraisal. Moderately severe ones might include reassignment or changes in delegated authority. And more severe consequences could range from counteraction (suspension, demotion or financial penalty) to termination of employment or legal proceedings.

Ibid., Annexes C and D.

[95] Fewer than 60% of registered voters turned out for the 2008 Canadian federal election, the lowest turnout ever.

When asked in 1968, "How much do you trust the government in (Ottawa/Washington) to do what is right?" about 60% in both Canada and the USA trusted government "almost always or most of the time." By 2006, the comparable figures had declined to 28% or less. Presentation by EKOS Research Associates at the Canadian Policy Research Networks (CPRN) Leadership Summit 2008 – Connecting with Canadians, (February 2008).

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Consultations begin on this project – a panel at the November 2008 symposium

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