



GOVERNANCE OF SHARED ACTIVITIES

E-government is both a driver and enabler of collaboration between government agencies. Agencies will increasingly find themselves collaborating in both the front-office provision of services, and the shared use of information and technology in the back office.

This paper presents an approach to deciding how to govern shared activities that agencies should find helpful when they come to share information and technology. It emphasises the importance of effective allocation of decision rights among partners in shared activities. The two broad options identified for allocating decision rights are:

- a club model, in which the agencies participating in the activity are part of a collective governance environment;
- a unitary model, in which a single decision-maker governs the input.

The approach recognises that there may be hybrid arrangements between the two pure cases.

It should be noted that the approach is aimed at governance of shared activities once they are in operation. It is assumed that, while they are under development, the development project will be governed using standard approaches to managing inter-agency projects.

A shared activity could include:

Inputs:

- common technical infrastructure
- common policy, protocol and standards
- common business applications/tools
- common data
- common delivery channels.

Outputs:

- integrated services
- integrated information
- intermediate activities (one agency's output is another agency's input)

The parties involved in a shared activity could include government departments, Crown entities, local government, and non-government organisations. Governance approaches to shared activities need to take account of the differing internal governance arrangements affecting such entities, as well as any constitutional or legal considerations.

Why is governance important?

Governance arrangements establish decision-making roles, mechanisms, responsibilities and accountabilities that both enable and regulate the allocation, management and control of public resources, and the delivery of programs and services. At stake is a fundamental requirement that all parties to these arrangements operate within the law and manage public resources with prudence, probity and due regard to economy, efficiency and effectiveness. They must also account for the way the resources have been used.

When sharing activities, agencies interests become more intertwined than when they operate in stand-alone mode. For this type of collaboration to succeed, goals deemed to be in the collective interest of agencies participating in the shared activity (e.g. to deliver an integrated service, to achieve collective efficiency/effectiveness gains), need to be defined, agreed, and achieved. At the same time, the individual interests of the participating agencies need to be understood and balanced against the collective interest. Design of effective governance arrangements is a key to achieving this balance.

Overview – how does this approach work?

The approach is based on the following assumptions:

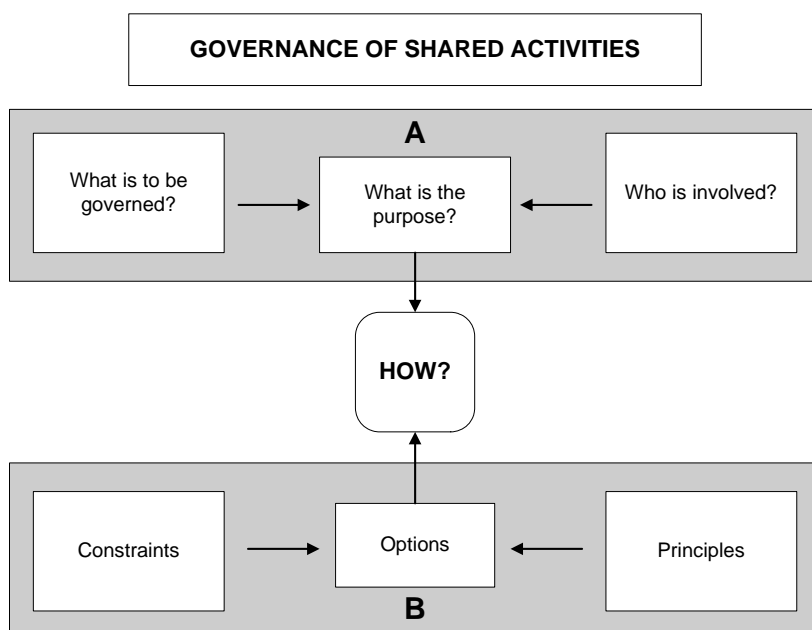
- allocation and exercise of decision-rights is the essence of governance;
- the process followed in allocating decision-rights is at least as important as the final allocation and exercise of those rights; and
- other aspects of governance such as accountability, funding, and design of governance processes are second-order issues largely outside the scope of this approach.

The approach is intended simply to provide agencies with some steps they can follow to determine which of two generic options for governing a shared activity best suits their purposes. Outsourced private sector provision of a shared input under a commercial contract is excluded from the approach. While a legitimate form of governance, it should be clear when it is an appropriate approach, and requires no elaboration here.

Using the approach is straightforward. All that is required is that relevant staff in agencies that are considering a shared activity come together and answer a series of questions designed to produce a weighting toward one form of governance or another. Experience in applying this approach is that the process of asking the suggested questions (or developing new questions) is at least as important as the answers they provide.

PART B: DECIDING HOW TO GOVERN SHARED ACTIVITIES

The diagram below shows the major elements involved in deciding how to govern shared activities.



A. Defining the problem

In each instance where governance arrangements are required, three basic questions should be asked:

- Why is a shared activity being developed/used (e.g. achieve economies of scale, spread capital requirements, mitigate risk, support a shared output, increase capability etc)?
- What is to be governed, and what activities will be required under a governance regime (e.g. ownership, contract management, standards setting, pricing and cost recovery, negotiation with suppliers, dispute resolution etc)?
- Who is involved in the activity, or will depend on it somehow? (e.g. agencies, Ministers, customers, citizens, other stakeholders etc)?

Thought should be given to whether, when, and how all the stakeholders in a shared activity should be involved in deciding how it is to be governed.

B. Finding the right solution

Options

There cannot be a ‘one-size-fits-all’ approach to governing shared activities. What matters is that some reasonably robust process has been followed in choosing a governance model. The two options considered under this approach are:

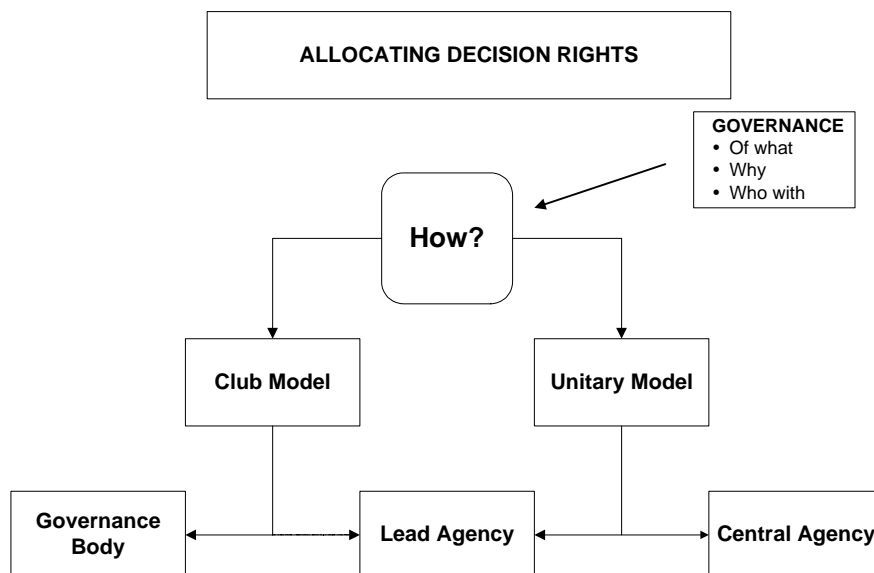
Club model: agencies participating in the activity are part of a collective governance environment.

Unitary model: a single decision-maker governs the activity on behalf of its participants.

Under the unitary model, there are two options for choice of decision-maker - a central agency, or some other lead agency. In general, a central agency would be an appropriate choice where a shared activity will have very wide usage (e.g. the government portal) or is very generic (e.g. the New Zealand Government Locator Service metadata standard and the supporting

Metalogue™ system for creating and storing metadata records). It is conceivable that this could mean establishment of a new entity to govern an activity.

Hybrid arrangements are possible. For example, under the club model the club may decide to allocate decision-making rights to a lead agency.



Club vs. Unitary model - how to decide?

In practice, the two options are likely to be very close to one another. For example, it is probable that a unitary decision-maker would establish some form of consultative body representing the interests of the participants in the activity in question. It is also possible that a club will appoint a lead agency for a variety of reasons.

Where they are distinct is in the area of decision-making rights. Under the unitary model, rights and responsibilities would reside with an individual agency, even if exercised by another party (e.g. the e-GIF Management Committee¹). Under the club model, even if delegated to a lead agency, these rights and responsibilities would still ultimately reside with the club.

A range of factors influence which option is the best choice in any particular situation. One obvious requirement is that agencies' individual accountabilities should either not be compromised, or be open to being modified to reflect use of a shared activity. Other questions include asking who is truly accountable if there is a failure, who is paying for the activity, and how cost-effective different governance arrangements will be.

A Treasury paper² suggests that the following a set of issues might also be considered when allocating decision-rights:

- **information asymmetry**
- **economies/diseconomies of scale and scope;**
- **incentives;**
- **risk management;**
- **agency participation;**

¹ The State Services Commissioner is the Steward of the e-GIF, and the Committee acts on his behalf.

² Treasury, Draft Paper, *Towards a Centralisation/Decentralisation Framework*, May 2002.

- **coordination and consistency; and**
- **constitutional issues.**

The tables below set out a series of questions that can be used to look at each of these issues when deciding how a shared activity should be governed. It is not an exhaustive set of questions – what is presented is indicative, not prescriptive. Not all questions need be used, and others relevant to a particular issue could supplement or replace them.

What is most important is that in reaching a decision, some questions of this type are asked, and the results are documented so that stakeholders can see for themselves what concerns and logic has informed that judgement.

Applying the questions

Most of the questions are not closed. It is possible that answering these questions will lead to an ambiguous answer. They should, however, enable a general preference for a unitary or a club approach to be formed. There may also be a preference for a hybrid arrangement (e.g. a unitary decision-maker working through a club, or vice versa). Making a final choice will be a matter of judgement for those who are party to the decision-making process.

| Question | Club | Unitary |
|--|---------------------|---------------------|
| INFORMATION ASYMMETRIES: Decision-making about a shared input requires information about agencies' individual and collective interests in using the input. The more uniform those interests are, the more likely that a club approach is appropriate. | | |
| Will good decisions about the activity depend more on knowledge of the interests of agencies as part of a whole, or as individual agencies? | Individual Agencies | Agencies as a whole |
| | ←————→ | |
| How closely aligned are the interests of participants in the activity? | Weak alignment | Close alignment |
| | ←————→ | |
| Can agencies clearly specify the outcomes they desire from participating in the shared activity? | Yes | No |
| | ←————→ | |
| Is the activity a policy, set of standards or guidelines meant to be applied uniformly | No | Yes |
| | ←————→ | |

| Question | Club | Unitary |
|---|--------|--------------|
| <p>ECONOMIES/DISECONOMIES OF SCALE AND SCOPE: The costs involved in making and implementing decisions about shared activities must be taken into account in determining the location of decision-making rights. Generally, the greater the number and complexity of transactions involved, the more likely that a unitary approach is indicated.</p> | | |
| How many agencies are expected to participate in the activity? | Few | Many |
| | | |
| How high will coordination costs be? | Low | High |
| | | |
| What are the costs of gathering and transferring information for decision-making? | High | Low |
| | | |
| How diverse are the requirements of the participants in the activity? | High | Low |
| | | |
| Should/can fiscal risks and benefits be spread across agencies, or consolidated? | Spread | Consolidated |
| | | |

| Question | Club | Unitary |
|---|-----------|-----------|
| <p>INCENTIVES: The interests of the decision-maker(s) should be closely aligned with the objectives of the shared activity. Generally, the more that incentives are on agencies to participate in the shared activity to enhance their own interests, then a club approach is indicated.</p> | | |
| How strong are incentives to make performance gains through participation in the activity? | High | Low |
| | | |
| How large an impact will the activity have on participating agencies' capabilities/finances? | Large | Small |
| | | |
| Is participation in the activity voluntary or mandatory? | Voluntary | Mandatory |
| | | |
| How strong is agency interest in decision-making? | High | Low |
| | | |

| Question | Club | Unitary |
|---|-------|---------|
| RISK MANAGEMENT: The way in which decisions are made on shared activities should mitigate risks to government, including performance, fiscal, reputational, and economic risk. Generally, the location of decision-making should permit the most effective mitigation of risk to the government. | | |
| How large an impact will the activity have on participating agencies' capability/finances? | Large | Small |
| | | |
| Will the activity require a capital asset to be placed on a single agency's balance sheet? | No | Yes |
| | | |
| How much operational risk to agencies does participation in the activity present? | High | Low |
| | | |
| Is the risk of agencies not participating in the activity, or not participating as required, greater than the risk of crowding out flexibility and innovation? | No | Yes |
| | | |
| Does the Government need or wish to manage the activity closely in order to minimise risk? | No | Yes |
| | | |

| Question | Club | Unitary |
|--|------------|---------|
| PARTICIPATION: Decision-making on shared activities should take account of the particular nature of the actions and interests involved, as well as the extent of participation required. Generally, the more specific the action or interest involved, and the greater the extent of participation required, the more likely that the club approach is indicated. | | |
| How much trading-off of agency-specific interests will decision-making require? | Low | High |
| | | |
| How important is agency participation in decision-making? | High | Low |
| | | |
| Does the activity provide a generic capability or support a standardised function, or will its users wish to customise it to their own requirements? | Customised | Generic |
| | | |
| Do agencies participating in the activity have stakeholders who may have a legitimate interest that should be represented in decision-making? | Yes | No |
| | | |

| Question | Club | Unitary |
|---|--------|------------|
| COORDINATION AND CONSISTENCY: Decision-making on shared activities should reflect the required balance between collective and agency actions and interests. Generally, where the emphasis is on the collective action or interest rather than a unitary approach is indicated. | | |
| Is it important that agencies act in a consistent way when participating in the activity? | No | Yes |
| | | |
| Is it essential that agencies act in a coordinated way when participating in the activity? | No | Yes |
| | | |
| What is more important - the collective interest or agency interest? | Agency | Collective |
| | | |

| Question | Club | Unitary |
|--|------|---------|
| CONSTITUTIONAL ISSUES: There may be over-riding constitutional, legal or systemic considerations which will determine who makes decisions on shared activities. Generally, if a specific accountability is allocated, then decision rights should follow. | | |
| Do specific legislative or constitutional requirements exist which effectively specify who has the accountability? | No | Yes |
| | | |
| Will participation in the shared activity have potentially negative implications for the ability of users to meet their individual accountabilities? | Yes | No |
| | | |

Guiding principles and constraints

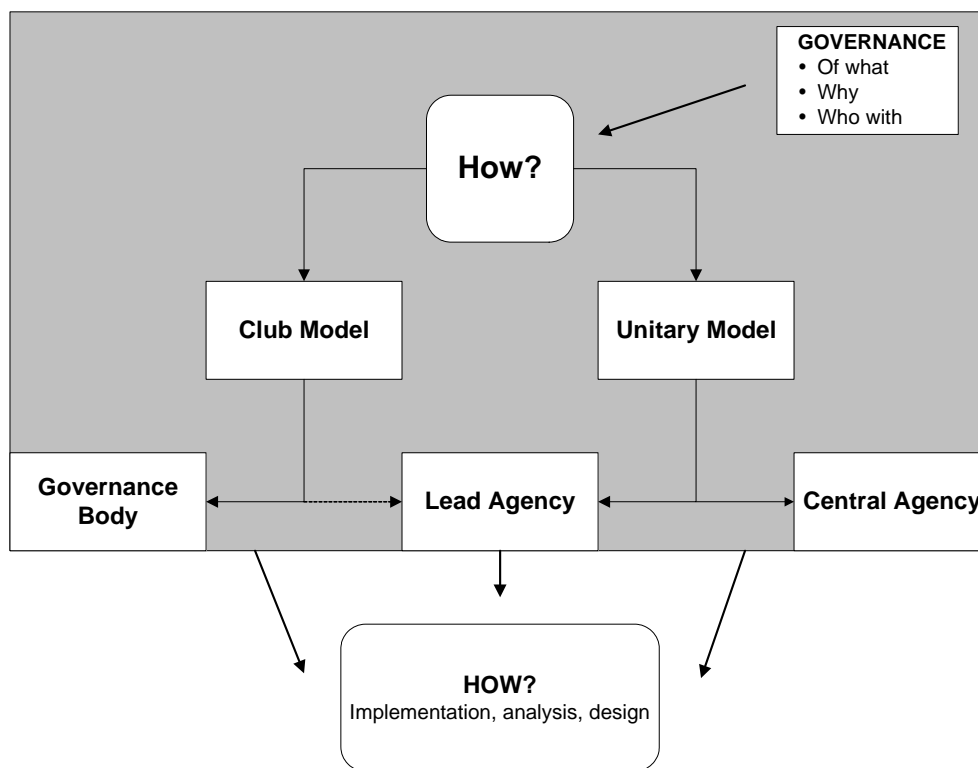
Once there is a preferred governance arrangement more questions need to be asked. First, the proposed solution should be evaluated against a set of governance principles. This can help test the broad suitability of a governance proposal, and help in the design of detailed governance arrangements (e.g. design of terms of reference for governing bodies, processes for dispute resolution, management of accountabilities, etc). A final test of any proposed governance arrangement is that it not be in conflict with any major constraints.

As with the questions provided above, the principles and constraints suggested below are indicative. Agencies using this approach should test them for their relevance, and adjust them as appropriate.

| | |
|---|---|
| <p>PRINCIPLES</p> <p>Governance arrangements for shared activities should:</p> <ul style="list-style-type: none"> • Maximise efficient and effective achievement of government outcomes; • Support cross agency collaboration; • Support core Public Service values of equity, integrity, economy, and trust; • Provide for increased customer satisfaction with government; • Recognise and reconcile the collective interests of government with those of individual organisations; • Account for the complexity of stakeholder and agency business environments; • Properly align responsibilities and accountabilities, and allow these to be met by all parties as appropriate; • Facilitate participation of affected parties; • Allow for acceptable control mechanisms; • Properly manage risk; and • Provide incentives for innovation | <p>CONSTRAINTS</p> <p>Constraints will vary from case to case, but might include questions such as:</p> <ul style="list-style-type: none"> • Does the proposal comply with legislation? • Does the proposal have the support of Ministers? • Does the proposal have the support of agencies it will affect? • Can the organisation(s) proposed as decision-maker(s) effectively undertake this role? • Will they accept it? • Are there financial or capability ramifications? • Can these be managed? • Does the proposal create any conflicts of interest? • Can these be managed effectively? • Does the proposal re-invent the wheel - could other pre-existing arrangements accommodate decision-making over the matter (input) in question? • Is in-house provision and governance of the input strategically or economically sensible? Could the market provide it more efficiently/effectively? |
|---|---|

C. Implementing the solution

Once a preferred option has been identified, the key to its success will lie in details of its implementation.



Implementation analysis will be the stage at which attention is given to matters such as:

- giving effect to governance principles;
- addressing constraints;
- ensuring that the proposed governance option meets requirements;
- ensuring that incentives are in place or are addressed, and
- engaging stakeholders in the design process.

There will also be a need to design the ways in which the preferred option will be put into action. This will involve developing things such as:

- terms of reference for governance bodies and/or decision-making processes;
- advisory/user/stakeholder groups;
- strategies and/or business plans;
- contractual or quasi-contractual instruments (e.g. service level agreements, charters, memoranda of understanding, interoperability agreements);
- agreements over allocation of roles and responsibilities (e.g. data steward/custodian);
- disputes resolution processes;
- funding arrangements (e.g. central vs. departmental, membership fees vs. user pays, capital arrangements/balance sheet issues etc); and
- design of formal Cabinet mandates (if required).

Once this design work has been done, it is assumed that the whole package of proposals for governance of the activity in question will pass through any formal process of consultation and ratification that may be required. It is also assumed that the final arrangement will be periodically re-evaluated to ensure it remains fit-for-purpose.

The diagram overleaf shows all the steps in the decision-making approach.

Conclusion

The key assumptions informing this approach are that:

- E-government will enable/require agencies to share or integrate a variety of information and technology activities;
- sharing activities requires good interagency governance arrangements;
- the essence of governance is the allocation and exercise of decision-rights;
- there are two broad options for making decisions about shared activities – the club model and the unitary model;
- the process for deciding which model suits a particular situations is as important as the outcome.

State Services Commission
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Governance of shared inputs: analytical and decision-making process

