
Corporate Governance: Why is it Important?

Gary Llewellyn Evans

During the last couple of years we have had the misfortune of seeing a number of company failures (Enron, Worldcom) and the political scandals with government agencies in Canada that have heightened the need for better controls and more stringent corporate governance.

The shareholders of Crown Corporations are the Canadian taxpayers and these organizations should be the role models for the private sector. It is difficult for the government to be critical of the private sector if the Crown Corporations and agencies don't reflect best practices themselves. Having good corporate governance in the public sector is essential to providing value to the tax payers of Canada. Good corporate governance structure allows the community to be properly represented and ensures funds are properly managed. Additional benefits and potential results of good corporate governance include improved performance, better communication between agencies and a process for ongoing service improvements in the ever changing world that we now live. Failure to have good corporate governance can result in ruined political careers, direct impact on international trade, poor performance of crown corporations and agencies and lost of credibility in the eyes of the Canadian people.

Having had the opportunity to review the auditor general reports at both the provincial and federal level it is not surprising that there is substantial concern on both the performance and potential for corruption within the crown agencies of Canada. Considering the large number of crown agencies at both the federal and provincial levels we should be thankful that for the most part our crown agencies are free of corruption, but many could benefit from performance improvements that improved and consistent implementation of good corporate governance could provide.

In this article I will only look at the first step in the road to good corporate governance:

Selection and Training of Board Members

Selection of board members for many crown agencies is one of the most controversial issues they face. The auditor general report in 2003 from the province of New Brunswick raised the issue of board selection with a quote from John Carver, author of the key governance reference book "Boards that Make a Difference"

In twenty years' experience working closely with boards, my impression is that we are pretty sloppy about filling board seats, often putting people on boards for all the wrong reasons. Let's face it. The reasons board members are selected often come down to who has time, who fits some preset demographic description, or – in the case of politically appointed boards – who is owed a favor. Sometimes the only requirement is that a potential board member care about the organizational mission. Often the persons chosen are very accomplished in their fields but skilled in ways that may have little to do with proper boards behavior. Most boards would fire their CEOs for filling staff positions as haphazardly as ... recruits for board positions...

The selection of board members for many crown organizations is often linked to the department or lieutenant-Governor and the enabling legislation which may or may not provide guidelines on the selection criteria for new board members. Often the existing crown boards have little or no say in the appointment of new board members. While some provinces have highlighted the need to improve the selection process, it continues to be inconsistently followed as many crown agencies are tied to old outdated legislative guidelines. While some of



Gary Llewellyn Evans

At present, Gary Evans is an associate professor at the University of Prince Edward Island who is undertaking research in the areas of corporate governance, professional service organizations and bio-technology. He is the former CEO of KPMG Consulting in Central Eastern Europe and a partner for KPMG United Kingdom. Mr Evans has extensive international experience in the fields of Health Care, Pharmaceuticals, and Management Sciences. He holds an MBA from the University of Windsor and is a member of the Institute of Corporate Directors.

the provinces are taking this issue head on, the lack of transparency of board selection within many crown corporations leaves the taxpayer with ongoing concerns on the process and procedure. A quick survey that I used at a conference of government executives provided the following evaluation.

The root of all good corporate governance is to have good qualified and effective board members that allow the board to build on the strengths of the individuals with a process for succession planning and the appointment of new board member to ensure continuity of the crown agency. If crown corporations are to set the pace for the private sector they must lead by example. The selection process for crown corporation board members must consider the overall make up of the individual members and what talents and energy they will bring to the organization. Consideration of what committees they will serve on and how their past experience will add to the effectiveness of the board are prime concerns in the selection process. If the existing board has no input into the decision process, it is highly unlikely that the selection process will find the best candidates. Good candidates will also want to evaluate the organization so it is important that clear corporate governance guidelines and goals exist for all crown corporations. Strong boards are made up of strong individuals willing to ask the difficult questions and who have the

time to focus on the issues of the organization. Therefore organizations should be wary of selecting board members who sit on too many boards, as it is unlikely they will be able to dedicate the time necessary to be effective board members. Poorly constructed boards with no clear direction will add little or no value to either the staff of the organization or the taxpayers.

One of the concerns on getting good board members is of course their availability and willingness to serve on the boards. This has been both a concern and issue for many of the crown agencies. Remuneration of board members of crown corporations has historically been nominal and has not been attractive considering the potential risk faced by qualified potential members. This is not to say that remuneration is the only criteria by which qualified members agree to serve but by reducing the difference between the private and public sector remuneration for similar sized organizations could increase the number of potential new candidates for crown corporation boards.

Since board members within crown corporations usually have specific time frames to serve it is imperative that they also be given the appropriate training to aid them in fulfilling their duties as effective board members. Again the issue is one of consistency and having the understanding of the boards mandate and their responsibility as board members. The Institute of Corporate Directors (ICD) has recently set up a series of training programs helping board mem-

Governance Evaluation Quick Survey

The following short questionnaire is designed to get a quick view of your impressions of your organizations governance effectiveness. It is not designed to provide a conclusive analysis, but rather to aid in the decision process of what areas may need a closer evaluation.

Please rank with the following scores;

Strongly Agree 5, Agree 4, Neutral 3, Disagree 2, Strongly Disagree 1, Don't Know 0

1. Your organizations board meets on a regular bases (At least every 3 months) ____
2. The board has a clear published mandate and it is available for review ____
3. The majority of the board members are independent from your organization ____
4. The CEO has a clear reporting line to the board and does not hold the Chair position ____
5. The CEO is responsible to the Board and does not have a dual reporting line ____
6. The governance process and procedures are published and open to review ____
7. A formal training program exist for all new board members ____
8. To your knowledge all board members have the ability to understand the financial statements of your organization ____
9. Clear Published guidelines exist for the role of the board members and executives within your organization including committees ____
10. The CEO is evaluated annually by the board with good methods for measuring results against objectives ____
11. The board has an annual review of all its members ____
12. New Board members are selected on specific talents and the existing board has a role and process for evaluation of potential members (Not just appointed from outside) ____
13. The board has high credibility with key stakeholders including members of the organization ____
14. Board members are committed to the organizations mission and values ____

bers more effectively understand the role and responsibilities of corporate governance. Training is a key element in the development of good board structure and performance and must be more consistently addressed within crown agencies. Last summer's survey included a question on existing training programs: "A formal training program exist for all new board mem-

bers" 15% agreed, 39% disagreed and the remainder were neutral or did not know.

While my initial survey is not large enough to draw conclusive conclusions on the current state of affairs it does echo the concerns that can be found in both the provincial and federal auditor general reports.

...see *Governance*, page 33



60 Vaudreuil
Hull, Quebec
J8X 2B9

Tel: (819) 595-9144
Fax: (819) 595-9725

Michael Tinkler: tinkler@synerma.com
Daniel Dubé: dube@synerma.com

PART OF THE TEAM – PART OF THE SOLUTION

Strategic financial management
Performance management
Activity Based Costing
Activity Based Planning and Budgeting

Ottawa – Montreal – Toronto

trollers to be silent in or even absent from important corporate decision-making as they were not *the* subject matter experts speaking to networking, continuous learning or other such non-financial issues.

Third, make sure your organization accepts and recognizes that every decision has financial implications, in many cases, they are not that obvious and therefore all the more risky. Fourth, do not give in to the cult of values-based management. By this I mean folks who call for values to supplant rules in our management frameworks. Don't laugh. I once worked in an organization where the word "control" had been banished from the corporate vocabulary. Where did that leave me as the corporate "comptroller"? Not in a very happy place I can assure you. If organizations, and societies for that matter, are to flourish, they need basic ground rules and commonly accepted procedures. It is not enough to simply have them in place but to also ensure that everyone has the same understanding of what they mean and, hopefully, the same frame of reference with regard to why they were needed in the first place (that's where the values come in).

Fifth and last point: know your stuff and know when to speak up. The big thing

about speaking truth to power is that you first need the truth. Do your homework and have a sound basis of analysis for your interventions. If you make any interventions to prove a point, make sure your comparisons to other organizations are well researched and comparable to your organization's business or situation. I am always struck by folks who make apples-to-oranges comparisons to prove that something that was done elsewhere will work here. The second thing about speaking truth to power is not to whisper. If you've done your homework and know your stuff and feel strongly that you are right, a wimpy chorus "of course you're right Sir, but maybe there's another angle" may not get your points across to someone who is already sold on an idea, no matter how bad or risky it might be.

So, I have now droned on for 1323 words. I am counting so that Bryn will know when to cut me off. I am also counting because that's what I do best. You see, I am really a closet introvert with an accounting background and would much rather be doing spreadsheets in my dark office behind my green eyeshade. But that is not what our organizational masters are asking of me, and those like me. We must

come out from behind that eyeshade, assume our legitimate challenge role as comptrollers and be ready to sometimes lay it on the line in the cause of good management and sound stewardship. It's a great challenge and a great career. Yes, sometimes speaking up for what your professional training and experience tells you *is* difficult. To not do so is simply not getting the job done. To work in a place where you're not allowed to do it is a waste of good talent. As my wife, who, by the way is really is starting to enjoy our new and larger home, often tells me: "the most important thing is to be happy in your career...we can always adjust our lifestyle..."

So there it is. I sincerely hope I passed the audition. I also hope I stirred up some juices or even just generated enough annoyance to get people calling me an idiot. Debate is always a good thing. If I struck a nerve or you have an idea for my next ranting, I can always be reached through the FMI Journal. Until then, I say *adieu* and will continue to peek at our world of finance through the safety of my psychological green eyeshade looking for another excuse to pontificate. ■

...Governance, from page 13

While our crown agencies face a complex list of issues around corporate governance, the first step must be to ensure that we have the best possible people on our crown agency boards, and to accomplish this we must take a long term view of continued improvement in both selection and training of new board members. Boards need two levels of training to be more effective. They need to provide training to new board members on the past performance of the organization and its changing needs and to keep all board members current with best in class corporate governance. Good boards

are always looking at how to improve both their performance as well as monitor and improve the performance of the organization that they are to oversee. Boards must not be considered static in either their structure or performance and without effective training programs organizations will not realize the full benefits of good corporate governance.

In conclusion, we have substantial room for better corporate governance within our crown corporations and a good starting point can be more formal training of existing board members with ongoing improvements in the selection process for new board members. While many crown corpo-

rations may feel comfortable that they are addressing the issues of corporate governance, continued improvement must be the focus for all boards.

Some of the other areas of concern regarding corporate governance within the crown agencies include:

- Effective Measurement Criteria on Performance of Crown Agency boards
- Effectiveness and Efficiency of Board Meetings
- Transparency of Crown Corporations and Boards
- Role and Responsibility of Management to the Board
- Mandates, Guidelines and Legislature ■