

MOVING
TO A NEW LEVEL
BY TRENT GOW

A Foreword by CCAF

This paper was prepared by Trent Gow in response to an invitation by CCAF to consider issues that will be dealt with at our 20th National Conference being held in Ottawa on March 19 and 20. Its theme is Building Excellence in Governance, Management and Accountability in the Public Sector.

Trent is President of Thompson Gow & Associates who provide public policy consultative and advisory services. He is a past Governor of CCAF and current Chair of the Toronto Rehabilitation Institute (a large chronic care and rehabilitative health facility). He has served as Chair of the RCMP Pay Council, Vice-Chair of the Ontario Development Corporation, Chair of the Ottawa-Carleton Children's Aid Society and Director of the MDS Life Sciences Technology Fund. An economist by discipline, Trent has held senior management positions in the federal government (Treasury Board) and at the Bank of Montreal and the Chase Manhattan Bank.

Building excellence – through both continuous improvement of existing processes and mechanisms, and the recognition of and response to new challenges through new means – is a corollary of the results-oriented management regimes that many governments and public sector institutions are increasingly adopting. This paper is intended to provide those who will be or who are considering attending the conference with an opportunity to engage their thinking and to provide us with their views in advance of the conference.

- Are the issues identified in the paper relevant to building excellence and responding to tomorrow's issues? What other questions and issues should form part of the conference agenda and proceedings?*
- What are your views on the issues raised? Which are most important? Are their particular aspects of these broad issues that are particularly important (or problematic) and deserving of special attention? Are there particular questions and issues that you would like the conference speakers to address?*

For our part we will summarize the input we receive from our members and subscribers and provide it to the session chairs and speakers in advance of the conference, and we will report back on that input at the conference. This is an opportunity to help make this important conference a two-way conversation!

We invite you to read this paper and to provide us with your views, opinions and questions, and hope that you will also be able to participate in the conference in March.

If you are accessing this paper on our website you can submit your input and questions at http://www.ccaf-fcvi.com/english/private_docs/documents/input_form.html.

If you are reading hardcopy you may provide input by e-mail at conferences@ccaf-fcvi.com, fax (613-241-6900), or of course by regular mail all at the following address: CCAF, 55 Murray St., Suite 210, Ottawa, Ontario, K1N 5M3.

Please note that our website <http://www.ccaf-fcvi.com> contains a full description of the conference program.

Introduction

Over the 1990's, governance and accountability were under intense scrutiny in Canada and around the world. Comprehensive reviews by the Hemple Commission in the United Kingdom, the Toronto Stock Exchange (Dey Commission), and the Independent Review Panel on Modernization of Comptrollership in the Government of Canada, among many, have served as catalysts for a variety of forward-looking initiatives and actions in the public and corporate sectors intended to instill effective, informed, accountable governance. The CCAF, a Canadian research and educational Foundation, has been at the forefront in building knowledge in this regard

For all of this priority and attention, progress has been slow, if steady. Many of the right questions are being asked and the body of knowledge has been advanced significantly, but much remains to be done. In effect, the foundation has been laid, but much of the infra-structure remains to be designed, let alone built. To date, it would appear that process has dominated substance and a solid culture of governance has not been established.

Looking forward, it is the view of the CCAF Board of Governors that for the foreseeable future, there will be continuing, yet diffuse, public pressure for accountability, good governance, values and ethics. As one Governor said, "people are searching for some 'certainty' in an increasingly uncertain world and there is a growing intolerance of ambiguity". Performance results and capacity to deliver out on public business as well as how the conduct of that business conforms with public expectations remain significant issues for governments and the public.

Clearly, issues that go to the heart of CCAF's mission – results-oriented management and governance practices, performance reporting, risk management and control, values and ethics, and auditing – will continue, for some time, to be issues that have energy around them. As such, CCAF's annual conference in Ottawa in March 2001, will take clear aim at building excellence in these areas and, with an eye to the future, at identifying tomorrow's issues today. In the CCAF's view, these are issues of continuing national interest, and, as such, are not the exclusive concern of government and public institutions. The corporate sector has a critical stake and interest in 'getting government right'. At the highest level for both business and government, these issues intersect.

Matters of meaningful accountability and effective governance, management and audit take on added importance in the beginning decade of the 21st century because of a number of key trends and changes taking place in Canada and worldwide in both the corporate and public sectors. Some of them that have been identified and discussed by the CCAF Board of Governors include:

- Pace - compressed time-frames in decision making.
- Technological change and impact on information/ reporting and knowledge workers.
- Human and financial resource constraints that challenge management and operational capacity.
- Organizational and operational patterns of business, public sector and professions.
- Maturing of auditing and performance reporting practice and practitioners.
- New public sector and research institutions.
- New accountability issues, such as power shifts.

Taken together, these trends and developments are challenging, if not overwhelming. They suggest new vistas and an important new or emerging generation of issues and opportunities for the corporate and public sectors in the context of their accountability, governance and management approaches, as they seek to close the gap between vision and reality. At its core, this involves pursuing excellence in governance and management and building the needed cultures. That is the subject matter of CCAF's March conference.

This Pre-Conference Paper is intended to set the stage for and commence the dialogue on the conference theme and topics.

Managing Risk in a Shared Risk Environment

Both the private and public sectors need to manage risk. There are ample examples of the results of poor governance: tainted blood, contaminated water, and artificially boosting of prices of stocks in a pension fund. Moreover, relationships between organizations are becoming more complicated and interconnected. For example, private and public sector organizations are entering alternative or partnership arrangements, requiring mechanisms that allow for the sharing of risks (E.g. in cases of joint venture, partnership, monopoly and privatization). Are we measuring the right things? Do we have the right governance processes in place? Do we need new ones? Why is it that poor governance and accountability structures becomes evident only *after* a tragic or critical event occurs?

One element of risk is the low probability but very costly need to react to a crisis, when things go very wrong, very publicly. Such situations can often be highly charged and emotional and can lead to poor and/or expensive decisions. Regulations, public commissions, judicial inquiries, dismantling controversial or discredited programs, and allocating more money and resources offer an opportunity to “act” which is popular with the public and where costs are poorly understood. Politicians and corporate leaders are often forced to make decisions in a crisis and, in so doing, may act in ways that address perceived rather than actual risks.

Increasingly, public and private sector organizations are collaborating with one another and governance structures are becoming more complicated. However, collaborations between organizations, whether they are in the same sector or across sectors, lead to an even greater need for sophisticated, flexible governance structures. As illustrated by the description of e-businesses below, well managed organizations develop structures that allow partners to act as one entity.

‘E-business’ in both the private and public sectors are another example of developments that are imposing change and challenge because of two main characteristics: (1) the speed in which they move and (2) the extent to which they are connected with other organizations outside their own boundaries. (That said, boundaries are blurring somewhat as even traditional companies and governments come to grips, and try to keep pace, with the rapidly changing dimensions of telecommunications, Internet and wireless.)

Governments and other public sector institutions are not immune to the “new economy’s” need for speed. Increasingly, government departments and agencies must address public pressure to move and develop programs and policies faster and to make informed decisions quicker. Both traditional companies and the government need to develop ways that allow them to move more nimbly and quickly in meeting the demands of their stakeholders. In so doing, innovative mechanisms for sharing information and maintaining control may need to be developed.

As noted above, the second characteristic of e-business is interconnectivity, which in the private sector is characterized by forming strategic partnerships with other companies and developing integrated supply chains. These strategic relationships are so close that all of the members of the ‘e-business community’ (know as a ‘business web’) act as if they are one entity. In best-in-class e-businesses, all information (including financial and performance information) is shared among all partners of the business web, allowing decision-makers at all levels of the business web to have the information needed to act quickly. Companies operating in these types of relationships also operate in a shared risk environment. Sound familiar in a government or public sector context? It should.

A business web is akin to what government management boards and treasury boards have come to refer to as ‘collaborative arrangements’. Governments and large public sector institutions, with their many departments and agencies, need to integrate themselves into a single entity in which all of its parts contribute to the whole. Moreover, as departments and agencies collaborate with private and non-profit organizations to deliver programs, these latter organizations will need to be captured by the collaborative arrangement.

Good governance suggests that a public or private organization have mechanisms in place to serve as an “early warning system.” What does an organization do when things go wrong? How can good governance, management, and accountability be promoted during a crisis? How can an organization become a learning one and how can it continually improve over time? How can information be shared more rapidly and seamlessly?

When something goes wrong, as it inevitably will, the focus must be on what key governance, management and other players do. The idea is to try to open up on how to promote good governance and management and accountability during such a crisis. It involves how to learn from mistakes, building learning organizations and risk sharing and risk management.

Learning from each other’s mistakes in a way that fosters excellence in performance is not something that resides simply in a management and governance context. The ability to learn from mistakes and to embed such learning into a culture (as a prerequisite to remain in that situation) is something others do all the time. Examples include the ‘cockpit management’ methodologies used by airlines and the debriefing procedures adopted by jet fighter precision aerobatics teams such as the Snowbirds; and the procedures that are used in high risk surgical interventions by highly trained teams of physicians and medical personnel. There is much to learn from how these people manage their mistakes that can be adapted to a general management or governance setting.

Focusing on the Future

Developing good governance structures takes considerable time, energy and resources. Some leading critics of the current state of governance practices believe that organizations are measuring the wrong things. They argue that governance is focused on measuring value realized (the past) rather than value creation (the future). Value realization takes place when a (sales) transaction occurs, while value creation encompasses all the activities that precede the realization of value: R&D, design, manufacture, etc. However, currently, there is no generally accepted method for reporting on the creation of value. Boards of directors and senior management need a new set of tools to assess their organization’s value creation performance, beyond value realization.

The changing economic and social landscape requires the measuring and reporting of intellectual capital. There is a widening gap between market and book values of an organization. Moreover, intellectual capital is increasingly important in a knowledge-based economy. The necessity for developing ways to measure future performance can be illustrated by the sometimes outrageous valuations of new economy companies, or e-businesses.

In a private sector context, in measuring the value of an e-business there is a need to measure intangibles rather than measuring goods and cash. For example, according to the income statement provided in their prospectus, a company called Chemdex.com (now owned by Ventro) had just under \$200,000 in revenue and was a billion-dollar company. However, when the anticipated revenue failed to materialize, its stock plummeted. The company peaked at around \$243 per share and as of August 17, 2000 was trading at around \$11. However, the company is still valued at over half a billion dollars! Their last income statement showed revenues of \$73 million.

The value of an e-business is based on things such as future revenue potential, strategic potential, brand (e.g., Yahoo!, CDNow, iVillage), and leadership potential (within a sector), none of which can be measured easily. For instance, how would you measure the value of a brand? Many e-business companies are exploring new metrics, such as revenue per employee, but there is much more work to be done.

Many government and public sector organizations also have difficulty in measuring the ‘value’ or performance of their programs and policies. Auditing measurement systems are based on well entrenched accounting principles and practices that may not be useful for gauging performance in either the public or private sectors. Has the problem with measure-

ment been that we are measuring the wrong things? How can we develop performance measures that focus on the future as well as on intangibles like intellectual capital? Has the issue of performance measures been holding organizations back from reporting their performance? How can we develop useful measures that accurately portray an organization's value as well as its performance?

Preserving Management Capacity to Deliver and Control

A number of factors ranging from demographics to compensation are testing the public sector's ability to maintain and grow its management capacity to deliver on policy and programs and to manage and control the risks and opportunities of government. Some would argue that we have let the capacity erode and the result will be a weakened public sector with unfortunate consequences for the well being of Canadians and the business sector.

Complicating matters is the constant challenge of recruiting and retaining staff due to a "brain drain" to private sector. The human resources problem is further complicated by the aging of the public service and hence the retirement of large numbers of employees over the next decade. There is a new generation of people and of thinking that will have to emerge to deal effectively with governance, accountability, management, and auditing in the public sector. However, there has been insufficient injection of innovation and freshness of ideas, as illustrated by an exodus of top people to the private sector and an aging population within the ranks; ambitious young people are rejecting a career in the public service.

In the last decade, there has been significant reform in the public service. Departments have been down-sized; programs "reviewed"; and "alternative" ways of delivering programs developed. However, during these reforms, the public service's key roles of policy development and management delivery and control have suffered badly. Policy development needs to map out how the broad determinants of change will affect an organization's future. Governments need to create expansive and reflective policy as opposed to the traditional norm of making reactive and expedient policy decisions. The world is changing and moving at a faster pace and those who fail to keep up risk losing their relevance. Citizens and corporations will not wait for governments to grapple with an undeveloped policy area. Action will be taken whether governments are ready or not.

The public sector also needs to develop better ways to address horizontal, cross-cutting issues. Government has traditionally developed policy in terms of departmental boundaries and silos. However, many policy issues are shared between several departments and agencies. In strategic policy development, departments need to work differently so that collaboration, partnership and building consensus become paramount. In Canada, although many departments collaborate in the development of policy, there still remains a weakness in setting out clear roles and responsibilities for shared policy areas and there exist few mechanisms for ensuring accountability after a policy has been developed.

In order to develop collaborative policy recommendations across departments, the federal government has developed the greater use of specialized and temporary task forces or committees, whereby groups of officials are brought together to work on a specific policy area. Often committees are set up in reaction to a crisis in an effort to show that action has been taken by a government to deal with that crisis. There appears to be a growing tendency to be preoccupied with the process rather than the substance of policy issues.

To make matters more complicated, governments have embarked on a strategy of devolution, contracting out, and alternative service delivery. However, the government's capacity to manage these relationships has not grown to keep pace. Many of the government's most significant management problems are a direct result of mismatching capacity and strategy. Without fundamental reforms in civil service, information technology, and financial management, this

mismatch will continue to grow. The e-coli breakout in Walkerton, Ontario and the management of grants programs in Human Resources Development Canada (HRDC) are examples of where government may have been poorly equipped to accomplish its work.

In addition, workload is a major problem in the public service. Public servants are often attending meetings, reacting to crises, and juggling various issues, leaving little time to measure progress of programs, to continually improve, nor to reflect on issues when things go wrong. Moreover, so many issues compete for the attention of the government, public servants are constantly hopping from one issue to another, leaving yesterday's hot issue in limbo while focusing on a new hot issue – until a new crisis comes along. Even though government has gone through program review and down-sizing, the public sector needs to evaluate what it is capable of delivering and what it can do well. The government appears to be doing the same amount of work with fewer people rather than becoming focused around a set of core government responsibilities.

Some argue that the problems with human capacity in the area of strategic policy are symptomatic of the primary challenge in government: the need to change its culture. These commentators argue that the public service's current culture is hierarchical, process-driven, internally focused, and 'stove-piped'. There is a need for government to develop a culture that is empowering, results-oriented, integrated across boundaries, and externally focused.

Developing a Culture of Governance

Increasingly, informed observers express the view that neither the corporate nor the public sector has succeeded in creating the needed culture of governance that will drive and encourage meaningful accountability, control, values and ethics. Despite initiatives, 'a culture of governance' has not sufficiently been achieved in the corporate sector. Much of what has taken place tends to be in 'form', rather than 'substance', typified by 'ticking the due diligence boxes' and/ or making 'structural' rather than substantive changes.

There have been several attempts to improve the culture of governance in Canadian private organizations. In December 1994, the Toronto Stock Exchange Committee on Corporate Governance in Canada released its report, "Where were the Directors?" The Committee concluded that the Canadian corporate community had not yet fully endorsed a "corporate governance culture." The report drafted 14 voluntary recommendations or guidelines for organizations to implement. In 1999, a follow-up study of how closely corporate Canada followed the corporate governance guidelines was released by the TSE and the Institute of Corporate Directors. The study found that although some progress has been made, many companies were still not taking the Dey guidelines seriously. Faced with this lack of progress, in July 2000, the TSE, the Canadian Venture Exchange (CDNX) and the Canadian Institute of Chartered Accountants (CICA) announced the creation of a new Task Force to re-examine role of Canadian boards of directors.

In the public sector, there have also been many attempts to change the culture of government to be more focused on results. In the development and implementation of policies and programs, government departments are collaborating with each other, with other levels of government, with stakeholders, research organizations, and non-governmental organizations. Guidelines have been developed for departmental strategic planning and performance reporting. However, there is ample evidence that a culture of governance has not yet been established.

How can a culture of governance emerge and thrive within an organization? How can an organization get to a point where it not only accepts the future but creates the future as well? Creating the desired future requires monitoring and tracking changes in strategic areas and allowing the information to flow to key leadership in the organization. Are there new ways of sharing this information quicker and more concisely than through annual or quarterly 20-page reports?

And what about the important human dimensions associated with leadership and accountability? How can organizations create incentives for employees to adhere to the overall vision of the organization? Where is the needed leadership for taking an organization into the future?

Clearly too, there are differences between the private and public sectors. In the private sector, firms compete with each other for the loyalty of consumers who are free to purchase services from the supplier of their choice. In contrast, the public sector provides services to citizens in what is often a monopoly situation. The public sector often argues that because of this monopoly situation and because there is no profit motivation, there are different incentives in governance and accountability structures. Is there one system of governance for the private sector and another system for the public? Is a culture of governance the only requirement for implementing governance structures in an organization – or is it more complicated? Is the lack of leadership malaise in organizations more evident in the public sector than in the private? Although neither sector has made a great deal of progress in developing governance structures, why does the public sector seem so far behind the private sector? Or is it?

Building Momentum for CCAF's March Conference

This brief paper has just scratched the surface of the nature and dimensions of some of the compelling challenges and opportunities that will be front and centre for leaders in the public and corporate sectors in the early years of the 21st century. The conference itself will provide a forum for both a wider and a deeper discussion of these and related topics focused on pursuing excellence in governance and management and building the needed organizational cultures.

One such related topic that will be featured at the March conference focuses on the essential role that human factors play in making public performance reporting work. In particular, CCAF research suggests that leadership is the single most important and overarching human factor in this regard. Leadership that is focused, manifest, persistent, values-based, supported and pragmatic. To advance the dialogue prior to the conference and to make the conference as successful as it can be for you and other delegates, CCAF invites your active web-based participation - in effect, your leadership - over the time leading up to the conference.