



What Board Chairs Think About The Recruitment & Development of Directors of Government-Owned Entities

Survey Conducted by:

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INTRODUCTION

On November 24, 2009, the Institute of Corporate Directors presented a panel discussion regarding the governance of government-owned organizations. The panel discussion was titled “Agencies, Boards and Crowns – Understanding the Dynamics”.

The national panel consisted of:

▪ **Moderator:**

- Glenna Carr, ICD.D., Chair, Atomic Energy of Canada Limited

▪ **Panelists:**

- John A. MacNaughton, C.M. ICD.D, Chairman, Business Development Bank of Canada and Vice Chairman of the University Health Network
- Chris Portner, Partner, Osler, Hoskin & Harcourt LLP
- Ron Robertson, Managing Partner, Odgers Berndtson
- Bill Sheffield, ICD.D, Canada Post and Ontario Power Generation

To prepare for their contribution to the panel, Ron Robertson and Bill Sheffield surveyed 24 board Chairs, directors and senior government officials, all of whom have had extensive involvement with government-owned entities. Each of the Chairs and directors had served on the boards of Federal, Provincial or Regional Agencies, Authorities, Boards, Crown corporations, Commissions or Councils from across Canada.

Ron and Bill asked each participant the following three questions:

1. To what extent do the ideal competencies and background experiences of directors of government-owned entities differ from those of private sector companies?
2. How are the processes for the selection of board directors changing?
3. What processes does your board use to evaluate the performance of the board as a whole, and of individual directors?

To foster open discussion, Ron and Bill promised confidentiality to each participant. This report, therefore, does not identify ‘who said what’.

By way of providing greater context to the reader, this report includes many quotes obtained during the survey. It does not, however, claim to represent the views of all those surveyed.

FINDINGS

1. **Most Chairs agree that, to be well qualified, directors of government-owned organizations should possess all of the competencies needed for a private sector board, and several more. Specifically the directors of government-owned entities should also have:**

- a) **A deep understanding of how government works, both politically and bureaucratically. Without this knowledge, a director is at a serious disadvantage.**

“The driver for a public sector entity is not wealth or market capitalization or other fiscal indicators. It is a particular public policy purpose. Incoming board members absolutely must grasp this issue quickly, because it is the performance indicator on which the organization will be judged.”

“Although I had a substantial background in Federal and Provincial government as well as the private sector, I nonetheless had to learn how the complex bureaucratic machinery of government works. The Privy Council Office, the Treasury Board, the Office of the Auditor General and other entities that monitor government related organizations all have a role to play.”

“Lack of understanding of public policy and how government is run is the single greatest liability that a board director can have.”

“You need to be excellent at networking upward, downward, & sideways”

- b) **Tolerance for ambiguity as well as the ability to navigate and make progress in the face of competing objectives. For example, at times, the need to operate with economic efficiency may be in direct conflict with the mandate of serving all citizens equally.**

“Because the performance measures are more complex in government than they are in the private sector, tolerance for ambiguity is essential.”

“A director must not only understand the government’s priorities, which can be very nebulous at times, but also act in the national interest and public good. Understanding exactly what to do can be very difficult.”

“We would benefit from getting some good, straightforward advice when we first accept board positions. Nobody tells us, for example, how we should be spending our time building relationships with political people and running interference on behalf of the organization.”

“The approvals process may be long & in the end the Shareholder may overrule you”

- c) **Greater interest in public service than in personal aggrandizement. The low levels of compensation and limited credit for accomplishments are unlikely to gratify a larger ego.**

“The pay (for being a director) is lousy. Anyone who is doing this does so out of a sense of public service.”

“You are in for the blame but never the credit. It is the Minister’s job to be out front when there is success but to distance herself/himself when things go wrong.”

“At heart, the director of a public sector entity should be primarily driven by a deep interest in public service. The pay is not great. You may feel unappreciated by the government. If an issue becomes ‘hot’,

you may find that your board is being labeled as a bunch of whiners and complainers. You need the capacity to swallow hard, give it your best shot, and do as well as you can.”

“You need to recognize that the political connections you had before being appointed to the board are quickly forgotten. You may have far less political influence than you thought.”

“Directors who come from the private sector to the board of a public sector entity can feel uptight about not feeling appreciated but they should remember that the politicians took a big risk in running for public office and in being a ready target for the media.”

“It is not necessary to be a card carrying member of the party in power to be an effective director but you must at least respect the governments preferred direction for your Crown & care about their reputation.”

- d) A ‘thick skin’ to tolerate the exceptional level of public scrutiny and possible risk to personal reputation. Politicians, bureaucrats, and the media blame directors if trouble erupts in the organization.**

“To be well qualified, you should have a thick skin and tolerance for silliness.”

“When in public, the directors of a government-owned entity must be conscious of their roles at all times, more so than would be the case with a private sector company. They are expected to uphold a certain standard of decorum in their communities.”

“Directors need to understand that they will be scrutinized by a number of government bodies, including the Auditor General and several others. They need to work collaboratively with all of these bodies.”

“Public sector directors should understand that Ministers need to distance themselves from the organization in case things screw up. Although the Minister may care a great deal about the organization, the need for distance can come across as a feeling of mistrust.”

“If you accept a board appointment of a government-owned entity you should understand that you may be dismissed in disgrace.”

“The directors of public entities must be able to withstand the scrutiny they will be under because public money is being spent.”

- e) Adaptability to sudden change. Either the mandate of the organization, or the Minister to whom the organization reports may change, literally overnight.**

“Adaptability is another key characteristic needed by public sector directors. The existence of a significant shareholder that can flip your universe on its head makes this characteristic necessary.”

“A cabinet shuffle can result in a board Chair finding that he or she has a new Minister tomorrow morning. This is very disconcerting to some Chairs, which is why they must be flexible and adaptable to be well qualified.”

- f) Acceptance that a director’s role is more about giving advice and less about decision-making than is the case in a private sector board. Depending upon the organization, the board may not have the authority to decide for example, whom to hire as the CEO, what to pay the CEO, who should be appointed as directors, or what the strategy of the organization should be.**

“Typically, the board of the public entity does not have decision-making authority regarding the appointment of directors, the selection of the CEO, the setting of the CEO’s salary, the setting of the corporate strategy and, in some cases, the setting of its own budget.

Directors need to have extraordinary patience, as well as an understanding that their role is more advisory than decision-making. They also need the ability to not feel disappointed when their recommendations are not adopted by government.”

“A board Chair should try to be a ‘reasonable voice’ but not try to control the Minister’s decision. To try to exert greater pressure than this will not result in you having a good conversation with the Minister. Do not play the card: “I insist on meeting the Minister about this”.

“Previous governance experience & education is essential. Learning governance on the job at an ABC is a handicap for you & your board.”

- 2. The majority of those surveyed believe that, while their boards may not have decision-making authority over a number of issues, they nonetheless have the potential to influence many governance decisions. This is particularly true in the recruiting & appointment of directors to ABCs which has changed considerably. In general Chairs & ABC boards now have greater input on:**
- a) The competencies and characteristics that board directors should possess to be considered well qualified.**
 - b) The process for determining whether an individual has the characteristics needed for employment to the board prior to his or her appointment.**
 - c) The competencies and characteristics that the Chair should possess.**
 - d) The process to be used for recruiting a new Chair.**

“I found both the PMO and the PCO to be very open to our suggestions of names for director roles. This has been true both for new appointments and for the reappointment of existing directors. In past years, they didn’t listen.”

“Today, most boards develop a matrix of competencies and characteristics needed by the board. It includes functional knowledge, such as Accounting, Legal and Finance, and representational characteristics such as gender balance, geography and diversity. The effective board Chair today can work with the PMO to ensure its needs for talented directors are met while also meeting the government’s need to be broadly representative of the Canadian public.”

“Boards should not sit around and wait for the government to make an appointment to a vacant position. They should say: “Our strategic plan has identified several priorities and we need these sorts of people.” In other words, they should forecast their needs and clearly communicate them to government.”

“Public sector boards are increasingly involved in planning their own succession. True, the last word belongs to the government, but a proactive Chair can advise the government of the needs of the board well in advance, and may also suggest candidates. This is valuable for all concerned.”

“Every year our board puts in a request for the characteristics and skills we need. The Minister’s office goes back and says: “What do you think of these people?” At times we have pushed back. They have the final say, but we have influence.”

“A board Chair can have substantial influence on the appointment of directors by making it very clear to the government exactly what its needs are. The board Chair should be flexibly-minded and not bloody-minded, about looking at directors suggested by the government. That having been said, the Chair can push back very effectively by reiterating the needs of the board and offering to assist the government by interviewing candidates and by checking their references.”

“By establishing a process of vetting director candidates, a board may well assist the Minister. The board should recognize that the Minister may be bugged beyond belief by certain people who want a board appointment. Offering to interview the individual, and to compare him or her against the board’s criteria, may be very helpful. It may also be helpful to accept such an appointee for a very short term. So long as this is only done rarely, it will not seriously damage the board’s ability to function.”

“In the old days being a party loyalist might have been qualification enough to be appointed. Today you must have the required skills & experience the board needs.”

- 3. Approximately half of the Chairs surveyed suggested that the success of government-owned entities depends directly on the quality of the relationship between the Chair, the Minister’s office and the Prime Minister’s or Premier’s Office. They recommend that each board Chair should, therefore, persist in his or her effort to build and maintain positive relationships with the political leaders, even if those efforts may at times appear to be unwelcomed.**

“The Chair of a public entity is largely responsible for shareholder relations. This is not the case in the private sector, where shareholder relations are the responsibility of the CEO.”

“The Chair must be able to build a positive working relationship with the Minister and the Deputy Minister. This is critical to the success of the organization.”

“If the Chair is able to develop a great relationship with the Minister and the Department, the Crown Corporation runs well. If communication between the board, the Minister’s office and the Department breaks down, trouble seems to follow.”

“The role of the board in the selection of new Directors depends upon the relationship between the Chair, the PMO and the Minister’s office. If the Chair is believed to be capable and is trusted, he or she is seen as able to make good director recommendations.”

“The greater the confidence that the government has in the Chair, the greater is the Chair’s influence in the selection of Directors.”

“The relationship that the board Chair has with the the Minister and the Minister’s staff is crucial to the success of the organization.”

“Trust between the board Chair and the Minister is essential to the organization fulfilling its mandate.”

- 4. The majority of board Chairs surveyed stated that their boards currently conduct some form of board evaluation process. The processes range from having directors complete a simple questionnaire, to having the Chair interview each director, to having an independent consultant conduct a formal evaluation. To date, however, none of the boards surveyed have implemented a ‘peer evaluation’ process for assessing individual director performance, although some are contemplating doing so in the future.**

"I have found over the years that using questionnaires to evaluate board performance is useless. It is much more effective for me, as the Chair, to interview each director using a limited list of questions, each of which are designed to learn how to make the board more effective. A discussion of the individual's performance is part of this interview. I then discuss my findings with the CEO."

"We use an annual evaluation for our board. We do not have individual director evaluation. However, each director is asked to evaluate his or her own performance."

"Our board evaluations are conducted once per year. We use a questionnaire that asks questions about board performance. We do not do individual director evaluation."

"Our board has a specific evaluation process. We have not as yet introduced peer-to-peer evaluation. Frankly, I struggle with this."

"Board evaluations are not used by all public sector boards. In my opinion, however, the boards that function the best have instituted an evaluation process."

"Normally, we evaluate the board's performance annually, as a team. I like to evaluate each individual director's performance privately. We have discussed peer-to-peer evaluation privately, but do not use it."

"To the best of my knowledge, there is no requirement or protocol for necessarily having a board evaluation process."

5. Board Chairs made the following recommendations about the recruitment, development and evaluation of directors:

"I recommend that the process of appointing board directors be changed in the following way: There should be a formalized consultative process between boards and elected officials. Let the politicians have the final say, but follow a formal process prior to them making their decision. I cannot see why this would be a problem."

"More and more, good boards are demanding appropriate appointments of new board members. In terms of board members, a board is best placed to know what it wants, and this should be its responsibility. The shareholder is responsible for the whom. The board and the shareholder should work together to establish the ideal candidate."

"The increasingly complex qualifications needed to be a director of a public sector entity, combined with the need of the government to represent Canada broadly, is making it ever more difficult to find directors who can satisfy all of the needs. The government should establish a feeder pool of candidates."

"Putting in place an Appointments Commission might address certain governance issues."

"One of the unnecessary costs to an organization occurs when there is a change of government and the term of a top performing director has come to an end. Directors should not be let go because the party in power has changed. To help prevent this, Chairs should put in place a rigorous evaluation program for individual directors which would help justify the reelection of top performing directors."

"When recruiting board directors, government should be very direct and honest about the terms under which directors will be engaged. They should say that the board will act more in an advisory capacity than in a decision-making capacity. They should also say that the process for appointing directors is



political in nature, and should not pretend that it is not. Open, honest communication will avoid directors being disillusioned.”

“The best qualified Directors will not always respond to an ad. They respond best when directly approached. For this reason, there is more “proactive outreach” in recruiting Directors today than there was in the past when party loyalty was the main criterion.”

“The timeliness with which governments make appointments to boards leaves a lot to be desired. It is very slow, and can result in boards trying to function without key vacancies being filled for an extended period of time. Delays are caused by elections and by Ministerial changes. In fact, appointments have so many tentacles dependent upon government approval that they can be very slow, sometimes taking years.”

“Both Federally and Provincially, the person responsible for government appointments can play a very effective role in determining the board’s needs and ensuring that appropriate people are appointed. “

“All boards should be asked for their recommendation regarding new board Directors. The recommendations do not always have to be accepted, but at least they should be requested.”

“I would advise governments to show a bit more appreciation toward those who serve on boards. For example, a letter at the end of a director’s term would be so welcomed.”

“It would be very useful to have a forum in which the board Chairs of government-owned entities could meet on a regular basis without government officials people being present. The board Chairs could share their thinking, their common problems, and their solutions.”

Those surveyed provided wide ranging views. There was, however, a solid consensus that while serving on an ABC board means more work, less control, & less pay than sitting on a private sector board, it is a rewarding experience. The authors would like to thank all survey participants for their time & candor.