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BUILDING A CROWN CORPORATION DIRECTOR PROFILE

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SECTION I - INTRODUCTION

Federal Crown corporations are arm's length corporate entities established to pursue public policy and commercial objectives. They are wholly owned by the government but are not normally subject to the government's human resource and administrative policies. The governance framework for Crown corporations varies with the commercial environment in which each corporation operates and the extent to which a corporation depends on parliamentary appropriations for its funding.

Federal Crown corporations are established either by a special Act of Parliament or by articles of incorporation under the *Canada Business Corporations Act* to assist the government in carrying out its responsibilities to the Canadian public. The precise manner in which this is done varies considerably depending on the nature of the corporation and its statutory mandate. The powers necessary to carry out a Crown corporation's mandate are vested in the board that directs it, rather than in the responsible minister. Parliament requires that each Crown corporation report to it through the responsible minister. Where a Crown corporation draws appropriations from the Consolidated Revenue Fund, the "appropriate minister" must sponsor the necessary request for funds through the Estimates process, and Parliament must approve those requests by means of an Appropriation Bill.

Crown corporations operate in many sectors of the Canadian economy. There is great diversity in the size, nature and roles of the various Crown corporations, in the activities they conduct, in their dependence on the government for financial assistance and in the statutes to which they are subject.

Over the past 10 years, the topic of governance has become front and centre in Canada. Particularly since the Dey Report in 1994 "Where were the Directors? Guidelines for Improved Corporate Governance in Canada", the performance of boards has been put under increased scrutiny. The Dey report pointed out the need for improved governance in publicly-traded corporations and resulted in the TSE Guidelines for effective corporate governance. Building on the Dey Report and other governance initiatives over the ensuing years, the Joint Committee on Corporate Governance, established by the Canadian Institute of Chartered Accountants, the Canadian Venture Exchange and the Toronto Stock Exchange, issued in March 2001 its draft report "Beyond Compliance: Building a Governance Culture". This draft report proposes interim recommendations to strengthen the TSE Guidelines and the role of boards and committees in oversight, reporting, risk management and internal controls.

Within the Public Service of Canada, during the same period, attention was also being paid to corporate governance. In 1993, the Department of Finance and the Treasury Board Secreariat, in collaboration with the Conference Board of Canada and the Canadian Centre for Management Development issued "Directors of Crown Corporations: An Introductory Guide to Their Roles and Responsibilities". Later, in March 1994, the Canadian Centre for Management Development published a report by Gérard Veilleux "Unfinished Business: A Report on the Appointment Process to Boards of Directors of Crown Corporations" which noted the responsibilities and duties of boards of directors and highlighted the importance in making director appointments to the development of profiles outlining key attributes, in terms of experience and qualifications, generally sought from potential candidates to serve on a particular board of directors. Subsequently, the Department of Finance and the Treasury Board issued, in 1996, guidelines for boards of directors with regard to their responsibilities, "Corporate Governance in Crown Corporations and Other Public Enterprises".

This document focuses on structure and composition and, more specifically, the creation of board profiles. Crown corporations need people who understand the business of public policy and the business of the corporation. Appointments of directors to boards of Crown corporations are made by the responsible Minister, with the approval of the Governor in Council. These appointments are a shareholder prerogative. The shareholder needs to understand the skills and capacities which the corporation needs, as well as meet its own requirements, such as stakeholder representation. The directors appointed must reflect a balance between the board's needs and the shareholder needs.

This guide is a tool to assist boards in creating board and director profiles. A board profile is a description of the experience, attributes and skills that should be possessed by the board as a whole. While it may be essential for all directors to possess certain attributes and skills, other specialized skills may be required for one or two directors only. A director profile, therefore, is a subset of the board profile which provides a concise description of a position that contains all the information necessary to staff the position. The following pages outline the steps to follow in building board and director profiles, but they should not be considered exhaustive in detail. Given the importance of good governance, boards should take whatever additional measures they deem appropriate to adapt or complement their process of developing profiles to meet the corporation's particular circumstances.

The appendix provides a template for completing a director profile.

SECTION II - CREATING A DIRECTOR PROFILE

The process of creating director profiles can be summarized into five steps. They are:

- Step One: Clarify the roles and responsibilities of the board
- Step Two: Identify the core attributes, competencies and experience required of all directors
- Step Three: Identify the specific skills, knowledge and experience required to complete the skills mix for the board as a whole
- Step Four: Survey existing skill sets and conduct a gap analysis (in anticipation of upcoming expiries and/or vacancies)
- Step Five: Create a profile for an individual director position based on gaps and needs

Step One: Clarify the Roles and Responsibilities of the Board

In order to define the work of a director, the board should consider the following:

1. mandate of the organization;
2. roles and responsibilities of the board;
3. internal and external factors / challenges / issues that affect or that may affect the organization; and
4. key stakeholders.

The following outlines some of the key questions or elements to cover.

1. Mandate of the Organization

- S What business is the organization in?
- S What are its strategic objectives?

2. Roles and Responsibilities

Best practices suggest that boards' responsibilities include:

a. Strategic Planning

For example:

- S Provide input to management on emerging trends and issues
- S Review and approve management's strategic plans
- S Review and approve the corporation's financial objectives, plans and actions, including significant capital allocations and expenditures

b. Risk Assessment/Management

For example:

- S Identify the principal risks of the corporation's businesses and ensure that appropriate systems are in place to manage these risks

c. Internal Controls

For example:

- S Ensure the integrity of the corporation's internal control and management information systems
- S Ensure ethical behaviour and compliance with laws and regulations, audit and accounting principles and the corporation's own governing documents

d. Performance Management & Evaluation

For example:

- S Monitor corporate performance against the strategic and business plans, including assessing operating results to evaluate whether the business is being properly managed
- S Assess its own effectiveness in fulfilling board responsibilities, including monitoring the effectiveness of individual directors
- S Develop indicators to measure the CEO's performance and assess the performance of the CEO

e. Stakeholder Strategies / Communications

For example:

- S Consider the role of the Internet in shareholder/stakeholder communications

3. Internal and External Factors

The role of a board may be affected by changes or particular challenges in the internal or external environments. From an *external perspective*, challenges such as funding, public perceptions, possibilities of privatization, new expectations from the shareholder could affect how the board carries out its duties and may require adjustments in the board profile to face unusual situations.

From an *internal perspective*, certain elements may create additional challenges. An unclear mandate, senior management team deficiencies, lack of differentiation of responsibilities between management and the board, or an inappropriate mix of skills to provide effective board leadership could result in a weakened ability to govern. These factors set the context for creating a unique profile suited to the environment.

4. Key Stakeholders

- S Who are the major stakeholders?
- S How important are stakeholder strategies or communications?
- S What role do stakeholder communications play in the board's role?
- S Does the board require stakeholder representation? Could the board benefit from stakeholder expertise / credibility?

It may be appropriate for certain boards to ensure stakeholder representation on the board *or* to have experience in or an appreciation of stakeholder issues.

Step Two Identify Core Attributes, Competencies and Experience

Core attributes and competencies refer to skills and behaviours that must be demonstrated by all directors of a board. For example, a financial Crown corporation may consider financial literacy as a core competency for all of its directors. The following are offered as examples of core leadership attributes, competencies and experience applicable to a Crown corporation board.

Informed Judgement

The ability to provide wise, thoughtful counsel, to analyze, ask relevant questions at the strategic level, consider the different stakeholders' perspectives, understand situations and problems by addressing underlying issues.

Integrity and Accountability

Demonstrating high ethical standards and integrity, being willing to act on and remain accountable for board decisions, meeting the accountabilities outlined in the law, by-laws and rules of the board, seeing oneself as serving the interests of Canadians.

Impact and Influence

The awareness of the impact of organizational issues, policies and decisions on public interest and concern. The capacity to be sensitive to the differing needs and agendas of multiple stakeholders and to act to convince or influence others in order to have a specific impact or effect.

Financial Literacy

The ability to read and assess financial statements.

Public Policy

Experience in or knowledge of public policy.

Step Three Identify Specific Skills, Knowledge and Experience Mix Required for the Board

The nature of the corporation and the challenges it faces will dictate the overall mix of skills and knowledge required for the board as a whole. In this step, the types of skills and experience that are needed in the team as a whole are considered, but not necessarily in each director. They include skills and experience in the following areas. The list is not exhaustive.

1. Functional areas such as human resources, finance, marketing, communications, operations.
2. Technical areas such as reading financial statements, asset valuation, information management, strategic planning, fund raising, public policy, advocacy, government relations.
3. Professional areas such as links with professional associations or political networks, experience in public and private sectors, representation from a specific discipline.

There must be a *balance* of skills and experience to contribute to the differing perspectives required to deliberate appropriately and to fulfill the board's roles and responsibilities. The list should also reflect the *diversity* of the stakeholders the corporation serves to ensure adequate representation. Finally, the needs of the board must incorporate the *needs of the shareholder* to provide a complete picture. Since a Crown corporation is an instrument of government, the shareholder's needs may include regional and other representation (provincial, stakeholders, gender, and other target groups).

Completion of this step then allows the preparation of a profile for the board as a whole and/or for a particular director position. Step Four and Step Five focus on the preparation of a profile for a director position.

Step Four - Survey Existing Skill Sets

Having a clear understanding of the requirements for the board as a whole, the next step involves conducting an assessment of competencies, skills and experience and representation of current directors. A table of requirements for the whole board will be the starting point for a gap analysis. This analysis will provide a clear picture of the strengths and weaknesses of the board. It will inform the profiles that are created for future appointments as well as keep the board informed of gaps that it must fill in other ways when a requirement for a specific expertise arises.

This analysis could also serve to assist in identifying a list of potential candidates for future vacancies.

Step Five Create a Director Profile

The individual profile is created as a vacancy arises or is foreseen. Using the information generated in Steps One to Four, the profile is generated under the following headings:

- Position Identification
- Corporation Mandate
- Roles and Responsibilities
- Challenges, Issues and Initiatives
- Core Attributes, Competencies and Experience
- Specific Skills, Knowledge and Experience
- Representation
- Working Conditions

The profile should be reviewed and approved by the responsible minister prior to the identification of potential candidates.

Position Identification

Fill in the identification information:

Corporation: The name of the Crown corporation

Profile Date: The date the profile is completed

Mandate

This section provides a brief statement of the corporation's mandate. It should also include the mission and a short description of the services offered by the corporation.

Roles and Responsibilities

This section covers the major responsibilities of the board, as they relate to the legal requirements, the overseeing functions and the provision of appropriate governance structures and processes. The list should give the director candidates a global picture of what the job entails. The roles and responsibilities should be stated in terms of results to be achieved, rather than as activities.

For example, the role of the board in relation to risks can be described as such:

Ensures that mechanisms are in place to identify corporate risks, specify the priority risks, and create and update risk management plans.

Challenges, Issues and Initiatives

This portion of the profile will outline the key elements in the internal and external environments that require special board expertise, or will generate additional responsibilities for the board in the upcoming period. This information completes the picture of the task ahead and helps to set expectations.

Core Attributes, Competencies and Experience

This section details the common core competencies that all directors are expected to demonstrate. Core competencies refer to skills, experience, and behaviours that individuals bring as a prerequisite to a director position. They should be few in number (4-6) and realistic. Step Two proposed some core competencies as examples.

Specific Skills, Knowledge and Experience

In this section, the specific work and personal experience that the director should possess is included. The type of experience will be assessed against gaps identified in the gap analysis (described in Step Four) and/or anticipated future needs.

Specific functional skills and expertise in a given discipline are detailed in this section. The skills set will often be a function of the type of experience that the individual needs to bring. Some skills may be more generally required, such as a number of directors who are financially literate. Others may be limited to one or two directors.

Representation

This section will indicate the board's interest in improving representation from a particular region, stakeholder group or under-represented employment equity target group.

Working conditions

This section will outline the requirements relating to working conditions.

- The number of meetings and the attendance requirements.
- The average annual time commitment, including any committee work or other duties the individual would have to take on; an estimate of travel time should be included, if applicable.
- The level of effort required overall.
- Code of Conduct and categories of individuals disqualified from the position.
- Remuneration and expenses.

Appendix A - Director Profile Template

Corporation:

Profile date:

Corporation Mandate

This is a brief statement outlining the mandate, mission and key strategic objectives of the corporation. It answers the question: “Why does the corporation exist?”

Roles and Responsibilities

This is meant to provide a “big picture” of the position by focusing on the general roles and responsibilities of the board. It provides the answer to “What is the board supposed to deliver?” This could be a general statement applicable to all director positions.

Challenges, Issues and Initiatives

This section provides an opportunity to indicate any external or internal situations requiring board attention at this point and its impact on the director role. It also can include any specific initiative that the candidate is asked to undertake.

Core Attributes, Competencies and Experience

This section will include the core attributes, competencies and experience identified for all directors. These relate to attributes such as integrity, as well as to any specific skill set required of all directors.

Specific Skills, Knowledge and Experience

This section indicates the nature of any specific skills, knowledge or experience the candidate should bring to add value to the board.

They can be functional, technical, professional or leadership skills. These will be identified from the gap analysis conducted and will address the skills and knowledge required in order of importance.

Representation

This section lists areas in which the board could improve its representativeness.

Working Conditions

This section will outline the requirements relating to:

- the number of meetings and the attendance requirements;
- the average annual time commitment;
- any committee work or other duties the individual would have to take on;
- the level of effort required overall;
- code of conduct and categories of individuals disqualified from the position; and
- remuneration and expenses.