

Effective Opposition vs. Efficient Government

R E G A L C O C K †

Thank you, Rick, and good evening, ladies and gentlemen. I'm pleased to be here for two reasons: First, it's an honour to join such a stellar group of speakers and attendees. And second, the subject of this conference, Governance Reform, is crucial to Canada's future prosperity. I'd like to thank the Western Frontier International Group and the University of Manitoba's Faculty of Law for their foresight in organizing this conference.

Governance reform is an issue that needs continual scrutiny and input from a wide range of stakeholders. After a full day's schedule of presentations and discussion, I suspect you don't have much cerebral room left in which to file additional information. So my remarks tonight will be brief.

I'd like to begin with a statement that some people find a bit strange: President of the Treasury Board is my dream job. It's not an assignment that most politicians covet. That's because, usually, there isn't a lot of exposure. And when there is, it's often not good. So you can see why some people think it's a little odd that I really want to do this job. Mind you, I'm not saying it's easy. But it's absolutely worth doing. And, these days, it's very much concerned with significantly reforming and strengthening public sector management.

This evening, I want to take a few minutes to talk about the key role of ethical management in governance reform at the federal level. Warren Buffet, probably the world's most successful investor, summed up the importance of this issue very well: "In looking for people to hire, you

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look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you."

Ethical management focuses on how we accomplish our policy objectives. And it rests on three pillars. The first is rules. The second pillar is leadership. Both of those issues are essential. But, given my limited time this evening, I'm going to concentrate on the third pillar of ethical management: accountability.

Governments have found accountability a vexing issue for centuries. The ancient Romans had an interesting approach. When they constructed a new arch, the engineer in charge was expected to personally prove that he'd done the job properly. As the capstone was hoisted into place, the engineer demonstrated accountability for his work in no uncertain terms. He stood under the arch.

Now, I'm not recommending that we go to that extent to demonstrate the federal government's commitment to accountability...though I must confess, I've had days when I've felt like wearing a hard-hat to work. However, I can take comfort in the fact that Canada is not alone in facing this challenge.

Last year, a very interesting study was released entitled "Transparency in the Networked Economy". The sponsors included such heavyweights as AOL Time Warner, Bell Canada Enterprises, Cisco Systems, and the Canadian International Development Agency. The study reviewed the experience of 28 companies such as Wal-Mart, British Airways, Sony, and the World Trade Organization. Though the research focused primarily on the private sector, it has a direct relevance to government and the theme of this conference.

According to the study, some of the key drivers that are making the world a more transparent place include:

- the speed, flexibility and reach of communications, driven by the accelerating power and pervasiveness of information technologies
- the insatiable public appetite for information - in the case of government, it's a desire to see that we are providing better value for money
- the increasingly important role of knowledge, trust and reputation in driving success in the networked economy.

Transparency is already well on its way to establishing itself as a powerful norm in global politics and a transformative force within companies and their stakeholder relationships. And it is having major impacts on these organizations. Let me cite just a few examples from the study.

The first is that transparency networks broaden the distribution of political and economic power. With new communications technologies, increasing levels of education, and increasing public expectations of

better performance, an evolution is taking place in the distribution of knowledge. These forces are driving a fundamental shift in organizational models: from authoritarian governance and hierarchical forms of management and control to an increasingly flat society where power and authority are much more decentralized.

Next, transparency is driving a values-based approach to management. Transparency heightens the importance of values in management and drives a corresponding shift toward values-based behaviours. Values are a moving target, as new expectations arise with changes in public moods and priorities.

Number three is that effective transparency creates trust. The foundations of increased transparency are enhanced accountability and better oversight. Generating full value from transparency requires a high level of commitment, extensive dialogue, and a continuously evolving reporting system that stresses good values and behaviours throughout the organization.

The final impact I want to highlight is that smart communications plays a key role in developing a transparency strategy. Key questions include how much information to release, who decides what to disclose and what technologies are used to do it.

Effective transparency strategies will leverage new technologies to create systems for monitoring, measuring and reporting on key aspects of activity and performance. And they will drive real changes in governance, strategy, and operations. One of the overarching conclusions in the study is that more transparent and participatory forms of governance will enable organizations to become better attuned to stakeholder concerns, and more broadly accountable to these expectations.

And that brings me to what we're doing to increase transparency in the federal public sector. Canadians want to know that government programs are well managed. They want greater openness and transparency. And they want to be able to hold Parliament, their Government, and public sector officials to account for results - good, and bad.

That's why we've launched a series of reviews to ensure our management practices are modernized and that our ethical standards meet the expectations of Canadians. Three of the most important are focused on: strengthening the Financial Administration Act; better defining the respective accountabilities and responsibilities of Ministers and senior public servants; and improving the governance and transparency of Crown corporations. These reviews are wide-ranging and distinctly multilateral. I've met with the people heading up these initiatives. We're now working on how best to take our recommendations to Parliament.

The Government of Canada is working hard to enhance the role of Parliament and the proactive disclosure of information so that Canadians are better able to hold Parliament, their Government, and public sector officials to account. To this end, the Government announced the mandatory publication of:

- travel and hospitality expenses for selected government officials;
- contracts for goods and services over \$10,000;
- the reclassification of positions.

We've also focused on other key areas that drive better accountability. The Management Accountability Framework is a good example. This new tool will play a major role in setting priorities for improvement across government. The MAF's 10 expectations clearly sum up TBS standards for more effective management. And it gives us a stronger mechanism for reporting to Parliament on our results.

Just over a month ago, I tabled new legislation to establish a mechanism for the disclosure of wrongdoing in the public sector and to protect public servants who make disclosures. *The Public Servants Disclosure Protection Act*, commonly referred to as "whistle-blowing legislation," will help us move to a higher standard of accountability and provide an enduring legacy of good governance and a strong public service for Canadians.

The proposed legislation covers all federal public sector employees, including those in Crown Corporations. It requires heads of federal organizations to establish an internal disclosure mechanism, calls for the establishment of a code of conduct, and provides substantial protection in law from reprisal for good faith disclosures. This legislation includes significant revisions to the previous bill, which died on the Order Paper when the election was called. Many of these improvements came from parliamentary input, and were enabled by our increased emphasis on transparency.

The same type of increased accountability is evident in the process for compiling and reporting on the Main Estimates. Our new Expenditure Management Information System (EMIS) will integrate government-wide information and provide a common database for all departments, agencies, and TBS. This will enable on-line sharing of expenditure management and performance information. We're also working to make the Supplementary Estimates Process less confusing. For example, changes in format are being introduced to increase transparency and to improve the consistent treatment of information. These enhancements will include a full summary reflecting all the changes since the Main Estimates. In addition, a summary of government-wide initiatives will be provided.

Engaging Parliamentarians is one of our most important tools for improving transparency and ensuring they have the information they need to fulfill their responsibilities. Given our size and complexity, that's not only desirable, it's indispensable.

Government is the biggest employer in the world. Around the world, governments account for more employees than any other organization in history. With that power and presence comes a responsibility to provide better transparency and accountability for our stewardship of taxpayers' dollars.

We've made a good start over the last nine months in organizing ourselves to better meet that key objective. But we still have more to do, and the challenges will often be substantial.

Arthur Kroeger has often been referred to as the "Dean of Deputy Ministers", having served in that role for six major federal departments. A few years back, after his retirement, Mr. Kroeger gave a speech to the Canadian Club of Ottawa, where he observed: "The delivery of government services requires continuous trade-offs between conflicting objectives, and the use of imperfect instruments in the pursuit of desired results. It always stands in need of improvement."

Continuous improvement is what this conference is all about. It's also my chief concern as President of Treasury Board. Today's sessions have made an important contribution to keeping us focused on the goal of reforming governance and how best to achieve it.

I thank you all for your insights today, and I look forward to your assistance in future as we continue to reform government and its capability to serve Canadians better.

Thank you.

Q & A WITH REG ALCOCK

I wanted to ask about Crown corporations and your view on audits, where you're looking for a solution. What about extending expanding the role of the Auditor General, putting more people in the Auditor General's office, making it more like the General accounting office in the U.S., or say, having them be the ones that get reported to for audits, and maybe even making them responsible for appointing the heads of Crown corporations?

Well, I think on the second part of that question, I wouldn't make them responsible for appointments, I'm sure Sheila Fraser wouldn't want to, because their responsibility is to audit the actions of others—not become the actor. So I don't think that works.

But I think Auditor General is currently on the auditor for 39 or 41 of the current crowns, so it's not a big leap of faith to extend her responsibilities to all of them. She also has a responsibility for the larger crowns for doing a five-year special audit, so there's a debate there about how we play out those responsibilities. I think were close on that. I spent a lot of time with Sheila and she has been talking with this at some length. So, it certainly is on the table for discussion.

Minister, yesterday morning I resigned as chairman of the audit committee of a medium-sized Canadian company, for some issues that I felt impacted my ability to serve. As a director of that company, I thought I provided what I call the "three sights": the oversight, the insight and the foresight.

As you look at the role of directors of crowns, how will you ensure as president of the Treasury Board that those directors can exercise those three sights, the oversights, the insights and the foresights that are required for corporate governance?

I renovated my cottage about three years ago. Actually, I started off just trying to build a porch, and when I was finished, there was only one wall left that was original, because it's the classic case: you take apart this, and realise you've got to do that, and there is a little bit of that in this.

If we want board members of crowns and again I always have to qualify this by saying the larger crowns, because I think we really have to have a

look at this instrument called Crown and its applicability to some of these smaller organisations. We may want to look for a different organisational model, but certainly take the large crowns. If we want the boards of directors of the larger crowns to play a greater role in oversight, that we want them to take more responsibility as a management board, if you like, then certainly the issues of defining the mission of the organization, then their roles and responsibilities within that are important.

But there are a lot of things that are happening, coming out of some of the changes, mainly in the U.S., that are less applicable to us. (We aren't dealing with shareholder value particularly, but the personal liability of members of the board.)

But also, it changes the skill set that you want. If you are really in these very large organisations calling to attract the kind of corporate governance that you might want, then do you do that for \$350 a day? You look at directors fees in very, very large organizations, and we are seriously out of whack. Now we changed that in a couple of our organizations (the pension boards) some time ago, but that's an issue. Various things are combined.

There was a time when people served on these boards out of sense of public duty, but then your accountabilities were less than they are today. And so part of the question is, will we get people to serve, of the kind of quality that we want, unless we begin to make it more like a corporate board?

Second issue: If we are going to subject them to oversight by the House of Commons, will people wish to do that? Gordon Feeney, who I don't know, but I am told he is a man of enormous experience, talked about the fact that he ran the retail operation of the Royal Bank. It seemed to be that he has some capacity to be, not the CEO, but the chair of the board of that organisation. He does this for \$17,000 a year. Would he put up with the abuse of being put up before a House of Commons committee?

Now, is that a reason not to do it? Is that the reason for the House to change, for it to finally grow up and understand that has some responsibilities that it has to act out here.

In the end, no decision that you make is absolute. You create a bunch of structures and conditions that you believe will produce the best result: defining the role of board members, bringing the information to them upon which they can act, and holding them to account for their actions.

You were emphasising the timeliness of information, how key it is that government starts speeding up their decision-making process. But there is a flipside to that, too, where faster decisions don't necessarily

make better decisions or wiser decisions. And you will even have an aspect of the law of unintended consequences: I meant to do this, but it turns out that whoa, this has happened over here. What are your general comments on that?

I think that's a useful comment. I guess the problem is that we talk about the knowledge economy and building smart organisations. I'm leading on a thing called smart regulation right now.

The question is, what does it mean to be smart? What does it mean to function in that way? And I think there are a number of pieces. One is to be constantly assessing what is happening in your environment, amassing information, bringing the tools to bear to help use that information to understand what's going on, and adjusting your outputs to reflect that reality. And then adjusting them again in the face of new information. That's what most large organisations have to do, and that's what government finds enormously difficult to do.

One of the ways we've adapted to that is to build operating structures. It is really interesting. When I was first in the House of Commons, I chaired the transport committee. And that was at the time that we were privatising the ports and airports, and I was a huge proponent of that. I bought all the arguments. We had to privatise this airport, or this port, because the decision-making systems of the government were too slow, too clumsy, to allow that organisation to function in real time. It had to be freed in order to be more innovative, responsive to its community, responsive to its clients, because it has a major role to play in the economy, and I ran around promoting it.

The thing that didn't hit me until some what later was that what we were doing was avoiding dealing with another problem. We were cutting off pieces and throwing them out in the name of good things. But what we were doing was avoiding challenging ourselves to fix the beast. I actually wrote a little thing, likening it to a skink, which very people out of there understand. Every time the government comes under pressure, it throws a tail off for people to chase and eat and the beast crawls away and grows another one. It is not a bad metaphor for government.

I think that it's government as a learning organisation that is going to be the biggest challenge for all us because it's classically slow-moving and it can't be, it just can't be, because the community that it's serving is not. So it will make mistakes. It's a fact. We just have to learn to accept that.

Reg, thanks for inspiring me to get up and make a few observations. I really am excited by what you're doing in Ottawa, and your presentation tonight, in such an understandable fashion, is most helpful.

Just a few observations: I think whistle-blowing is a very important part of your whole cause, and it's going to have to get a lot of work done to get the courage to people to speak out, because the culture is otherwise. And my observation about that is that far too often, from the top down, within the system we'll always discourage that—and that's not just confined to government.

My second observation is in relation to the mechanism for really finding facts, when you have issues that arise. Public inquiry becomes very political, very expensive, and can destroy reputations unnecessarily. You have in the National Parole Board and Correctional Services Canada, mechanisms, where there is a sensational incident, to protect the public against someone who is really supposedly an inmate engaging in some horrendous criminal activity and there is a process internally for doing that, but it's only as good as the community representation in those processes, and the quality of the independent participation of the representatives of the department of government. But I think those have enormous potential to provide the facts, which can cause continuous improvement.

The third thing I wanted to comment on—because these are things that I have experienced since I've been in government, which I see now the Federal government being challenged with—is the quality of agreements. When you are delegated responsibility for spending money and decision-making, and certainly in the aboriginal area it is commonly associated with Indians under the Indian Act and the increased self-government initiatives. But the quality of agreements intended to be innovative is very deficient and can lead to the Virginia Fontaine kind of situation, and that's just the tip of the iceberg.

The other thing is not really looking at the quality of the organisation which is receiving the funds. If you just create a corporation which then becomes a dictatorship, that doesn't do much to protect the public funds which were ostensibly given to them for positive reasons with accountability implicit. Those are the three observations which I just share, and if you have a moment, would you like to comment on any one of them?

Actually, I've got a couple of comments and then I'll close with a thought. It strikes me that the first area is going to be the most difficult area in terms of how do we learn from our mistakes and incorporate that into our reality? In a sense it's the same question that this gentleman raised. How do we allow governments to fail, not governments to fail but programs to fail? That's part of it. How do you gain experience? How do you make good decisions? Because you've got experience. How do you gain experience? Through bad decisions. Life is about learning from things. And in a world where we want things to move a little more

quickly, we have got to be careful, because you don't want things to move so quickly that we are losing sight of important roles. For instance, government plays a big role in safety; we don't want to sacrifice safety standards for speed. There are always balances here, but to the extent to which we are learning from what we are doing, we have to accept a certain amount of—well, here's a good example.

W.D., as you know, is one of my favourite organisations. There was a time when WD was first created that it was created to help diversify the economy and in doing that you had to make choices. And making those choices you made bad choices at times, lost money. It's a fact. But you also made good choices. Like any other venture capital organisation, you hope to make more good ones than bad ones, and on balance, things moving ahead. That was very much a part of the early philosophy, but as the organisation got beaten up for making some mistakes everybody lost sight of the banknote successes and focused on—I mean, this was a different government. It wasn't our brilliance; this was by your crowd. But it was a good thing. I think they had it right. I think we have it wrong. They understood that making mistakes was part of good decision-making, and I think we've lost sight of that. In this desire to create a perfect world, we strangled the organization.

I don't argue with your comment on aboriginal affairs. I made two mistakes there. (I actually am in charge of the accountability roundtable.) It's interesting, the aboriginal leadership is saying to us, accountability works both ways. They would agree with you, but they would also cite an equal number of bad decisions and failed agreements on our side. So getting that relationship right is an incredibly important one.

But I would say one of the mistakes that we made in this desire for government to move more quickly—in the early 90s we went through an exercise of delegating decision-making down to the lowest level. The argument was, as you see played out in large organizations, if you delegate the decision down to the point of contact with the customer; you are going to get better, more sensitive decision-making. Makes a lot of sense, except large organisations who went that way tended to do it after they had built the information systems that allowed them to track and understand why it was going on. We did it without building that. So, things could happen down there that we would only find out about years after the event. And the one you cite is a great example, because every time they asked a question about what was wrong with this little thing here, the person who answered the question and said everything was okay was the person that was fraudulent, and we had no other way of knowing that.

I want to end was something else, though, because I think this is equally important. Given all that's going on, in all of the trouble that is focused

on public management, who wants to be a public servant? I think this is a hugely important question, and I think if we can't get back to a place where we begin to understand and respect the work that these people do for us every day, we all suffer. And if there is anything that has really suffered in these last few years, it has been that sense of—our quality of life is dependent on the good work of our public service at all levels, but very much at the federal level.

And if we want to attract the best and the brightest, and build the kind of public service that's going to continue to give us this very high quality of life that we enjoy in Canada, then we've got to find a way to build these systems that respects them, and their work, and reinforces them, and supports them when they make the odd mistake—as long as they learn from it.

And I think the responsibility is ours. It's the political class on all sides, and it's the House, I think, that contains some of the answers to this. But these next few years are not going to be easy, because we are going to challenge some very traditional ways of doing business, and all of them uncomfortable. It's hard to run around naked on your front lawn. Well, it's not hard...