

## 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...