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SPECIAL OPERATING AGENCIES: MANAGEMENT ADVISORY BOARDS

Role and Operations

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CANADIAN CENTRE FOR MANAGEMENT DEVELOPMENT
CENTRE CANADIEN DE GESTION

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A Word from CCMD

This paper is the ninth of a set of ten “issue papers” arising from a large-scale, collaborative research study on Special Operating Agencies (SOAs).

Special Operating Agencies are operational organizations which have a degree of autonomy within existing departmental structures, but which remain accountable to the deputy minister. Operating under a business plan and management framework which set out the results and service levels expected, each SOA negotiates certain financial, personnel, and administrative flexibilities from its parent department and from the Treasury Board. The aim is to give greater flexibility and scope to employees and managers in their operational roles and to encourage innovation and high performance in the delivery of services.

SOAs have functioned as a laboratory or testing-ground for change, and have pioneered such innovations as single operating budgets, person-year decontrol, and business plans. They have substantial experience with developments that are now affecting the rest of the public service.

The SOA initiative was first announced in December 1989, and the first group of SOAs was established in the spring of 1990. By 1993, enough experience with SOAs had been gained to warrant a general study, and the Canadian Centre for Management Development (CCMD) and Consulting and Audit Canada (CAC) began work on this subject. The scope of the project was expanded as the Office of the Auditor General became involved in response to interest expressed by members of Parliament (the Public Accounts Committee) who were aware of the Executive Agencies initiative in Britain and wanted information on similar developments in Canada.

It was agreed that it would be useful to have a general stocktaking of the SOA initiative, and that this would best be done as a collaborative research project involving the Canadian Centre for Management Development, Consulting and Audit Canada, the Office of the Auditor General, the Treasury Board Secretariat, and the Special Operating Agencies and their host departments. One feature of this collaboration was the development of a common research base which could be accessed by all who were involved in the research, analysis, and writing. The research base consists of interviews with the chief executive officers of the SOAs and the deputy and assistant deputy ministers to whom they reported; sets of documents, including the business plans, framework documents, and annual reports of the SOAs; and detailed profiles and self-assessments from the larger Agencies. This common research base was used in the preparation of *Special Operating Agencies: Taking Stock*, a report prepared by the Office of the Auditor General. It was also used for developing a set of papers focusing on specific issues related to SOAs. Drafts of these papers were taken into account in the preparation of the Auditor General's report.

CCMD is delighted to have collaborated in the development of this series on Special Operating Agencies and views this initiative as an excellent example of a joint research partnership. We are grateful to David Wright of Consulting and Audit Canada and to Graeme Waymark for their important contribution to this series of publications and especially wish to thank Jane Newcombe, also of Consulting and Audit Canada, for preparing this paper on *Management Advisory Boards*.

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List of SOA Issue Papers

This is the ninth paper in a series on Special Operating Agencies to be published by the Canadian Centre for Management Development in partnership with Consulting and Audit Canada. This is the list of papers to be included in this series:

Overview of the Special Operating Agency Initiative
(J. David Wright and Graeme Waymark)

Special Operating Agencies: Autonomy, Accountability and Performance Measurement
(J. David Wright)

Special Operating Agencies: Issues for Parent Departments and Central Agencies
(Alti Rodal)

Special Operating Agencies: Business Plans and Annual Reports
(Doreen Wilson)

Special Operating Agencies: Financial Issues
(John Dingwall)

Special Operating Agencies: Human Resources Management Issues
(Betty Rogers)

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(John Dingwall)

Special Operating Agencies: Audit and Evaluation
(Michael Thomas)

Special Operating Agencies: Management Advisory Boards
(Jane Newcombe)

Institutional Analysis of Recent Machinery-of-Government Reforms in Australia, United Kingdom, France and New Zealand
(Denis St-Martin and Michael Collins)

Further information on this series may be obtained from: David Wright, Principal Consultant, Consulting and Audit Canada, who may be reached at (613) 995-8572.

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Executive Summary

Advisory boards, committees or panels are a significant feature of many public sector and private sector organizations today. In the public sector these groups serve a variety of roles, ranging from client consultation, to providing a source of external expertise not otherwise available, to providing independent feedback and guidance to ministers on issues that fall within their area of responsibility. The primary stated rationale for most advisory boards is to assist their parent organization to operate more efficiently and effectively by providing relevant and timely external advice.

Several of the Special Operating Agencies (SOAs) in Canada have established management advisory boards, although their use is by no means universal. The focus of this paper is on the role of management advisory boards in the SOA model, initially from the practical perspective as experienced by existing SOAs, and then from the more theoretical perspective, drawing on the experiences of other advisory groups and boards of directors both in Canada and internationally.

The review of existing advisory boards revealed that most are set up very much on an ad hoc basis, with a flexible and informal structure set out in the terms of reference. The boards include a mix of internal and external members appointed for specified terms. Few boards include ministerial appointees. The more common functions of boards include the review of corporate and planning documents, financial forecasts, major initiatives, targets, and business operations. Members are expected to provide a global perspective on issues facing the organization and input on how public sector management can benefit from private sector "best practices." In Canada, the advisory boards are primarily internal to an Agency or organization, rather than reporting at a departmental or at a ministerial level. The advice from the boards is directed primarily to the Agency management level — to the CEO, or perhaps the deputy minister. In practice, it is the Agency that runs the board, the role of the board being strictly advisory rather than decision-making or directive.

Experience to date shows the following as the key challenges for advisory boards:

- to make the advice of the board both relevant and valuable to the Agency on an ongoing basis, both through regular review and assessment of the needs and expectations of members and the parent organization, and through the selection of members able to furnish that advice;

- to ensure that expectations are clearly delineated and communicated through terms of reference or other means;

- to maintain strong links with the Agency and the parent department in order to channel the advice received, preferably through a secretariat group acting as the interface between advisor and advised (Agency and the department).

These could be considered the basic building-blocks for a viable advisory board.

The experience of corporate boards of directors offers several valuable insights for an advisory model, despite the essential difference between a board of directors' decision-making role and the strictly advisory role of advisory boards. Noteworthy current trends for establishing boards of directors include:

- developing a profile of the desired board composition that matches the organization's specific needs for direction and advice;

- drawing on the expertise of an independent chairperson for the board in order to identify directors with the desired skills and other characteristics;

- making a clear distinction between corporate governance and corporate management.

Many public sector organizations in other countries have affiliated advisory boards. In the United Kingdom, advisory boards are mostly advisory to the minister – in contrast to the internal boards of Canada's SOAs. The experience in the United Kingdom is of particular interest, as highlighted in a recent study and subsequent report on the civil service reforms in the Next Steps program, the *Trosa Report*, which included comments on the role of advisory boards to Executive Agencies. These are the recommendations of the *Trosa Report*:

(i) the creation of a ministerial advisory board in each department to assist in bringing about a cohesive approach to Agency issues;

(ii) giving advisory boards a role in considering the strategic direction of the Agency, including an examination of the relevance of targets and compatibility with departmental policy direction;

(iii) increasing the number of advisors external to government to comprise at least a third of the board.

The experience in Australia with the Department of Administrative Services (DAS) Board is also strongly indicative of the role a departmental-level board can perform in supporting the deputy head (Secretary) and minister in their understanding and monitoring of the performance and success of the agencies or units reporting to them. This board also makes use of external members to supplement the internal perspective.

Though the minister and deputy head are ultimately accountable for the performance of Agencies reporting to and through them, it is not possible for either to be closely involved with the day-to-day level of operations and decision making. Therefore, a semi-autonomous board which provides senior executives and ministers with views on the performance of the Agencies for which they are responsible can play a significant role. The development of departmental advisory boards in Canada to assist in forging that crucial link between the Agency (CEO), department (deputy head) and the minister merits further consideration. A series of best practices for advisory boards is identified throughout this paper and compiled in *Appendix II*.

I Introduction

Advisory boards, committees or panels are a significant feature of many public sector and private sector organizations today. In the public sector, these groups serve a variety of roles ranging from client consultation, to providing a source of external expertise not otherwise available, to providing independent feedback and guidance to ministers on issues that fall within their area of responsibility. The primary stated rationale for most advisory boards is to assist their parent organization to operate more efficiently and effectively by providing relevant and timely external advice.

Advisory boards may also be set up to support the minister. They can be a source of external comment, advice or monitoring that operates as a check for the minister and/or deputy minister (DM) on a unit's performance, which can enable a broader span of control.

Several of the Special Operating Agencies (SOAs) in Canada have established management advisory boards, although their use is by no means universal. The focus of this paper is on the role of management advisory boards in the SOA model, initially from the practical perspective as experienced by existing SOAs, and then from the more theoretical perspective, drawing on the experiences of other advisory groups and boards of directors both in Canada and internationally.

For the Canadian experience, information for the paper has been drawn from a survey of the fifteen operational SOAs,[1] in particular, from the operations of existing advisory boards or from plans to establish them. A limited number of departmental and other public sector organizations with advisory bodies were also canvassed for the same information. Additional details were drawn from the organizational profiles prepared by the original five SOAs and CORCAN, as well as from transcripts of interviews with senior departmental and SOA executives undertaken as part of a "Collaborative Stocktaking of SOAs" under the direction of the Office of the Auditor General. The summary of findings is organized under the broad headings of: mandate, membership, structure and process, accountability issues and, to the extent that they were available, any lessons learned from the existing SOA management advisory boards.

Following the practical overview of the SOA experience, the paper presents a series of options drawn from other jurisdictions and advisory bodies for consideration in the development of advisory boards. These are based on a review of some of the current commentaries in business periodicals on private sector corporate governance and on the changing role of boards of directors; they are also based on the experience of other Canadian agencies with advisory boards as well as on those in the international public sector.

In this paper a distinction is made between an advisory board and an internal departmental and branch executive or management committee or other consultative forum that may fulfil a similar advisory role. An advisory board is characterized by its degree of detachment from the parent organization (on the basis of membership external to the organization), and its dedicated focus on strategic advice rather than on the day-to-day operations or direction of the Agency.

II Summary of SOA Advisory Board Characteristics

Seven of the fifteen operational SOAs have management advisory boards or councils, two of which are inactive. Four of the advisory boards predated the transition to SOA status or built on the foundation of an existing advisory group that remained substantially unchanged in the initial transitional period. Several of the other eight Agencies are giving serious consideration to developing and establishing some form of advisory group to management. None has rejected setting up such a group in the future following the transition to SOA status, provided there is a demonstrated case for its usefulness.

Mandate

On a general level, the stated rationale underlying the existence of SOA advisory boards falls into two areas: (i) to maintain a finger on the pulse of the client sector; and (ii) to draw on external sources of expertise, technical or otherwise, to provide strategic advice to Agency management and to advise on the larger context of operations. Only two of the SOA boards have any tie to legislation or regulations; the rest are less formally mandated through internally drafted terms of reference documents.

Most of the SOA advisory boards have been established to direct their advice to the management of the SOA, thus the label *management* boards. Boards established to advise a minister or deputy minister are the exception, although the ministerial and departmental advisory groups or panels are common models with other public sector organizations in Canada and elsewhere. Additional details of these other types of advisory boards are presented in the third section of this paper.

Board members may be called on to lend their experience and expertise and to provide advice to the organization in the areas of business operations, technical and scientific aspects of operations, or the commercial implications of actions. Board members can also be expected to perform a challenge function or be devil's advocates for Agency initiatives or policy directions. The boards have a regular role in the review of corporate and planning documents, financial forecasts, major initiatives, targets, and business operations. They are expected to provide a global perspective on issues facing the organization and input and debate as to how public sector management can benefit from private sector “best practices.” Finally, organizations have identified the value of a board as a communications vehicle that would allow them to carry out ongoing consultation, to float trial balloons in terms of proposed operational initiatives, and to receive feedback.

With very limited exceptions, advisory boards are expected to remain exclusively advisory rather than acting as decision makers in the operations of the organization. Where that advice is directed will depend on the mandate of individual advisory boards: it may be to managers of the Agency, to a deputy minister in the parent department or, in certain circumstances, directly to the minister.

Membership

Size

The size of advisory boards ranges from as few as seven to as many as 25 members in addition to a chairperson. In terms of working efficiency, a range of 10 to 12 members is probably optimum size: this allows for broad representation of regions or specific interests while still remaining a manageable size. The larger groups tend to be those where a broad representation of different stakeholders is desired.

> BEST PRACTICE: *Observer positions on the advisory boards can be instituted to maintain a consultative function on certain issues while keeping the size of the core advisory group manageable. Observers should be brought on to add to the discussion of certain issues requiring a given expertise as opposed to becoming second row members.*

Board Composition

While the member profile of advisory boards varies from Agency to Agency, the interests represented include client groups, employees, the parent department, central agencies, other public sector organizations and SOAs, major industry associations, and domain experts from the private sector and academia. Although most boards include a mix of members internal and external to government, several are composed entirely or predominantly of federal government representatives. In all instances, the CEO of the SOA is a member of the board, although not as chairperson and often in an ex-officio capacity. There is also scope for “cross-fertilization” and for minimizing the learning curve requirements, especially during the transitional period; this is done by bringing executives from another Agency onto the advisory board in order to take advantage of the existing learning curve, especially during the transitional period.

> BEST PRACTICE: *The CEO of the SOA (and DM) are ex-officio members of the board. Executives from other Agencies can provide valuable insights, especially during a transition period.*

Most boards members are chosen on the basis of individual traits, which include the representation of a particular sector, region, or specific expertise rather than on the basis of being the incumbent of a particular position in an organization. Conversely, the chairperson function is most often filled on the basis of position in the parent organization, either the deputy minister or another designated senior manager in the department. In two SOAs, the chair is selected by the board from among its members. The selection and appointment of a chairperson from the board itself is the more prevalent practice among private sector corporate boards of directors and Crown corporations. Some deputies have reservations about chairing Agency advisory boards, as it is time-consuming to be responsible for the actual operations of individual boards.

BEST PRACTICE: *An independent chairperson for the board may be suitable to the needs of the organization. The role and requirements for the chairperson should be reviewed regularly to ensure that the incumbent is the appropriate person to run the board.*

Selection

The appointment process for advisory board members varies. Advisory boards generally tend to have Governor in Council appointees. The SOA boards, which are more informal, have not followed this trend, with the exception of two of the advisory groups which do have Governor in Council appointees. A ministerial appointment process can mean that the selection of members is more politically influenced than skills driven and that management has limited input in the selection of board members. While this was not cited as a serious problem by most SOAs or other organizations canvassed, there were suggestions that strong management input into the selection process is desirable to ensure that the expertise of the board is directly relevant to management needs. Board members advising a minister or a deputy minister are likely to be appointed by that person.

BEST PRACTICE: *Members are appointed for terms of office of two to three years, generally on a rotating basis, to ensure continuity of membership.*

The first SOA advisory boards – and, in fact, many of the private sector boards of directors – have developed their membership in a somewhat ad hoc fashion. The “best practice” that is currently being advocated is to design a “profile” for the board of directors.[2] This approach is reflected in the current business periodical literature as well as in a recommendation of the Auditor General with respect to Crown corporations.[3] Such a profile depicts the skills and stakeholder representation needed in order to provide the kind of advice that the parent organization will require. This profile provides a framework for member selection and replacement over time. The newer advisory boards are considering adopting such an approach. While the profile provides a useful guide, the compatibility of board members remains a primary factor in the construction of a strong and effective advisory board.

BEST PRACTICE: *A desired representative "profile" for the advisory board membership, including the chairperson, should be developed.*

Structure and Process

To date, the actual structure of advisory boards can best be categorized as informal. With a single exception, they have no legislated base or other formal foundation. There is no set structure, no means of interacting with the department, and no set practices other than those included in the terms of reference. Most boards have developed terms of reference which guide board members with respect to their roles and address such administrative issues as meetings and expenses. Those boards which have been operational for a period of time are now reviewing their existing terms of reference in order to deal with issues that have arisen.

The terms of reference play an important role in focusing and communicating the expectations of the Agency and the parent department – and equally important, the expectations of the member advisors – with respect to the role of the advisory board. The development of comprehensive terms of reference based on a clear understanding of the respective roles of the deputy head, the CEO, and advisory board members is an identified need for SOA advisory boards. The accountability and linkages section below deals with this issue in more detail.

BEST PRACTICE: *A clear set of terms of reference should be established to define the advisory role of the board, its position in the Agency and department, its mandate, and its mode of operation (processes and membership). Terms of reference should be amended as called for. There must be a clear understanding of the respective roles of the deputy head, the CEO and advisory board members so that these can be reflected in the terms of reference.*

Meetings

The frequency of board meetings ranges from two to nine per year, with most SOAs holding meetings biannually at a minimum. There is a direct link between the number of meetings held and the overall cost of operating an advisory board, especially where members must travel or honoraria are paid. Few SOAs have a pre-established, set agenda for their meetings; however, the formality of an agenda is a factor in attracting interested members to the board. There is not generally a quorum set for the board, as votes are not taken. To encourage advisory board member interaction, there is an optimum number of participants set as the minimum requirement.

Regular meetings are interspersed with teleconferences which are arranged when it may not be feasible to bring the board together for a meeting. The consensus is that face-to-face meetings are more conducive to bringing forward the best advice, as the discussion around the table generates more balanced views. There has been limited use made of joint board meetings of advisory boards from several Agencies within a single department to address issues relevant to all SOAs. This function has been superseded to some extent by regular meetings of SOA heads which address such issues at the internal management level. The potential to tap into the expertise of external advisors from several Agency boards on common SOA issues should not be ignored, as such expertise can provide a valuable perspective.

> BEST PRACTICE: *The cost of frequent meetings is minimized through the use of teleconferencing and by holding fewer but longer meetings.*

Funding

Funding for the advisory boards is borne by each SOA. Funds are typically paid out of hospitality budgets and are not usually budgeted for formally, except in cases where honoraria are paid or funding projections are high. Expenses, if incurred, are paid for by the host Agency, with travel and accommodation costs set according to Treasury Board guidelines. Typically, no honoraria are given, although one SOA has instituted per diems for its board members in addition to paying expenses. Honoraria are more prevalent in the private sector, and also for ministerial advisory bodies and Crown corporations. Among the public sector boards surveyed, honoraria ranged from $175 to $500 per diem, with an average per diem being in the $200 to $300 range.

Conflict of Interest

There has been minimal consideration given to conflict of interest and indemnification for members of advisory boards, as the nature of the purely advisory function does not lead to potential for conflict. Members who are already public servants are governed by a conflict code and external members will fall under the same basic principles with the *Conflict of Interest Code for Public Office Holders*. Guidelines that outline and specifically adopt the obligations from the conflict code would help members to clarify this issue. Only one SOA has provided any conflict guidelines for advisory board members.

> BEST PRACTICE: *Conflict of interest guidelines should be developed for advisory board members and communicated to them.*

Liability and Indemnification

The nature of an advisory – as opposed to a decision-making – function is such that advisors are not likely to be held liable for advice offered in good faith. Therefore, the issue of indemnification for advisors has not been given much consideration by SOAs. Advisory boards in the public sector are covered under the Treasury Board guidelines dealing with the indemnification of Crown servants (Circular 90-1), and volunteer risk management (Circular 90-3). In the event of third-party liability, members faced with a comparable risk will be provided with similar risk protection and indemnification to employees and other servants of the Crown.

Secretariat Function

Many organizations establish a secretariat to deal with the administrative details of running the advisory board. The existence and size of this function depend on the size and formality of the board and the frequency of meetings. In most cases, secretariat responsibilities are added to those of the corporate services function in the parent organization or the Agency. An additional role of the secretariat is to be a focal point in the SOA for the advisory board, communicating with members of the board and linking the board to Agency staff members. Putting a secretariat in place to support the chairperson of the board, even on a part-time basis, helps to ensure that the advisory board will maintain its relevance to the parent organization.

BEST PRACTICE: *A secretariat function should be developed or designated for the board which is responsible for the continued linkages between the board and the Agency and department.*

Accountability Issues

In most instances, the accountability of board members is not formally spelled out, with the exception of specific advisory boards that have a legislated mandate to provide advice to a minister. Similarly, advisory boards whose members are appointed by the Governor in Council are, by inference, accountable to the minister.

In other instances, accountability and reporting arrangements are left more open-ended; indeed, it was apparent from discussions with Agency managers that the question of accountability had not been considered in depth. However, when questioned further, several of the individuals interviewed did acknowledge that, even though it was not a formal requirement, they would expect board members to have a strong sense of responsibility to the parent organization for the quality of their advice.

The absence of formally defined accountability is not surprising among advisory boards with no decision-making power and an informal structure. Yet there may be a need to obtain a clearer understanding between board members and the parent organization on the question of their respective responsibilities and roles. Given that clear lines of accountability are fundamental in the SOA model, the absence of any defined role (or non-role) for an advisory board within the accountability structure of a particular SOA can be problematic.

Where the expectations of advisory members – as well as those of senior management of the SOA and the department – as to responsibilities and any linkages with the department are unclear, the organization may not be able to take full advantage of the advisory board role. Where accountability is not formally specified, members by default generally assume they are accountable to the chairperson (or the person who appoints them, if different) for providing advice to the best of their abilities.

To this point, the SOA advisory boards can be considered to be primarily internal in their advisory role, directing their advice to the management of the SOA in terms of strategic direction and business advice for the Agency. An advisory function beyond SOA management issues is not precluded; it simply has not been fully developed in the Canadian Agencies. This is due in part to the selection of items to be presented to the members for discussion and a limited board agenda. The function of developing the agenda of issues rests generally with the Agency in consultation with others (DM and the chairperson) as required.

Establishing clear lines of accountability may be considered less important where the board is more or less internal and a true "management" advisory board to the SOA, as there is an inference that members are responsible for giving their advice to the chairperson and the Agency. The Agency, in turn, is responsible for considering that advice. For instance, SOA management should be prepared to explain to the board and senior departmental management why advice was or was not acted on.

Although composed of members external to the Agency, current SOA management advisory boards are not semi-independent bodies that remain at a certain arm's length from the Agency; rather, they tend to operate more along the lines of a working group or committee that is internal to the Agency structure.

Emerging Accountability Issues

- An advisory board in a detached position is well placed to perform a monitoring role and thus to interpret the success and implications of initiatives and operations of the Agency on behalf of the department, advising either the deputy minister or the minister. Such a board could, however, have some difficulty fulfilling the same advisory role to the Agency management directly when it is also supporting the deputy head and monitoring the overall success of that same Agency management in meeting the objectives set.

- There is still scope for mismatched expectations about accountability between board members and the SOA. In the case of an advisory board whose primary function is to advise the deputy minister or minister, while at the same time attempting to provide the practical strategic advice to Agency management, clear and specified lines of accountability that fit with the established CEO/DM accountability will be essential.[4]

- As advisory boards are not decision-making bodies, they cannot usurp the decision-making authorities and delegations within the Agency and from the deputy minister and minister. However, the weight that is expected to be given to the advice provided by advisory boards can be significant. It thus becomes necessary to delineate how far that power or authority actually extends in the Agency-department interface.

- The linkages between SOAs and parent departments continue to evolve and to be a source of tinkering and negotiation. In many cases an advisory board is positioned right at this point of interface. Indeed, a strong advisory board to the deputy minister which monitors the progress and success of the Agency could potentially assist in a smoother interaction between department and Agency, one free of certain departmental control mechanisms that may not fit the SOA model of increased flexibilities in return for performance.

Lessons Learned

Among the six SOAs that have established advisory boards, several continue to flourish and operate while the others have not maintained this vitality. The most likely determining factor may be the expectations for the advisory board, from the perspective of both the board members and the Agency or parent organization. Where expectations or needs have changed or existing expectations were not fulfilled, and the advisory board (or a replacement structure) has not grown or evolved to meet those changes, the existing advisory board is likely to falter. Similarly, when there is a frequent rotation of CEOs and deputy ministers disrupting the accountability and advisory relationship with the board, its role may have to be re-established. There was consensus among the individuals surveyed that an advisory board would have a limited life if it did not add value to the Agency. The relevance and significance of the advice to be given were paramount considerations.

Depending on the size, number of meetings and geographic representation on the board, the operation of an advisory board can be both time-intensive for staff in the SOA and senior management, and costly in travel and other expenses. If the advisory board is not addressing the right issues, answering the right questions, or providing the necessary guidance and support to the Agency and/or its parent department, then it will not endure. The relevance of a board is a function of two factors: (i) the issues placed before the board for consideration; and (ii) the skill set of members and the advice they are able to provide. As both factors are primarily within the control of the Agency or parent department that sets up the advisory board, they can be changed over time to ensure that the advisory board evolves with the organization.

The initial role played by the advisory board during SOA transition to “business-like” operations may also need to evolve if it no longer provides the advice needed by the SOA or meets the need for input from central agencies. The mandated role and membership of the advisory board can be changed to reflect the new requirements of the Agency and, if desired, of the parent department as well.

A key lesson learned has been the recognition of the importance of setting in place an assessment and evaluation mechanism for the board: this allows for an independent assessment by the board of its role and membership profile to ensure that there is a regular review and rotation of members as dictated by a set period of tenure. In order to help the advisory boards to evolve along with the Agencies, the chairperson should have the responsibility (to be delegated as necessary) to ensure a regular self-assessment and evaluation by the board. The Agency and department would be expected to act on the findings from such a self-assessment.

The other fundamental requirement for a well-functioning advisory board or any similar group is a clear set of terms of reference that define both the role for the advisory board and the way in which the members within that board are to carry out its mandate. This will avoid the risk of a mismatch of expectations which can lead to member apathy, frustration and confusion, thus detracting from the strength of the advisory function. These terms of reference should be reviewed regularly by the parent organization and by the board itself to ensure they still reflect the focus of the board. In most instances, there can be a simple amendment to the actual document since it is not a formal governing document, but rather an internal one. For boards with a legislated mandate, a separate informal terms of reference document, including the practical elements of the board's operations, is equally valuable.

Another important way of ensuring the success of advisory boards is by providing a meaningful role for members and making the best use of the talent and skills that are present on the board. This applies equally well to any advisory, consultative or directive group: members want to make a significant contribution, and will do so if given the opportunity. Since advisory board members are generally fairly highly placed in their own organizations, it is likely they will want to be brought into the decision-making process rather than remaining on the periphery. Therefore, a strong consultative style should be developed in order to channel the advice into the Agency and report back on action taken.

The existence of an advisory board and its role do not often have a high profile among staff in the Agency.[5] This means that full use may not be made of the expertise that gathers around the boardroom table twice a year and which is accessible for more informal consultation by the chairperson between meetings. A well-selected and balanced management advisory board with a clear statement of its role and well-managed by its chairperson has considerable potential for providing timely and valuable advice from an external or third-party perspective.

The greater the involvement and understanding that members have of the organization, the better their advice will be. At a minimum, biannual, if not quarterly, meetings are likely required in order to gain this level of understanding. An alternative to more frequent meetings is longer meetings where issues can be pursued in depth. As an example, CORCAN, in reworking its advisory board function, now holds multi-day meetings and has established a series of working groups or committees from the board membership, each of which focuses on a specific aspect of the Agency's operations and planning and deals with practical issues. Members of the Agency are also part of these groups. The working groups meet during a portion of the multi-day advisory board meeting and report at the plenary session. The reports following these sessions have been favourable, both from the perspective of the Agency which receives valuable feedback and guidance in its strategic planning and from the board members who are involved in a meaningful exercise working with Agency management to improve Agency effectiveness.

There are few advisory boards that provide any compensation to members for their time and expertise. However, as obligations on members increase, the requirement for honoraria beyond expenses will have to be considered. If members are paid, regular and frequent meetings become costly. Therefore, the challenge is to ensure there is a trade-off of valuable and focused advice to the Agency by establishing a role for the advisory board, communicating it to stakeholders, and bringing together the specific expertise required to fulfil that role.

BEST PRACTICES

- *Expectations of the advisory board should be delineated as clearly as possible and fully communicated to the members and the parent organization. Similarly, any changes in expectations should be clearly communicated.*

- *A clear set of terms of reference should be established to define the role of the board, its position in the Agency and department, its mandate and its mode of operation (processes and membership); the terms of reference should be amended as called for.*

- *A mechanism for the regular assessment and evaluation of the advisory board, its role, and the composition of its membership should be established to ensure it will evolve with the organization and maintain its flexibility and relevance.*

- *The best use possible should be made of the available expertise on the advisory board. Involve members in the Agency/department planning to ensure that there is sufficient knowledge and awareness of the issues and initiatives being untertaken to enable advisors to provide valuable and targeted advice. In limited instances, and only where appropriate to the existing accountability relationship, advisors' expertise can be drawn on informally by telephone to provide quick confirmation or suggestions to the chairperson or CEO, as a fellow board member.*

- *Biannual meetings, and, by preference, quarterly meetings at a minimum, should be scheduled to allow board members to develop the necessary in-depth knowledge of the organization.*

- *Working groups to the advisory board should be established if necessary to focus on specific issues in need of more in-depth consideration; these groups would report to the board with a recommendation on which advice can be based.*

- *Avoid setting up too many advisory groups dealing with a single organization, as the strength of the advice provided could be diluted, and lines of accountability through and out of the organization could become confused. The implementation of a new advisory group should prompt a review of the relevance of any existing advisory panels or groups.*

- *Costs of the advisory board have been borne by individual Agencies to this point. Where honoraria become prevalent, Agencies will have to anticipate these expenses. Departmental boards, albeit dealing with individual Agency issues, should be funded primarily, or at least in part, from departmental budgets.*

III Other Advisory Board Models

It is evident from the preceding description of federal SOA advisory board characteristics that there is no strong model for these advisory bodies. Therefore, in considering the role that the advisory boards can play in the SOA structure, it is valuable to review briefly the experience and structure of other organizations both in Canada and internationally.

Canadian Models

Manitoba SOAs

There are now four provincial SOAs established in Manitoba, the first of which was the Fleet Vehicles Agency (FVA). The FVA has a management advisory board established to provide advice to the Agency related to financial operating results, marketing strategies, client-focused initiatives, business strategies and organizational issues. The advisory board is chaired by the deputy minister of the parent department, and its membership of five represents both government (clients and FVA staff) and the private sector, who provide business knowledge and expertise. Partial day meetings are held quarterly to review Agency initiatives, financial and business plans, and performance. The CEO of the Agency and the assistant deputy minister (ADM), Supply Services, are ex-officio members of the board.

Formally, the advisory board is intended to support the chairperson (initially the ADM and now the deputy minister) based on the reporting structure outlined in the charter document. The ADM and deputy minister are responsible for an oversight role in the strategic direction and performance of the Agency, yet the nature of the advice sought is equally pertinent to the CEO and Agency management in terms of Agency operations. The board is expected to act as the devil's advocate or to challenge Agency initiatives. It is not responsible for directly monitoring or reporting to the ADM or deputy minister on the performance or progress of the Agency. The board is only responsible for advice as requested, including critical reviews of the business plans and major initiatives. The Agency has indicated that it places significant weight on the advice and external perspective provided.

As more SOAs come on stream, the Manitoba Treasury Board intends to investigate the potential for a common advisory board function for all SOAs.

Corporate Boards of Directors

Although there are fundamental differences in the formal and legal obligations between corporate boards of directors and advisory boards, there are significant similarities in many of the issues faced by organizations in establishing, operating and assuring the effectiveness of such groups. In considering options for advisory boards with external membership, the comment is often made that it should be a "board of directors" for the parent organization. There is a certain corporate connotation attached to the term "board of directors" which perhaps makes it attractive in the context of a public sector organization in its transition to and focus on *business-like* operations. This is also in keeping with the presence of a Chief Executive Officer (CEO) as the SOA head.

Fundamental Characteristics

Before continuing the discussion of similarities, it is useful to review both the fundamental differences between a board of directors and an advisory board and the obligations of a board of directors. Even in the public sector context of Crown corporations, the role of a director and the specific responsibilities inherent in that position go far beyond the obligations of an advisor. A board of directors is itself a formal structure in which directors are elected by shareholders, and there are statutory requirements that dictate their responsibilities in this position. In the corporate context, a board of directors is a decision-making body. It has a specific role in the governance of the corporation and each director has a legal obligation and fiduciary duty to act in the best interests of the shareholders, the owners of the corporation, to ensure they are represented in organizational decision making. Directors have the ultimate legal authority to exercise control over the corporation and its actions. Accountability is relatively clear in this context. A director can be held liable for actions that contravene that fiduciary duty, and in recent years this has indeed occurred. An advisory board does not and should not have such obligations and constraints imposed. If such were the case, few would volunteer for a position with these inherent risks for which, in return, they are simply provided with their basic expenses.

In the wake of the disappointing performance of many North American companies, the role of directors in corporate governance has come under increasing scrutiny as shareholders look to the "board" to protect their interests.[6] Where boards of directors are expected to take on a more active and enterprising role, the suggestion has been made that a different, "new style" of director is called for to take on these responsibilities. Similarly, the traditional methods of selecting directors for corporate boards have come under scrutiny as efforts are made to bring new-style directors onto boards. The debate over the responsibilities of directors and chairs has been lively, as attested by the debate and dialogue in a series of articles in the Western Business School journal, *Business Quarterly*.

The principles suggested for selecting new directors can be applied equally well to advisory boards. The basic premise is that a profile of the "ideal" board membership should be developed not only in terms of experience and competence, but in terms also of varying backgrounds and viewpoints in order to fit with the objectives, strategies and operations of the corporation. Once the desired board composition or profile has been established, the next steps are to develop specifications for the directors' positions and then to initiate the search, screening and subsequent selection of candidates. Finally, there must be briefing and training sessions for the successful new directors. A similar process is readily transferable to an advisory board or to any consultative group.

Governance-Management Distinction

There are also useful analogies to be drawn from the governance framework of the corporation. Corporate board members receive their authority from the shareholders or owners of the corporation, while senior members of management – the corporate officers including the CEO – receive their authority from the board of directors to whom they report. The chair of the board is generally appointed from among the board members and is responsible for managing the board, setting the agenda and running the meetings. The board is legally entrusted with the responsibility of managing the affairs of the corporation, but in practice there is an important distinction between the responsibilities of the board and the CEO. The board of directors is responsible for “corporate governance,” while the CEO and officers are responsible for “corporate management,” that is, the operational aspects of the corporation. While the CEO exercises this management mandate under the authority of the board of directors, the board's primary authority is the supervision of management.

The two functions of governance and management are closely allied yet occupy different pieces of the corporate framework puzzle. The board is expected to exercise rigorous control over results through constant monitoring of financial forecasts and reports from the CEO; it must ensure that the policies and procedures enable the corporation to function within acceptable and legal parameters; and finally, it is responsible for ensuring that the corporation has a clear vision of the challenges it will have to meet. The board, in short, must ensure that the corporation is well managed and efficient and that it will produce the best possible results in both the short and long term. The board itself does not manage, but entrusts this function to competent officers and managers, providing support for this function in the form of advice and an independent perspective. To “govern” better and to derive an improved understanding of the management issues, boards of directors often set up separate working committees on specific operational matters, thus allowing directors to interact with the managers on corporate management issues.

This split between corporate governance and corporate management is reflected in the division of responsibilities between the chairperson of the board and the CEO. This is by no means a universal practice, since there are CEOs who also chair the board of the corporation. However, there is a growing body of opinion that supports the separation of the functions of governance and management and favours a strengthened, independent and proactive board. The CEO still works in liaison with the board through the chairperson, but will not direct the board in the way the chairperson does.

In the United Kingdom, the report of the Committee on Financial Aspects of Corporate Governance issued in 1993 (the *Cadbury Report*, named for its Chairman) strongly supported the division of responsibilities at the head of a company to maintain the balance of authority and power. The recommended Code of Conduct or best practices does not require that the positions be held separate; rather, it suggests that there should be a strong and independent voice from outside directors where the CEO/Chairperson positions are held in common.

A number of these developments in the area of private sector corporate governance have an equivalent application in the public sector.

Non-Corporate Boards of Directors in the Public Sector

Crown corporations have boards of directors appointed by the Governor in Council which fulfil a position in the corporation equivalent to that of private sector boards. There are differences, but none that are significant when drawing comparisons with advisory board functions. There are, however, significant similarities in the issues affecting the public sector boards. In the public sector, a board of directors helps to separate ownership from day-to-day management by providing a key link between the Crown and the executive officers. Boards oversee the management of the businesses, activities and other affairs of the corporation on the Crown's behalf by holding management accountable for the company's performance, its long-term viability and the achievement of its objectives.[7] Chapter 4 of the 1993 *Report of the Auditor General* considers issues related to Crown corporations, including corporate governance. The Report's recommendations in this area focused on the clear definition of the board's role and that of individual directors as well as on the mechanisms for selection of the "best-qualified" board through the development of a board member profile.

There are non-corporate "boards of directors" that merit further consideration for comparison with advisory boards. One of the more interesting models is that of the Science and Technology Institute, which was recommended in the 1990 *Report of the Committee on Federal Science and Technology Expenditures*, chaired by Pierre Lortie. The Institute model is considered to be a "near-SOA," in terms of the Institute's position in relation to a department and the granting of certain flexibilities in return for accountability for results and overall performance. Yet it is distinctive in its focus on the unique requirements of the science and technology sector. The Committee's recommendation was that each Institute (one per science department) would be under the charge of a board of directors and the direction of a CEO.

The Lortie model, as it is sometimes described, envisages a board of directors that is a powerful agent of change, composed of members representing senior executives of universities and technology-intensive corporations. The chair of the board would be appointed from outside government. The deputy minister and CEO of the relevant Institute would be ex-officio members of the board. The main responsibilities envisioned for the board fall into three areas:

- advise the minister on the needs and opportunities in the department to use science and technology in pursuit of its mandate;
- ensure there is a continuous cycle of evaluation of science and technology quality in the Institute;
- report to the minister on the management of the Institute by the CEO (President). The CEO in turn would report and be accountable to the board for the management of the Institute. There would be a clear line of accountability through the board for performance/quality.

In this model, the board reports to the minister, not the deputy head, whereas the CEO, though responsible to the board, would also be accountable as a public servant to the deputy minister. This could be problematic in practice as a split accountability.

There are no true examples of the Lortie model. However, the Communications Research Centre (CRC), now part of Industry Canada, and its related organization, the Centre for Information Technology and Innovation (CITI) in Laval, have adopted many of the primary recommendations. CITI has had a board of directors since its inception in 1984 which has been accountable to the minister, while the board of directors at CRC, the larger organization, was established more recently, in 1993. The intention may be eventually to merge the two boards of directors, but for the time being they are separate. CITI has had longer experience with its advisory board, which is a strong force in the Centre and is therefore often likened to a board of directors.

CITI is headed by a director general reporting to an ADM in Industry Canada, also the President of CRC, who in turn is accountable to the deputy minister, then the minister. The advisory board is composed of 19 members plus the Chairman, Pierre Lortie, (see above) who has been appointed from the private sector. The director general (DG), ADM and deputy minister are all members of the board, but the majority of the members are drawn from high-placed positions in the private sector or academia. There are also working committees of the board, each staffed by different advisory board members, one of whom is chair, as well as the DG, board chairman and ADM on each committee: the Executive Committee is tasked with the monitoring of CITI's day to day operations, a Human Resources Committee oversees the implementation of the organization's HR strategy and a new Research Quality Assessment Committee is intended to ensure the research carried out at CITI is world-class quality. These committees are very much hands-on.

The management team at CITI have indicated that the advisory board has a very strong influence in the decision making of the Centre and it is noted that the annual activity report opens with a message from the chairman of the board followed by messages from the ADM and the DG. The descriptions in the report of initiatives undertaken support the instrumental role of the advisory board. For example, the report reveals that the board decided how to allocate the Centre's resources among its four areas of activity and product lines, that it made a recommendation on the priority organizational issues to be resolved during the year, and finally that it set measurable objectives for the Centre.

> BEST PRACTICE: *The board should be chaired by an independent chairperson and the membership should be predominantly external advisors. The establishment of working groups linked to operational concerns will allow the directors to lend their expertise directly to the organization.*

Management of CITI and of CRC, to the extent that they are familiar with the board, describe the board as directive despite its advisory board label, and members are encouraged to take on such a role. The recommendations and directions from the board are therefore given significant weight, and the board and its chairperson expect they will be acted on by management. The DG, who heads CITI, indicated that he felt he was accountable to the board for the performance of the organization. Given the high profile of the board, he indicated it would be difficult, though not impossible, to go against its wishes: a course of action differing from the recommended one would require making a strong case to the deputy minister and minister. On the administrative side, and for public services obligations, the DG reports on and is accountable for performance to the ADM. On the corporate initiatives side, the ADM and branch are the reporting level for any business lines, but such initiatives also follow an accountability loop through the board to the deputy minister and minister.

This type of advisory board, one that is highly proactive in the direction of management, is not the norm for public sector advisory groups. It is more likely the combination of factors – the members, the chairperson, its foundations, and the issues it has to consider – that makes the board as strong as it is and has it playing a role akin to a board of directors in a corporate model. The similarity to a board of directors is intended: the consensus within management ranks of both CITI and CRC favoured the board and the proactive means applied to achieve its mandate. Nor was there any hesitation expressed about the apparently parallel lines of accountability through a directive-style board and through the normal public service channels. The ultimate accountability of the organization still rests with the minister to Parliament even though there are two separate accountability channels – through the advisory board to the minister, and through the ADM and DM to the minister. However, there are potential difficulties – at least in theory – with such an arrangement.[8] As an aside, one might question the outcome if the advisory board were to direct or recommend one course of action for the organization while the public service departmental structure of the ADM and deputy minister (who, granted, are also members of the board) favour another.

International Experience

The variety of international experience with public sector advisory boards is considerable, since most countries are undergoing some form of public sector reform or renewal in order to make their operations more effective and efficient. The experiences in the United Kingdom with Executive Agencies and in Australia are particularly interesting and relevant in the Canadian SOA context.

United Kingdom

The Executive Agencies (EA) in the United Kingdom established under the 1988 "Next Steps" program have been one of the major influences for the SOA model in Canada. There are nevertheless differences in certain areas of the EA model that have not been adopted here or followed with rigour. Currently, the Next Steps Agencies and Units make up approximately 60 percent of the civil service in the United Kingdom. Therefore the experience with these alternate organizational forms is significantly greater than projected in Canada, with less than 5% of the public service presently employed in SOAs.

A series of reviews and studies of the Next Steps program have been undertaken as it has developed; the most recent, the *Trosa Report*[9] focuses on, among other issues, "... the consideration of current Departmental arrangements for overseeing the management of their Executive Agencies, with particular reference to the organizational arrangements for assisting ministers to exercise their strategic ownership role, including the use made of Departmental Advisory Boards or similar bodies...."[10] In addition to the use made of departmental advisory boards, the review examined the involvement of outsiders as members of these boards, and the internal arrangements within the departments, including the use of management advisory boards to assist chief executives.

Senior officers in a representative sampling of 26 Agencies were interviewed for the review and the findings and recommendations are included in the *Trosa Report*. Of those Agencies surveyed, 80 percent had an advisory board or similar body. Many of the experiences have been the same as in Canada: that the role of the boards and the expectations of players in the Agencies and the departments have not always been clearly defined. The complete summary of findings of this survey can be found in the text of the Report. The following excerpts from the main findings of the Report that deal with the advisory board experience and the recommendations of the study team are particularly relevant to the Canadian experience.

The advisory boards, rather than being a required element of the Next Steps program, were created primarily on an ad hoc basis and are fairly informal in their structure. As a result, there is a diversity of approach to the actual composition and operation of the boards.

The Use Made of Departmental Advisory Boards

In general, those Departments which have established Advisory Boards have done so in order to provide a source of advice to ministers on the performance of the Agency, in particular whether Agencies are carrying out Departmental policies and executing their tasks in an efficient way. At the same time, they act as a means of keeping the Fraser Figure[11] informed about the Agency's activities and also can be used to establish the link between the Agency's targets and public policy objectives of the Department.

In practice Advisory Boards are sometimes the tool of the Chief Executives and sometimes the tool of the Department. For those Agencies and Departments that have elected to institute Advisory Boards, their methods of working vary considerably. These variations can usually be related to ambiguities which exist about the role of the Board. Sometimes Advisory Boards are *de facto* part of the Agency as it is the Chief Executive who organized the meetings. To some extent, this might appear to run counter to the idea of their being an independent source of advice for ministers.

In other cases, the Advisory Board appears to be the tool of the Permanent Secretary thus enabling him to keep “his” Chief Executives together and thereby create greater Departmental solidarity.

There is a divergence of views about what should be the principal purposes of the Boards. Advisory Boards serve different kinds of interests. Expectations of the different players vary:

the Chief Executives want advice about targets for management purposes;
the centres of Departments want tools to check the Agencies' targets;
the chairman of the board wants information to be able to advise the minister.

(There will be problems when expectations do not match reality.)

Advisory Boards have a positive input in the target setting process. Most Departments and Chief Executives tend to think that Advisory Boards allow a broader, more rigorous discussion about targets and that the presence of non-executive directors bring useful tools of comparison with other organizations – as Advisory Boards are meeting regularly they develop a know-how and continuity about evaluating targets.

The effectiveness of Advisory Boards varies. This uncertainty about roles can also lead to a disparity in the quality of the discussions at the Board meetings. Chief Executives report that in some Boards debate is open and free. In other Boards, the discussions are very formal, constrained by hierarchical relationships and tend to avoid the more controversial and difficult issues.

Composition of the Boards

> Typically, the Advisory Board is chaired by either the Fraser Figure or the Permanent Secretary (depending on the importance and size of the Agency) and will include the Chief Executive, other members from the centre of the Department such as the Finance and Personnel Directors, as well as a number of non-Civil Service members. Sometimes there is a different Board for each Agency within the Department, but sometimes, there will be several Agencies from the same Departmental group with a common Board.

In the Agencies surveyed, the chief executives were members of the board in all instances. Although there were suggestions made that they should not be part of the board since they tend to dominate or inhibit discussion, the importance of having the chief executive involved prevailed.

> The participation of the Chief Executive in Advisory Boards will help to dispel any view that their purpose is simply one of control. It will also lead to a more open and free discussion about the level of the targets, where the input of the Chief Executive is particularly important.

The perceived advantages of an advisory board were considered to outweigh the disadvantages in that the board would bring all the relevant players to the same table, thereby adding value in gathering all points of view together in a continued process of collaboration. It was felt also that a departmental advisory board would allow for a more strategic approach to be taken to setting the Agency's targets in order to give better advice to the minister.

It is apparent that there is considerably more emphasis in the U.K. agency model on setting and performing to targets than there is in Canada. In the U.K., the board is expected to play a significant role in the setting of targets and supporting these targets, and the Agency to the minister, as may be seen from the following:

Role of non-executive directors (advisors)

> An advantage of the Board is the participation of non-executive directors who are almost always chosen from the private sector because of their management experience. The majority of Chief Executives tend to think that these directors are useful:
>
> the non-executive directors are well-placed to give very practical advice about management issues
>
> they are useful in the target setting process, by bringing to the Agency the experience of other, external organizations.

The appropriate number of non-executive directors for any particular Board will depend on the nature of the Board determined by the type of expertise required by the work of the Agency and the Board. It should be possible to expect that Boards are composed of three balanced parts: the Agency; the various components of the centre of the Department; and the non-executive directors.

Internal Management Boards[12]

Many Agencies have brought in internal Management Boards to provide advice to the Chief Executive. They are labeled Advisory Boards but there is a distinction to be made between these internal Boards and the Departmental Advisory Boards.

Both Advisory Boards and Management Boards have fundamental roles in examining targets and performance of the Agency and providing advice but there are differences. The Advisory Board works for the responsible minister and is meant to stand apart from day-to-day operations of the Agency and adopt a more strategic view while the Management Board is an internal body (which may have external members) responsible for advising the Chief Executive.

The following breakdown of the characteristics of the advisory boards (as distinguished from management boards) was derived from the findings of the review.

Practice

- 20% of Agencies have Boards called Departmental Boards presided over by a Fraser figure and include members of the Department but are *de facto* organized and ruled by the Chief Executive.
- 40% of Agencies belong to Boards which are mainly the tool of the Department to control them
- 20% of Agencies belong to Boards which are mainly tools for Department cohesion
- 20% of Agencies belong to Boards that are intended to establish a certain balance between controlling/monitoring and advising them.
  (This final group represent a combination of the Advisory Board and the Management Board function.)

In the last three cases, the Agency does not have a dedicated advisory group focusing exclusively on its issues and operations; rather, the Board is looking at the broader issues at a departmental and reporting level.

The recommendations on the ministerial advisory boards in the *Trosa Report* are included in full in Appendix I. They can be summarized as follows:

- a ministerial advisory board (MAB) should be created in each department;

- the MAB should have different roles: examining the level and relevance of targets; assessing them for compatibility with the policy direction of the department; and looking strategically at the aims of the Agency and its future direction to assure departmental cohesion; and

- the proportion of outside directors should be increased so that they comprise at least one third of the board. They would include management specialists and technical experts appropriate to the Agency(ies) operations.

As a final comment, readers are reminded of the difference in the accountability relationship in the U.K. Agencies where the chief executive is considered to be accountable to the minister of the department rather than to the permanent secretary (the deputy minister equivalent). The role of a permanent secretary and that of a deputy minister are not the same. Although it is not emphasized in the *Trosa Report*, the U.K. boards are considered to be advisory, with no decision-making or directive role. They are responsible to the minister, with the exception of the internal management boards, for providing well-considered advice. The practical situation may be somewhat at odds with this where the board is controlled by the Agency and chief executive. Board members or directors are generally paid for their services.

BEST PRACTICES:

- *The chief executive should be a member of the board, not in order to control or inhibit discussion in any way, but to provide input and elaboration as required in discussion and to be party to the discussion about the performance of the Agency.*

- *External (non-executive) members have a valuable role on advisory boards, stemming from the different management experience they bring. They should be a significant component of each advisory board where possible.*

- *A departmental board offers increased opportunities for a cohesive approach to Agency issues in the department as well as a greater ability to focus discussion on the broader strategic issues.*

Australia – Department of Administrative Services

The structure of the advisory board to the Department of Administrative Services (DAS) in Australia provides another perspective on the advisory function.

The Department of Administrative Services was formed in 1987, bringing together functions from a number of portfolios under a single department. These functions are primarily common services, many of which are "commercialized." DAS is made up of groups of commercial business units, business development units and strategic units (corporate services). Each group is headed by a general manager who reports to the Secretary and CEO of the department (the deputy head equivalent). Each of the business units is responsible for producing an annual business plan and a quarterly performance report to its general manager.

Within the departmental structure, there is a DAS advisory board that reports to the Secretary/CEO with the primary function of providing advice and support on the commercial activities in the department. The board is made up of a mix of public and private sector managers. Its membership of nine includes the Secretary, each of the three general managers, a client representative, a union representative and three private sector representatives (which means that one third are private sector members). Care is taken to ensure that the private sector members are not likely to be in a conflict of interest situation before appointment, and that they are chosen for relevant business experience along with board experience.

The DAS board meets monthly for a full day, which allows the private sector members the opportunity to become familiar with the departmental culture. With frequent meetings, there is little requirement for working committees of the board to focus on particular elements of the operations. The input of the board and the private sector members is felt to have been essential to the creation of a client-oriented business-driven department.

The primary activity of the board is the review of business plans; it is therefore involved in the business plan cycle, receiving quarterly reports from the commercial business units. Once each business plan is reviewed and critiqued, the board will follow up by monitoring the performance of each commercial business unit against its plan. The board may also be involved in discussing strategies for the achievement of the targets, as well as overall strategic direction for the business unit. The private sector members of the board, in particular, have been instrumental in developing the business planning process in the department. It is worth noting that although it does meet some dozen times in a year, the board is responsible for monitoring the performance of nine distinct business units in turn which means it cannot focus directly on any single business unit for an extended period.

The board advises the Secretary at a departmental level as opposed to a business unit level or a ministerial level. The minister may attend board meetings on an ad hoc basis.

BEST PRACTICES:

- *A departmental-level board is involved in the business planning cycle, review and monitoring of the performance of business units in the department, including both external advisors and the internal management group in the department. The board is not mirrored by an internal group examining business plans or supporting the Secretary.*

- *Regular and frequent meetings allow the board to provide valuable and relevant input for improving the operations and performance of the business units and the department. These have an important role in the transitional period of a culture change.*

IV Conclusion

The options available for the establishment and operation of advisory boards are considerable, and the varieties and features infinite. As the structure for advisory boards is very flexible in comparison, for example, to a corporate board of directors, an advisory board can be readily tailored to the requirements of the organization – in this instance, an SOA. An advisory board can also be a departmental level group reporting to a deputy head or minister, monitoring the performance of an Agency. In this way, boards can be valuable to the parent department, supporting the deputy head and/or the minister, and facilitating the accountability link and interaction between the Agency and department.

Another type of advisory board is a stakeholder group which provides input to the development of policies (or regulations) that will be a part of the Agency's operations. This type of advisory group should be distinguished from the user or client group which is primarily consultative, less advisory and does not generally deal with strategic issues for the organization.

Although there are some commonalities among organizations establishing advisory boards, it is their unique elements that can be best reflected in the flexible structure of an advisory board. On the basis of the experiences with boards outlined in the earlier sections of the paper, there are several essential building blocks in establishing or reworking an advisory board:

1) The advisory requirements must be defined. What are the issues to be placed before such a board? What, if any, is the desired output? Who is the intended recipient? This initial definition should involve both the Agency and its department.

2) The nature of the advisory board must be determined, including the required mix of elements: client and user consultation; management and strategic advice *to* the Agency; or monitoring and advice *on* the Agency to the department.

3) A clear statement of expectations for the advisory board and where it fits within the accountability structure (if at all) should be communicated to board members, Agency management and staff, and senior management in the department.

4) A profile of the ideal advisory board composition can be developed on the basis of the decisions made defining the nature of the board.

5) Terms of reference, including the process and structure of the board, can be developed.

6) The advisory board is then staffed, using the profile as a guide for board composition.

From the comments received about advisory board experiences both in Canada and elsewhere, it is abundantly clear that the first three elements are absolutely essential as a foundation for the advisory board.

An advisory board that is intended to advise Agency management or departmental executives on the management of the Agency lends itself best to the inclusion of a number of external members. It is not the best use of the skills of external members to serve on a board that focuses primarily on issues related to user or client concerns. A separate users' committee or board can be established for this purpose.

The advisory boards in Canada tend to be at the sub-department level, including those for SOAs, rather than being departmental advisory boards. The management advice function has been a valuable one, especially in the transitional period to a more “business-like” style of operations. Where it continues to be a desired element in an advisory group, this function should be maintained.

In many instances there is scope for an additional advisory function, at a departmental level, to deal with strategic issues and to perform a monitoring role. This type of departmental level board, beyond any monitoring function, is positioned at the Agency-departmental interface and could assist this relationship by ensuring that the SOA is regarded as integral to the department, operating with greater authorities, yet not independent of the corporate vision and departmental mandate. An advisory board set up to report at the departmental level and to monitor Agency performance could have difficulty if it is also providing external advice to the management of the Agency. Similarly, the technical expertise that may be called on for an external management board may not be equally suited to a departmental advisory board which is called on to consider the broader strategic issues. On the other hand, if separate advisory bodies are established, there remains the possibility of a duplication of effort that would detract from the value of both groups. Only where it would be feasible to alter the advisory role of the board to accommodate the dual advisory needs would it be worthwhile considering bringing them into a single board.

The corporate or board of directors model offers several useful insights into the structuring of an advisory board, despite the distinct contrast between the two, given that a board of directors has the authority and responsibility to direct the corporation. The fundamental distinction between the corporate *governance* function, which has been described as “fully accountable strategic leadership,” from the corporate *management* function, which includes the responsibility for operations, results, and implementing that strategic direction, is key to understanding Agency accountability arrangements, either with or without an advisory board. In the strictest sense, the corporate governance role in the departmental context rests with the deputy minister. The deputy minister is accountable for the strategic leadership of the department, including any Agency within it. An advisory board to the deputy minister (chairperson) supports the deputy in that governance role by providing advice and monitoring the performance of the Agency(ies) reporting to the deputy minister, as a board of directors would do. However, the advisory board is not "accountable" in the same sense as a board of directors would be in performing this function as it has no decision-making or veto power. The advisory board is simply responsible to the deputy minister for providing the best advice it is capable of providing, given the information available to it. The CEO and management team of an SOA are responsible for corporate management, the carrying out of day-to-day operations, and the CEO is accountable to the deputy minister (chairperson of the board) for the performance and results as measured against its business plan and strategic direction.

Another "best practice" that can be drawn from the corporate experience is the development of a profile to be used in selecting board members and renewing the composition of the advisory board to ensure it remains relevant to its parent organization. Although the development of a board of directors profile is by no means universal in the private sector, it is a process now receiving favourable consideration.

The development of departmental advisory boards remains a viable option for the advice and support of the deputy minister or minister while also providing limited guidance and practical advice to the Agency(ies) on operational concerns. In most instances, the deputy minister would chair the advisory board at least initially, although there is scope for an independent chairperson if there is another suitable appointee from the board. Once the board is established and operating, the role of the chairperson can be reviewed and the potential for an independent chair considered further. A board with an independent chair could be relied on for highly objective advice. This advisory board should, however, include a significant external membership; otherwise, it would be indistinguishable from internal executive committees. Such an advisory board could be supportive to Agencies by putting forward their case to the deputy minister: for example, by supporting them in carrying out their operations in an innovative fashion along private sector lines. The relationship with such a board should not be adversarial if it is to add value to both the corporate management and governance functions. A benefit of a single advisory board in a department is the potential to develop a coherent approach in the department to common Agency issues. However, the uniqueness of individual SOAs should not be subsumed by such a role.

The advisory board should be kept separate from internal committees so as not to interfere with lines of accountability – and more important, so that the best use will be made of the available external expertise. Similarly, before instituting such a board, there should be a review of all existing consultative committees in the department in order to consolidate and focus advice through several key groups. An advisory group should not be called to deal with both Agency and non-Agency matters, as the focus in each case will be significantly different.

In a department with a single SOA, a departmental advisory board with a membership profile that also reflects the technical skills needed to support SOA management could serve as a management board (to a limited extent)[13] and a departmental advisory board. In a department with multiple Agencies, a single board could not spend as much time working on the individual Agency issues and business plans unless it met more frequently than the norm of four times annually. It would, however, be possible to establish working groups reporting back to the advisory board that would meet between the board meetings to address specific Agency-related items. The membership of such committees could include board members, several management representatives and possibly external members with specific knowledge relevant to the field of operations of the Agency. This format would provide the minister or the deputy minister/chairperson with the support and advice needed to understand and govern the Agencies, while not requiring an intensive Agency-by-Agency focus for the whole advisory board – or, more importantly, for the chairperson. In this way, having a board in place may allow the "governors" to maintain a wider span of control without having to be directly involved in the operations. The boards simply support the individuals in the governance role who remain accountable ultimately for the results of operations. The Agencies would have a vehicle for seeking management advice from a group that is more familiar with their specific operations.

Notes

1. "Management Advisory Boards for SOAs: Discussion Paper" October 1992, Consulting and Audit Canada. The original research for the 1992 paper was undertaken in conjunction with and with the assistance of the Canadian Intellectual Property Office. This issue paper builds on that base of information as updated to January 1994.

2. David S.R. Leighton and Donald H. Thain, "Selecting New Directors," *Business Quarterly*, vol. 57-4, summer 1993.

3. *1993 Report of the Auditor General of Canada*, Chapter 4, Paragraph 4.35.

4. It may not be possible to group the two advisory functions — to management and to the department — within a single advisory body. However, both advisory functions remain valuable.

5. Although the interviews conducted did not focus on management advisory boards, several of the executives interviewed did remark that they were not certain of the role or operations of the advisory board in their organization.

6. David S.R. Leighton and Donald H. Thain, "Director's Dilemma: What's my Job?" *Business Quarterly*, vol. 56-4, spring 1992, reprinted in the special issue on corporate governance. This article is one of a series on roles of directors, chairs of boards and other issues related to corporate or board governance. This series of articles as well as the collection of articles on boards of directors sparked some heated debate on these issues, and captured much of the recent commentary on boards of directors.

7. *Directors of Crown Corporations: Roles and Responsibilities*, Treasury Board Secretariat and Conference Board of Canada, 1993.

8. Organizations such as DND operate with a number of parallel lines of authority and accountability, although not without some practical difficulties and duplication.

9. *Next Steps: Moving On* – An examination of the progress to date of the Next Steps reform against background of recommendations made in Fraser Report (1991). Prepared by Sylvie Trosa, February 1994.

10. *Next Steps: Moving On*, Terms of Reference.

11. Designation of a Fraser Figure in the Department was a recommendation out of the previous study on Next Steps, carried out in 1993. It refers to a "focal point at a senior level of ministry dealing with each Agency."

12. These are akin to the type of management advisory boards that are currently in place in the Canadian SOAs.

13. Clearly an advisory board should not be asked to provide advice on the one hand, while, on the other, it critiques the initiatives of the Agency or its business plan.

Appendix I Summary of Recommendations of the *Trosa Report* on Advisory Boards

Ministerial Advisory Boards

(iv) MABs should be established for each and every Agency as long as no other existing arrangements fulful the role described below.

(v) MABs should have a clearly defined role, which would include:

clear terms of reference;

direction as to how it is expected to assist ministers; and

examination of, and advice regarding, the Agency targets and its Corporate Plan.

(vi) MABs should be responsible for:

advising the minister on all general issues concerning the Agency; with particular emphasis on the setting of Agency targets. This does not exclude, on the contrary, direct access of the Chief Executive to the minister;

encouraging Agencies and the centres of Departments to examine the cohesion of their action and their common aims; and
ensuring a better stream of information, for the centres about Agencies and for Agencies about the policy choices of the Department, in order to enhance the target setting process.

(vii) Participation in the MABs should include:

the Agency Chief Executive ("attending" or member);

a significant number of non-executive directors, chosen for their management competencies or for their professional knowledge of the Agency's business;

the Fraser Figure, chairing the MAB;

a Departmental co-ordinating group (under the control of the Fraser Figure); and *(viii) The composition of a MAB should be set out in the Framework Document.*

(ix) Ministers should be encouraged to attend meetings of the board from time to time.

Appendix II Summary of Best Practices for Advisory Boards

The following is a summary of all the "best practices" identified throughout the text of the paper in the order they appear. There is some repetition, as the same "practices" are adopted by many of the different types of advisory groups examined.

- *Observer positions on the advisory boards can be instituted to maintain a consultative function on certain issues while keeping the size of the core advisory group manageable. Observers should be brought on to add to the discussion of certain issues requiring a given expertise as opposed to becoming second row members.*

- *The CEO of the SOA (and DM) are ex-officio members of the board. Executives from other Agencies can provide valuable insights, especially during a transition period.*

- *An independent chairperson for the board may be suitable to the needs of the organization. The role and requirements for the chairperson should be reviewed regularly to ensure that the incumbent is the appropriate person to run the board.*

- *Members are appointed for terms of office of two to three years, generally on a rotating basis, to ensure continuity of membership.*

- *A desired representative "profile" for the advisory board membership, including the chairperson, should be developed.*

- *A clear set of terms of reference should be established to define the advisory role of the board, its position in the Agency and department, its mandate, and its mode of operation (processes and membership). Terms of reference should be amended as called for. There must be a clear understanding of the respective roles of the deputy head, the CEO and advisory board members so that these can be reflected in the terms of reference.*

- *The cost of frequent meetings is minimized through the use of teleconferencing and by holding fewer but longer meetings.*

- *Conflict of interest guidelines should be developed for advisory board members and communicated to them.*

- *A secretariat function should be developed or designated for the board which is responsible for the continued linkages between the board and the Agency and department.*

- *Expectations of the advisory board should be delineated as clearly as possible and fully communicated to the members and the parent organization. Similarly, any changes in expectations should be clearly communicated.*

- *A clear set of terms of reference should be established to define the role of the board, its position in the Agency and department, its mandate and its mode of operation (processes and membership); the terms of reference should be amended as called for.*

- *A mechanism for the regular assessment and evaluation of the advisory board, its role, and the composition of its membership should be established to ensure it will evolve with the organization and maintain its flexibility and relevance.*

- *The best use possible should be made of the available expertise on the advisory board. Involve members in the Agency/department planning to ensure that there is sufficient knowledge and awareness of the issues and of the initiatives being undertaken to enable advisors to provide valuable and targeted advice. In limited instances, and only where appropriate to the existing accountability relationship, advisors' expertise can be drawn on informally by telephone to provide quick confirmation or suggestions to the chairperson or CEO, as a fellow board member.*

- *Biannual meetings and, by preference, quarterly meetings at a minimum, should be scheduled to allow board members to develop the necessary in-depth knowledge of the organization.*

- *Working groups to the advisory board should be established if necessary to focus on specific issues in need of more in-depth consideration; these groups would report to the board with a recommendation on which advice can be based.*

- *Avoid setting up too many advisory groups dealing with a single organization, as the strength of the advice provided could be diluted, and lines of accountability through and out of the organization could become confused. The implementation of a new advisory group should prompt a review of the relevance of any existing advisory panels or groups.*

- *Costs of the advisory board have been borne by individual Agencies to this point. Where honoraria become prevalent, Agencies will have to anticipate these expenses.*

Departmental boards, albeit dealing with individual Agency issues, should be funded primarily, or at least in part, from departmental budgets.

- *The board should be chaired by an independent chairperson and the membership should be predominantly external advisors. The establishment of working groups linked to operational concerns will allow the directors to lend their expertise directly to the organization.*

(United Kingdom)

- *The chief executive should be a member of the board, not in order to control or inhibit discussion in any way, but to provide input and elaboration as required in discussion and to be party to the discussion about the performance of the Agency.*

- *External (non-executive) members have a valuable role to fill on advisory boards, stemming from the different management experience they bring. They should be a significant component of each advisory board where possible.*

- *A departmental board offers increased opportunities for a cohesive approach to Agency issues in the department as well as a greater ability to focus discussion on the broader strategic issues.*

(Australia)

- *A departmental-level board is involved in the business planning cycle, review and monitoring of the performance of business units in the department, including both external advisors and the internal management group in the department. The board is not mirrored by an internal group examining business plans or supporting the Secretary.*

- *Regular and frequent meetings allow the board to provide valuable and relevant input to improving the operations and performance of the business units and department. These have an important role in the transitional period of a culture change.*

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