

Governance and Operations LEADS / SSBA / SASBO Conference

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What We'll Cover This Afternoon

- Why do Boards exist and how do they add value to management (in general)?
- Why do Boards exist and add value in the public sector and how does this differ?
- Why is Board Member Governance Education important?



Corporate Governance Is ...

... the **system**
by which
organizations
are **directed**
and **controlled**.



Cadbury Committee Report (UK 1992)



Agency Theory

Principals



Principals and Agents

- **Principals** are the people:
 - Who created the organization
 - Who have a purpose for the organization: needs that it can meet
 - Who contribute (invest or give) resources / capital



Agency Theory

Principals

Agents



Principals and Agents

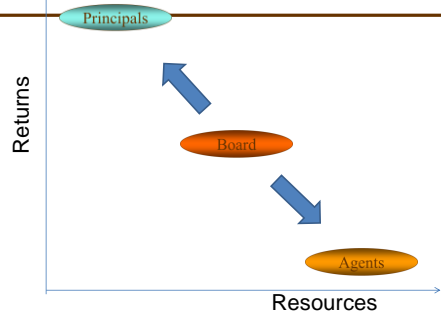
- **Agents** are the people:
 - Who undertake the organization’s activities, to meet the principals’ needs
 - Who employ (use) resources / capital



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Agency Theory: Board’s Role



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The Economic and Agency Dilemmas

- The self-interests of principals and agents are in constant tension, even conflict
- Every economic system is designed to address this
- “Agency costs” are when agents use up resources on activities that are not aligned with the principals’ needs
- The “agency problem” is compounded by the fact that agents better understand and control almost all the information

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The Governance Principle of Independence

- In order to be effective, the governance system must be independent from (and above) the operating system (the system that delivers products or service)
- In practice, this means these two systems ought to be run by different people, so:
 - board runs governance,
 - management runs operating
- The governance system determines the allocation of scarce resources to the most effective uses

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Agency Theory



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Principals and Agents

- **Board (Governance)** is the people:
 - Who are the independent intermediary (broker/referee) between the principals and agents
 - Who are the voice of the principals to the agents (and back)
 - Who have the ultimate authority – and responsibility – to act in the broadest interests of the corporation (organization, enterprise, entity)

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Five Types of Boards: and ways of engaging with Management

- 0 Very Passive ("Rubber Stamp Board?")
- 1 **Advisory-type Board** ... Management theory?
- 2
- 3 **Collaborative-type Board** ... Stewardship theory?
- 4 Moderate (Oversight not Control?)
- 5 **Governance-type Board** ... Agency theory?
- 6 Quite Active (Oversight, Direction, Control?)
- 7 **Intervening-type Board** ... Democratic theory?
- 8
- 9 **Operating-type Board** ... Stakeholder theory?
- 10 Very Active ("Micro-managing Board?")

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A Spectrum of Models

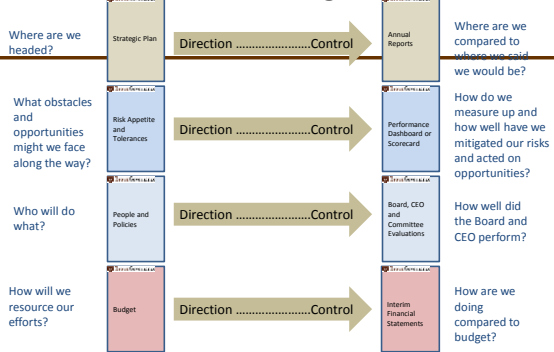
- Find the right balance
- There is no single right answer ... BUT
- There are wrong answers at each end of the spectrum



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It Looks Something Like This ...



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From Government to Governance

- **Government:** the organization and imposition of political authority - hierarchical, formal/legal, direct, electorally accountable, focused
- **Governance:** the collective management of public problems by a host of actors -horizontal, indirect, overlapping, partial, self-generating, shared
- How do you ensure *accountability* in governance regimes?

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Accountability (broad version)

- Anglo-Norman term originates with accounting and *financial* accountability
- Becomes associated with *public* accountability with advent of New Public Management
- Umbrella term that implies all things virtuous plus transparency, responsiveness, efficiency, integrity, responsibility, etc.
- No general consensus about standards for accountable behaviour

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Accountability (narrow version)*

- Accountability is a relationship between an actor and a forum
- Actor obliged to explain & justify conduct (transparency is not enough)
- Forum can pose questions/pass judgement
- Actor may face consequences (possibly sanctions)

*Mark Bovens. 2007. "Analysing and Assessing Accountability: A Conceptual Framework," *European Law Journal* 13 (4)+ 447-468

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Accountability Questions

- To whom must the account be given? Which forum or actor receives it? [minister, the public, courts, auditors, professional peers?]
- Who should give the account?
- What should the account be about: Finances? Programs? Procedures?
- What are the ultimate goals: Popular control? Enhance effectiveness? Control power abuse?

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PreK-12 Education System and the Province

- The relationship between the Government of Saskatchewan, Ministry/minister of Education and Saskatchewan's preK-12 education system is defined through a number of mechanisms:
 - Legislation
 - Ministry/Minister Mandate letters
 - Annual Accountability/Budget Documents
 - Saskatchewan Plan for Growth

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The Education Act

- Gives school boards their authority
- Together with regulations made pursuant to the Act, provides a framework for K-12 education in Saskatchewan
- Describes the authority/obligations of:
 - Minister of Education
 - School Boards
 - Conseil scolaire francophone

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The Education Act, cont'd

- Sets out the duties of senior administrators, principals and teachers
- Describes processes that occur within the education system such as:
 - Organization and management of schools
 - School closure
 - Hiring and termination of teachers
 - School Finance
 - Collective bargaining with teachers

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The Education Act, cont'd

- Defines the students whom the education system serves
 - States that every person who has attained the age of 6 years, but has not attained the age of 22 years, has the right to a public education
- Defines the responsibilities, duties and powers of school boards

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The Education Act cont'd

- Duties are obligations the board must fulfill, which are identified by the phrase "a board of education shall" (refer to section 85, and other duties implied throughout the Act)
- Duties include:
 - To hire and direct the director of education
 - To approve the budget
 - To approve the program of studies
 - To determine the facility plans; and
 - To appoint qualified teachers

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The Education Act, Cont'd

- Confers powers on school boards to enable them to fulfill their duties, which are identified by the phrase “aboard of education may” (refer to section 87)
- Powers include:
 - Employing ancillary staff
 - Entering into agreements with other school boards, the conseil scolaire, or First Nations
 - Providing scholarships and bursaries
 - Acquiring vehicles for student transportation

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Let's Talk ...



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Resources for further reading

- www.browngovernance.com
- <http://www.schoolofpublicpolicy.sk.ca/>
- <http://www.cica.ca/focus-on-practice-areas/governance-strategy-and-risk/directors-series/director-briefings/item66262.pdf>

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