

Chapter 9

Governance

New Brunswick Liquor Corporation

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Governance New Brunswick Liquor Corporation

Background

9.1 Under the New Brunswick Liquor Corporation Act,

The purposes of the Corporation are to carry on the general business of manufacturing, buying, importing and selling liquor of every kind and description.

9.2 The New Brunswick Liquor Corporation (NBLC) is a highly profitable Crown agency that has improved customer service markedly over the past few years with such changes as more locations, longer hours, acceptance of debit and credit cards, Sunday openings, specialty products and festivals. NBLC still has a monopoly over liquor sales in the Province. However, its business environment has changed. Recently, NBLC has been addressing such issues as the Year 2000 problem, meeting market demands, the introduction of agency stores which now account for twenty percent of corporate revenue, and improving the quality and timeliness of information through the installation of new point of sale terminals.

9.3 In 1996 we conducted a preliminary review of the governance structures and processes at a number of New Brunswick Crown agencies, including the New Brunswick Liquor Corporation. At that time, we indicated that we intended to do more detailed reviews of governance at certain of those Crown agencies in the future. We feel that all boards, even the boards of corporations that appear to be performing well, can improve the effectiveness of the governance they provide and accountability processes they promote. In 1998-99, we continued our review of corporate governance and accountability by looking at the New Brunswick Liquor Corporation.

9.4 The Conference Board of Canada, in a report dated January 1999, stated that *“Empirical data demonstrate clearly that corporate governance affects the performance of companies.”*

9.5 Governance is defined as the process and structure used to direct the business and affairs of a corporation with the objective of achieving

the corporate mission. The process and structure define the division of power between the board and management. They also establish mechanisms for achieving accountability between management, the board of directors, and the Legislative Assembly.

9.6 CCAF/FCVI Inc. (formerly the Canadian Comprehensive Auditing Foundation) has developed a list of the characteristics of effective boards. If a board truly exemplifies these characteristics, it will be providing effective governance and accountability. According to CCAF/FCVI, effective boards:

- are comprised of people with the necessary knowledge, ability and commitment to fulfil their responsibilities;
- understand their purposes and whose interests they represent;
- understand the objectives and strategies of the organization they govern;
- understand what constitutes reasonable information for good governance and obtain it;
- once informed, are prepared to act to ensure that the organization's objectives are met and that performance is satisfactory; and
- fulfil their accountability obligations to those whose interests they represent by reporting on their organization's performance.

9.7 We feel an effective board, as defined above, is in the best position to contribute to the success of its corporation. A board can demonstrate its effectiveness by making informed decisions that take all pertinent factors into account, thereby promoting appropriate corporate activities, and by appropriately discharging their accountability obligations.

9.8 We believe that promoting accountability is the most important part of our work. We also believe that appropriate accountability processes cannot be established in Crown agencies unless effective governance structures and processes are in place and functioning. Effective boards will strive to promote corporate activities that they feel will best contribute to the achievement of the corporate mandate. Effective boards will also assess and report on the effectiveness of those activities to those to whom they are accountable. This is important to the Legislative Assembly and the public because those boards will be providing the enhanced accountability information needed to determine the degree to which the corporation has accomplished what it was set up to do.

Scope

9.9 Our objective for this project was as follows.

To conduct an in-depth review of the governance and accountability structures in place at the New Brunswick

Liquor Corporation and to offer recommendations for improvement where appropriate.

9.10 Our work included sending governance surveys to the six members who were on the Board when our review commenced, including the CEO. We also held extensive interviews with all six of the Board members. Additionally, we had a brief general discussion with the new Board chair who was appointed after our review had already commenced. We held discussions with a representative of the Department of Finance. We also reviewed the Board minutes for the period from April 1997 to October 1998, the 31 March 1998 Annual Report of the corporation and other documentation as provided by corporate management. Finally, we reviewed some general governance and accountability literature in preparing this report.

Results in Brief

9.11 The Board provides no guidance to the Lieutenant-Governor in Council regarding the skills or qualities it would recommend that new Board members possess.

9.12 There is a good mix of skill sets represented on the current Board of NBLC.

9.13 A Board position description has not been prepared documenting the roles, responsibilities and accountabilities of the Board. We feel that such a description should be prepared.

9.14 Current NBLC Board members generally seemed to be unfamiliar with recent publications on the topic of governance. We feel that the Board members should familiarize themselves with at least some of this material.

9.15 The corporation has a current strategic plan covering the period from 1998-99 to 2001-2002. It includes a mission statement, but does not identify corporate strategic objectives, performance indicators, or a plan for how those performance indicators are to be measured, evaluated, and reported.

9.16 Information the Board currently receives from management does not seem to be sufficient to enable the Board to fulfil all the roles and responsibilities we would expect them to assume, particularly in the areas of monitoring the achievement of corporate plans, and compliance with corporate policies.

9.17 The Board does not appear to be reviewing Internal Audit reports to determine if systems and controls are sufficient to ensure that corporate assets are safeguarded.

9.18 The Board does not select the corporate CEO, despite the fact that the Act gives it the power to do so. Instead, in practice, the

corporate CEO has been selected by the Lieutenant-Governor in Council.

9.19 The Board does not formally assess the performance of the CEO.

9.20 The Board has no involvement in the preparation of the NBLC Annual Report. We feel that it should be considered as the principal vehicle through which the Board discharges its accountability obligation to the Minister of Finance. Therefore, the Board should review and approve it before it is published.

9.21 The annual report of the New Brunswick Liquor Corporation does not comply fully with the Province's annual report policy.

9.22 The NBLC Board chair does not appear annually before the Crown Corporations Committee.

Detailed Findings

9.23 In our 1996 general study of Board governance among New Brunswick Crown corporations, we developed six criteria for use in evaluating the effectiveness of governance for public sector boards. The findings we present in this chapter are divided up by those criteria.

9.24 We observed during our review that the Board of NBLC seems to function mainly as a scrutinizer of management decisions and reports. The suggestions and recommendations that follow would require the Board to make a fundamental shift in the way it sees itself. This is not intended to be a criticism of the way the Board currently operates. It functions in much the same way that other boards do. It is our belief however that the Board could build on the strengths its individual members bring to the table by adopting some new approaches to governance. By adopting these new approaches now, the current Board would be providing valuable guidance to future Boards.

Board Composition

9.25 The first of our governance evaluation criteria is as follows:

The board of the New Brunswick Liquor Corporation should be comprised of people with the necessary knowledge, ability, commitment, and level of independence to fulfil their responsibilities.

Appointment of Board members

9.26 Board members believed that appointments to the NBLC Board are based on skill sets, regional representation and linguistic ability. When asked why they felt they were appointed they gave a number of reasons including their general business knowledge, their knowledge of their own local area, and their knowledge of government. Appointees are selected by the Lieutenant-Governor in Council. The CEO commented that he feels the quality of Board members during his ten years as CEO has been quite high.

Board's involvement in the appointment process for new Board members

9.27 Board members are appointed for varying terms of two, three or four years. We were told that the terms are staggered to ensure Board continuity. Among the current Board members, one was first appointed in 1989, another in 1990 and three more in 1997. The current chair was appointed in November of 1998.

9.28 We feel that a Board that is interested in being as effective as possible must start by doing what it can to ensure that appropriate people are appointed. The Board should be in the best position to know the skill sets and other attributes that are required of NBLC Board members. We therefore feel that it would be worthwhile for the Board of NBLC to provide decision-makers with some guidance for their reference when appointing new Board members and the chair.

9.29 NBLC Board members have strong opinions on the skills and aptitudes required of effective NBLC Board members. Board members who responded to our survey felt that general business knowledge was the most important attribute that an NBLC Board member could possess. They also believed that professional expertise, knowledge of government, related industry experience, and prior board experience were all of some importance.

9.30 Survey respondents also indicated their belief that there is a good mix of skill sets on the current Board. They specifically noted the mix of experience and knowledge, length of service, skills and abilities, and demographic and geographic representation provided by the current Board. We would encourage Board members to share these opinions with decision-makers. Members stated that the Board currently has no involvement in the selection of new Board members or the chair. The CEO stated that the current Board has the best mix of skill sets of any Board during his tenure. We would agree that there is a good mix of skills on the Board. We note the presence of Board members with legal, accounting, and general business backgrounds. We feel the mix of skill sets on the Board is a significant improvement over what existed during our general governance review in 1996. The Board should attempt to ensure that future Boards bring strong skills and abilities to the table by providing their input to the appointment process. One effective way of doing this would be through the preparation and regular updating of a Board member profile which could be provided to decision-makers when new Board members are being chosen.

Recommendation

9.31 We recommended that the Board prepare Board member and chair profiles and provide them to decision-makers when Board vacancies are to be filled.

Board response

9.32 *Agreed. The Board will review the sample profile....and will prepare a similar document for future reference.*

Independence of Board members

9.33 The Act screens out potential Board members with involvement in liquor-related organizations. Additionally, Board members sign a “*Declaration of Interest by Director*” form when they join the Board. There is also an informal requirement for Board members to excuse themselves from the Board table if a matter comes up for discussion in which they have an interest. A “*Standards of Conduct*” policy does exist at NBLC but it applies only to management and staff. We feel that it would be appropriate to extend that policy to include Board members.

9.34 We note that under the Act the CEO of NBLC is a full voting, ex-officio member of the Board. This means that the head of the management team is able to vote on matters taken to the Board for its approval. While we acknowledge that the CEO has only one vote on a Board of seven members, the situation does tend to blur the respective roles of the Board and management. We believe that the ability of the Board to function independently of management would be enhanced if the CEO did not have voting rights.

9.35 In the words of John Carver, author of the Book “Boards that Make a Difference”:

The chief executive must be able to rely on the board to confront and resolve issues of governance while respectfully staying out of management. The board must be able to rely on the chief executive to confront and resolve issues of management while respectfully staying out of governance.

Recommendations

9.36 We recommended that the existing corporate *Standards of Conduct Policy* be extended to cover Board members.

9.37 We recommended that consideration be given to having the CEO continue as an ex-officio member of the Board, but on a non-voting basis. This could be done by a change in legislation.

Board response

9.38 *The Board concurs that the “Standards of Conduct” Policy can be expanded to cover Board Members and will take the appropriate action in this regard.*

9.39 *The Board does not, however, agree that there is a need to make the CEO a non-voting member. ...*

9.40 *An ex-officio Board member has the same responsibilities and liabilities as other members of the Board under the NBLC Act and the NB Companies Act. Consequently, an ex-officio member does, and should have full voting rights which was the intent of the legislation. ...*

Commitment of Board members

9.41 We noted from a review of Board minutes that attendance at Board meetings is very good. In fact, members rarely miss meetings. This level of commitment is very important for the NBLC Board in that the corporate bylaws specify that five of the seven voting members must

be present for a quorum to exist. Survey respondents indicated that ten to twelve Board meetings should be held each year. The Board of NBLC currently meets on a monthly basis, i.e. twelve times per year. The majority of survey respondents also felt that Board members need to spend on average ten or less hours per month in fulfilling their duties.

Board self-assessments of performance

9.42 Board members indicated in interviews that the Board does not “self-assess” their own performance or the performance of individual Board members. The CEO indicated that he does not involve himself in assessing the performance of the Board of Directors either because “they are my boss.” However, if necessary he would discuss Board performance problems with the chair that impacted negatively on the performance of the corporation.

9.43 Board members provided some general information on the performance of the Board in their responses to the survey. They rated the overall effectiveness of the governance provided by the Board as “very good.” They also agreed that:

- the Board acts immediately when presented with clear evidence of a problem;
- the Board does not involve itself in the day-to-day management decisions of the Corporation;
- decision-making is not compromised because some Board members represent special interests;
- Board members understand the organization well enough to participate in effective decision-making;
- the Board does not act as a “rubber stamp” for conclusions reached by management;
- the Board works well together as a team;
- the Board works to resolve conflicting positions;
- Board members have sufficient opportunity to express their views at Board meetings;
- Board members appear to devote sufficient time to Board meetings; and
- attendance at Board meetings is not a problem.

9.44 We feel that it would be very useful for the New Brunswick Liquor Corporation Board to conduct an annual self-assessment of its performance to ensure it is being as effective as possible. Such a self-assessment would provide an excellent opportunity for Board members to identify how they might improve their contribution to the success of NBLC. Annual performance assessments of the Boards’ individual members would also be desirable. These would likely be

conducted by the Board chair. Adopting such a policy now would also be beneficial to future, less experienced Boards of NBLC.

Recommendation

9.45 We recommended that the Board conduct formal annual self-assessments of its performance.

Board response

9.46 *The Board does not agree that such formal self-assessments are necessary nor appropriate. If at any time anomalies are noted, the Chair addresses the individual Board member(s) directly. Our performance evaluation is the year-end operational results. The out-put is the only meaningful Board self-assessment criteria and our successful yearly record speaks for itself.*

Board Roles and Responsibilities

9.47 Our second governance evaluation criterion is as follows:

The Board of the New Brunswick Liquor Corporation should have a clear understanding of their roles, responsibilities, and duties, and the accountability structure within which they operate.

Enabling Legislation

9.48 The New Brunswick Liquor Corporation Act defines the role of the NBLC Board as follows:

The Board shall administer the affairs of the Corporation on a commercial basis and all decisions and actions of the Board are to be based on sound business practices.

9.49 Specific Board responsibilities identified in the Act include:

The Board, subject to the approval of the Lieutenant-Governor in Council, shall appoint a General Manager of the Corporation.

The Board shall, before the thirty-first day of December in each year, prepare and submit to Board of Management a budget containing estimates of the amounts required for working capital and for capital expenditures required during the next year for the purposes of the Corporation and forecasting the estimated net profit of the Corporation for the next year.

The Board shall submit to the Minister of Finance, at such times as he may prescribe, reports setting out the net profit and net profit forecasts of the Corporation and such reports shall contain such information as he may prescribe.

9.50 There is no other specific direction provided to the Board of NBLC as to their roles and responsibilities.

Bylaws

9.51 The Act states:

Subject to this Act, the Board may make by-laws for the management of the property, effects, affairs and business of the Corporation or relating to any other thing that may be necessary for carrying out the purposes of the Corporation and for the exercise of any other powers of the Corporation incidental thereto.

9.52 The Board of NBLC has created corporate bylaws. Like the Act, the bylaws are very general in describing the roles and responsibilities of the Board. They simply repeat what is documented in the Act, namely:

The Board shall administer the affairs of the Corporation on a commercial basis and all decisions and actions of the Board are to be based on sound business practices.

Board members' roles and responsibilities

9.53 NBLC board members' comments indicated that there is some disagreement as to whether the board should see itself as a governing board, or simply as an administrative manager.

9.54 All survey respondents felt that "*setting strategic direction and goals*" and "*setting significant policies by which the Corporation operates*" are very important areas of responsibility for the Board. A majority of respondents also felt that "*ensuring that the Corporation has adequate resources*", "*making all critical business decisions*", "*ensuring effective management information systems are in place*", "*bringing an external viewpoint to the Corporation's attention*" and "*ensuring accountability obligations are discharged*", are very important.

9.55 The CEO felt that the major roles of the Board included "*giving guidance on where to go*", "*debating and discussing issues brought forward*", and approving policies, operating plans, and strategic plans.

9.56 We also looked at some Board minutes to determine what items are included on typical Board agendas. The following is a list of areas included:

- review of monthly financial statements;
- review of other regular reports (on a quarterly basis);
- approval of tenders for suppliers of capital or operating items;
- approval of new agency stores;
- approval of lease arrangements for NBLC stores;
- approval of policy/bylaw changes as initiated by management (e.g. adjustment of mark-up list, beer listing policy);
- discussion of sale of NBLC properties which are no longer needed; and
- divisional managers presentations - education.

9.57 The comments from Board members indicate that the Board, as a whole, feels that its roles and responsibilities involve a mix of governing and administrative management areas. Our review of the Board minutes seems to confirm this opinion. However, we noted that there seems to be some variance in the views of individual Board members as to what the Board should involve itself in. This is not surprising given that the Act and by-laws are very general in describing the roles and responsibilities of the Board. A fair degree of interpretation is required by Board members.

9.58 We feel that it is very important that NBLC Board members, now and in the future, have a common understanding of the roles and responsibilities of their Board. The most effective way of ensuring this common understanding exists is for the Board to document its roles and responsibilities in a Board position description and refer to it often. Such a document would help keep the Board focused on their own roles and responsibilities. It would be a useful reference source for current Board members, and also an excellent orientation document for new members joining the Board. Also, by specifying Board roles and responsibilities, the roles and responsibilities of management are also clarified. By default anything not on the position description of the Board becomes the responsibility of management.

Recommendation

9.59 We recommended that the Board carefully consider its roles and responsibilities and document a Board position description that clearly summarizes them.

Board response

9.60 *Although the Board feels very comfortable with its roles and responsibilities, we will proceed with an orientation document on those roles and responsibilities.*

Board accountability

9.61 There are two questions relating to NBLC Board accountability that need to be answered. Very basically they are, “*accountable for what?*” and “*accountable to whom?*” A related question is “*how is the board’s accountability obligation discharged?*”

9.62 Accountability can be defined as the obligation to answer for authority and responsibility that has been conferred. We feel that as a governing board, the Board of NBLC is accountable for all activity at NBLC. In other words, the NBLC Board is accountable for the overall performance of the corporation. Much of the responsibility for achieving an acceptable performance level has been delegated to the CEO, who in turn has delegated responsibility to his staff. However, accountability for performance rests with the Board rather than the Minister of Finance or the staff of NBLC.

9.63 Board members, except for the CEO, are appointed by the Lieutenant-Governor in Council. The CEO is a member by virtue of his position under the Act. However, we do not feel that the Board should

consider itself accountable to the Lieutenant-Governor in Council (in effect the Cabinet). Accountability must flow upwards, finally reaching the Legislative Assembly. Since the Cabinet is protected by its right to secrecy, there can be no flow of accountability information from Cabinet to the Legislative Assembly. In order to circumvent this barrier, direct accountability to the Legislative Assembly for NBLC has been assigned to a representative of the Cabinet, the Minister of Finance. The Minister of Finance must answer questions in the Legislative Assembly relating to NBLC. Therefore, we feel the Board of NBLC should consider itself to be accountable to the Minister of Finance and should report to him in discharging its accountability obligation. The majority of Board members agreed that the Board is accountable to the Minister of Finance. However, this accountability flow is not established in the Act or elsewhere and should be clarified.

9.64 The NBLC Act requires the Board to submit annual budget figures for net profit and capital expenditures. It also requires the Board to provide net profit reports as required by the Minister of Finance. Otherwise, the Act gives no specific guidance to Board members as to how they are to discharge their accountability obligation to the Minister of Finance. In normal circumstances, boards discharge their accountability obligations by reporting actual performance against planned performance and explaining any variances. As we will discuss later in this chapter, formal mechanisms have been set up in government to ensure that accountability obligations are properly discharged through the annual reporting process.

9.65 As is the case with board roles and responsibilities, we feel that accountability issues should be clarified and final positions should be documented by the Board for future reference. Such documentation could be combined with the roles and responsibilities document discussed in the previous section.

Recommendations

9.66 We recommended that it be clearly established what the Board of NBLC is accountable for, to whom they are accountable, and how that accountability obligation is to be discharged. This would be most appropriately done through legislation.

9.67 We recommended that the Board include in their roles and responsibilities document, a description of what they are accountable for, to whom they are accountable, and how that accountability obligation is to be discharged.

Board response

9.68 *Disagree. The NBLC Act provides appropriate direction and guidance in this regard. Sections 3, 4, 5, and 6 of the Act establish the basic responsibilities of the Board while sections 8, 18(1), and 20 define accountability requirements.*

**Board Members’
Knowledge of the Business
Environment**

9.69 Our third governance evaluation criterion is as follows:

The board of the New Brunswick Liquor Corporation should develop and maintain sufficient expertise relative to the corporation including a working knowledge of the environment in which the agency operates and the needs of its customers.

9.70 We feel that knowledgeable Board members are the most effective Board members. Individuals who are appointed to a board normally have business or professional experience along with a wide range of other experiences that they can draw on in their deliberations at the board table. What they often do not have is specific industry or governing experience. It is towards these two areas that we feel the majority of orientation and development opportunities for board members should be directed.

***Orientation sessions for new
Board members***

9.71 All Board members indicated that they received orientation sessions when they joined the Board of NBLC. Directors stated that they found the orientation sessions to be useful. Those who responded to the survey indicated that topics covered included the following:

- the relationship of the corporation to the Department of Finance;
- their personal conduct as directors;
- their roles and responsibilities as directors;
- presentations on various aspects of the business operations of the corporation;
- information on how the Board is structured and how it operates; and
- government policies and practices impacting on the corporation.

9.72 We would encourage those setting up future orientation sessions to include the following topics as well:

- the accountability structure within which the Board operates; and
- information on strategic plans adopted by the Board.

***Developmental opportunities
for Board members***

9.73 We noted, during our interviews, that Board members seemed to have a good knowledge of the business environment at NBLC. They indicated that they are given informational presentations during Board meetings. These presentations, which are given on a rotating basis every few years as new members come on the Board, relate to individual sections within the corporation. Board members indicated they felt developmental opportunities provided sufficient information to allow them to be effective in their roles as Board members. We agree that there are significant developmental opportunities for Board members with regard to knowledge of NBLC and its business environment.

Knowledge of General Governance Issues

9.74 In the survey we asked Board members if they were familiar with certain governance-related publications. Some of the most important of those publications included the following:

- *“The Six Characteristics of Effective Governance”*, as developed by the CCAF/FCVI Inc. and noted in the background section of this chapter. It is a very good general reference for boards of directors.
- The Toronto Stock Exchange (TSE) publication – *“Guidelines for Improved Corporate Governance in Canada.”* Even though it is directed towards the private sector, major sections of the TSE report are applicable to the public sector as well and may be particularly applicable to a business enterprise like NBLC.
- The book *“Boards that Make a Difference”* by John Carver. It provides a valuable theoretical discussion of modern public-sector governance.

9.75 Publications by the Canadian Institute of Chartered Accountants and the Conference Board of Canada on the topic also provide useful reference material.

9.76 Survey respondents had a limited or no knowledge of these governance publications. We believe that they represent a good cross-section of material covering modern governance practices aimed at enhancing the effectiveness of boards of directors. We therefore feel that the Board of NBLC should familiarize itself with these publications.

Recommendation

9.77 We recommended that Board members of NBLC familiarize themselves with at least some of the governance publications referred to above. This could be achieved by providing group presentations to the Board, or through individual review of these publications.

Board response

9.78 *Agreed. The Board will follow up accordingly.*

Circulation of Board meeting materials

9.79 We feel that all material to be presented or discussed at Board meetings should be circulated to Board members sufficiently in advance of meetings to allow for review and reflection. Board members noted that information is received on a timely basis, allowing them adequate time for review prior to Board meetings.

Board’s Involvement in Strategic and Policy Issues

9.80 Our fourth governance evaluation criterion is as follows:
The Board of the New Brunswick Liquor Corporation should provide strategic direction to the corporation, along with a framework of corporate values and ethics within which management may operate.

Strategic and operational planning at NBLC

9.81 There are two planning documents prepared by the management of NBLC, the strategic plan and the master operating plan. Both are discussed in the sections that follow.

Strategic plan

9.82 We feel that as a governing Board, one of the key roles of the Board of NBLC is to provide strategic direction to management. The Conference Board of Canada, in their January 1999 newsletter, stated “Companies with boards that assume more strategic responsibilities are often leaders of their industries (by profit growth and revenues).” One important way in which they can do this is by challenging and approving the strategic plans of management.

9.83 Strategic planning can be defined as a continuous and systematic process in which corporate leaders focus on the broad policy questions facing an organization such as the corporation’s basic mission and purposes, along with alternative courses of action or strategies to achieve those missions and purposes. Strategic planning is ongoing. It does not end with the publication of a plan. Rather, its success depends on it being a never-ending cycle. We feel that every strategic plan should contain the following components:

- a mission statement;
- a list of strategic objectives;
- a list of related performance indicators; and
- a plan for how strategic objectives are to be achieved, evaluated and reported.

9.84 The current NBLC strategic plan covers the period from 1998-99 to 2001-2002. It was prepared by management and approved by the Board. We noted that the current NBLC strategic plan lacks some of the basic components that we feel are important. Our comments follow.

Mission statement

9.85 A corporate mission statement normally summarizes the reason for the existence of an organization. For NBLC, this would essentially mean that the mission statement should be a translation of the corporate mandate outlined in the New Brunswick Liquor Corporation Act. All respondents to the survey agreed that the purpose of the corporation has been translated into a clear mission statement. The current mission statement of NBLC (called a statement of principles in the strategic plan) reads as follows:

Our mandate is to manufacture, buy, import and sell liquor of every kind and description.

Our objective is to do so by providing high quality service and product selection to the public.

Our obligation is to operate in a controlled environment with appropriate social responsibility guidelines at the forefront.

Our accountability is to function efficiently and effectively to optimize financial returns to the Province of New Brunswick.

9.86 While it does define the purpose of NBLC, the current mission statement also appears to include a description of certain strategic objectives of the corporation as discussed below. We feel that it could be improved by being shortened and made more concise. During one of our interviews, one Board member defined the mission of NBLC this way:

To produce a profit for PNB and at the same time to give product to the public at a reasonable price and keep control on it.

9.87 In our opinion, a statement of this sort defines why NBLC exists in a much more concise manner. We feel the Board, in conjunction with management, should attempt to clarify the mission statement of NBLC. This may seem like an unimportant exercise, but a clear mission statement provides an overriding goal for all members of the corporation to strive towards. Also, without a clear mission statement, the identification of appropriate corporate strategic objectives becomes more difficult.

Strategic objectives

9.88 The body of the current strategic plan discusses ongoing and completed initiatives. As such, we do not feel it is as forward-looking a document as we would expect. A major weakness of the plan is that it does not identify corporate strategic objectives that would serve to focus the efforts of the corporation. We would define strategic objectives as written statements that describe an intended outcome. They clearly describe measurable targets that, if achieved, mean that the corporate mandate has also been achieved.

9.89 During our review, we attempted to identify the implied strategic objectives of NBLC. We derived these from the responses of Board members to our interview questions and surveys, and from our review of the strategic plan, master operating plan, and other corporate documents. The two most important would appear to be the following:

- to return maximum profit to the Province; and
- to achieve an optimal level of customer satisfaction with NBLC service (e.g. access to service, product selection, pricing).

9.90 Three other strategic objectives, of somewhat lesser importance, could be added to the list. They include:

- to comply with appropriate social responsibility guidelines;
- to develop and train staff and provide them with a challenging work environment; and

- to ensure that systems in place support the strategic objectives, and that any planned system enhancements will improve the level of achievement of one or more of the previous four strategic objectives.

9.91 These are solely based upon information we gathered during our review and could no doubt be improved upon by corporate leaders (i.e. the Board and senior management). By developing appropriate corporate strategic objectives, corporate leaders can have a big impact on the success of the corporation. If the corporate strategic objectives they identify are properly defined and complete, their achievement on a continuous basis should mean the legislative mandate of NBLC has also been achieved.

9.92 The CEO and, by extension, the Board, also have an important role in ensuring that strategic objectives are clearly understood by all staff. This is critical because all corporate activity should be assessed in terms of whether or not it contributes to the achievement of corporate strategic objectives.

9.93 We did note that all planned activity in the existing strategic and master operating plans seemed to be related to the achievement of one or more of the strategic objectives on our list. This indicates to us that these objectives are implicitly understood by corporate leaders. But we also feel they should be documented as part of the corporate strategic plan.

Performance indicators

9.94 The strategic plan should also define how success in achieving strategic objectives is to be defined, measured, evaluated, and reported. One or more performance indicators should be developed for each strategic objective. A performance indicator is a yardstick, or standard, used to measure success in achieving a strategic objective. Defining performance indicators is an area where we feel the Board members' general business expertise would prove very useful. For example, we note that to date there have been a number of initiatives at NBLC that have greatly enhanced the level of customer service. However, no attempt has been made to identify what the optimal level of customer service might be in terms of access, product selection, pricing, etc. As an example, performance indicators for the strategic objective "*To achieve an optimal level of customer satisfaction with NBLC service*" might be built around the responses to specific questions on customer surveys.

Plan for measuring, evaluating, and reporting performance indicators

9.95 The strategic plan should then go on to identify a plan for how performance indicators are to be measured, evaluated, and reported. To continue with the above example, one measurement might involve the results of province-wide tabulations of customer satisfaction with product selection. The evaluation plan might be to compare actual results with an annual target and explain any positive or negative variances. And the strategic plan would normally require the reporting

of results through the corporate annual report for all significant indicators.

Recommendations

9.96 The Board should promote a strategic planning process that:

- **develops a clear and concise mission statement;**
- **develops an explicit list of strategic objectives for the corporation;**
- **develops performance indicators for each of the strategic objectives; and**
- **develops a plan for how performance indicators are to be measured, evaluated, and reported.**

9.97 Performance results should be reported through the corporate annual report.

Board response

9.98 *Disagree. The Board is comfortable with the current mission statement and the strategic planning process. Note that the strategic plan is a long term guideline. The strategic objectives are clearly identified in the annual operating plan. Performance indicators are incorporated into the budget itself, and interim financial reviews, together with the Annual Report, provide adequate and appropriate measurements of performance.*

Master operating plan

9.99 The NBLC master operating plan is prepared annually by management. It documents corporate plans and initiatives for the year. The Board reviews and approves this plan. Respondents to the survey felt that the activities documented in the master operating plan are closely linked to the corporate strategic plan. Based upon our review, the 1998-99 plan seems to address all of the strategic objectives on our list to some degree. It specifically identifies plans for agency stores, future space requirements, major store renovations, etc. As would be expected, the focus is on financial results and customer service.

9.100 We note that annual performance targets are not set in the master operating plan. It would be necessary to set performance targets for each performance indicator if a strategic plan as discussed previously was in place.

Recommendation

9.101 The master operating plan should identify annual performance targets for each performance indicator identified in the corporate strategic plan.

Board response

9.102 *Annual performance targets are established within the operating budget and are clearly identified and reported in our Annual Report.*

**Governance Information
Used by the Board**

9.103 Our fifth governance evaluation criterion is as follows:

The Board of the New Brunswick Liquor Corporation should monitor the performance of the corporation by obtaining

appropriate governance information from management. The Board should take corrective action where warranted.

9.104 The Act provides no direction related to this criterion. Corporate by-laws state:

The President shall carry out all lawful directions given to him by the Board and shall give to the directors or any of them at all reasonable times information they require regarding the affairs of the Corporation....

Information provided by management

9.105 We asked Board members some general questions about information they receive from management. Board members indicated that they felt the quantity of information and level of detail provided in management reports to the Board was appropriate. They agree that the Board is presented with sufficient, relevant information to make informed decisions.

9.106 They also indicated that management provides them with information on demand.

9.107 Board members further indicated that management information currently provided to the Board:

- allows the Board to safeguard the corporation's assets;
- allows the Board to monitor performance against plans;
- is received in a timely manner for effective decision-making; and
- sufficiently describes significant issues, changes or problems which affect the corporation.

9.108 In general, the Board should ensure that sufficient, appropriate, and timely information is reported by management to allow them to fulfill their roles and responsibilities. Specifically we feel the Board needs information:

- to monitor degree of achievement of strategic objectives, thereby determining the relative success of the corporation;
- to monitor management success in achieving the master operating plan;
- to monitor management compliance with corporate policies;
- to ensure assets of the corporation are safeguarded (i.e. not subject to undue risk);
- as support for required authorization of management decision-making; and
- for informational purposes to maintain an understanding of the current corporate environment.

9.109 In the paragraphs that follow, we will consider each of the listed areas.

Reporting on the success of the Corporation

9.110 We asked Board members how they determine whether the corporation is successful (i.e. whether corporate strategic objectives are being achieved). Board members all agreed that the bottom line is the primary indicator. Financial reports comparing actual results with budget are provided to Board members on a monthly basis for their review. Board members also noted that they consider complaints or calls from the public to be a negative indicator related to customer service. However, we are unaware of regular reporting to the Board that summarizes customer complaints or provides information related to other strategic objectives. We feel that a periodic “report card” on the degree of achievement of non-financial corporate strategic objectives would be very useful to the Board. It would allow them to identify problem areas for possible action and to make an overall evaluation of the success of the corporation.

Reporting on management success in achieving the master operating plan

9.111 We found no one report that would allow Board members to assess the degree of achievement of the annual master operating plan. Board members seem to focus on the achievement of financial plans. These are covered quite well by monthly financial reporting. We were told that various aspects of the master operating plan are discussed at Board meetings in order to obtain necessary Board approval or in response to Board members’ questions. Otherwise Board members are required to draw conclusions about activity indirectly from other reporting such as the quarterly capital expenditures reports. We feel that the Board could be more efficient and effective in monitoring achievement of the master operating plan if it received a comprehensive, periodic (e.g. quarterly) progress report. In fact, management does a periodic review of the master operating plan for its own use in determining progress in achieving annual goals. So, the information is available. It is just not being presented to the Board as a single, user-friendly document.

Reporting on management compliance with corporate policies

9.112 On a quarterly basis, the Board of NBLC is provided with a report detailing corporate compliance with statutory obligations under the NBLC Act and other legislation. However, we saw no evidence of any management reporting to the Board with regard to compliance with corporate policies as approved by the Board. Some Board members indicated that they rely on management to inform them if a situation of non-compliance has arisen. We are not aware of any such situations, but feel that it is the Board’s responsibility to ensure that corporate policy is complied with. We feel that the Board should occasionally require management to provide information that confirms their compliance with corporate policy. The Internal Audit Group could be useful in providing such reporting, as discussed below.

Reporting on the safeguarding of corporate assets

9.113 The external auditors do provide some limited assurance to the Board with relation to corporate control systems, mainly in the financial area. However, we saw no evidence of management reporting to the Board in relation to the adequacy of other control systems. We feel that protecting corporate assets from undue risk is a key responsibility of the Board. In many corporations, the Board discharges this responsibility by reviewing reports prepared by the Internal Audit Group and following up on significant issues raised to ensure that they have been dealt with. Our understanding is that the Board of NBLC is able to ask the Internal Audit Group to undertake special audits in areas of concern to them.

9.114 NBLC has an Internal Audit Group of five people (mainly professional accountants). The Internal Audit Group does monitoring of agencies and stores including cash audits, inventory audits, and “full” audits (which include cash, inventory and financial statement audit work). They also audit agency stores for compliance with agreements and do special audits within head office. All audit findings go to a management audit committee composed of the CEO, Executive Vice-President, and the Comptroller. Our understanding is that a summary of these findings is also provided to the chair of the Board. However, in our review of Board minutes we were unable to find any indication that such reports were discussed at the Board level or that there is any direct communication between the Board and the Internal Audit Group. Also, at least one Board member was unaware of the existence of the Internal Audit Group.

Information supporting management recommendations/ information that allows the Board to maintain an understanding of the current corporate environment

9.115 Board members indicated that they are provided with sufficient reference information when they are called on by management to authorize a management recommendation. They also appear to be provided with sufficient information to allow them to keep abreast of the current business environment at NBLC.

9.116 From the discussion in the previous paragraphs, we feel that there are some areas where management information to the Board is lacking. It is the Board’s responsibility to ask for this information. Our understanding is that management is very compliant in terms of providing requested information to the Board. In fact, the CEO indicated that his policy is to make the Board aware of everything that is going on. To that end he communicates with the Board chair on a weekly basis, briefing him on the results of monthly senior management meetings and weekly Executive Management Committee meetings. Our concern is that a future CEO may not be as forthcoming with information and without some commitment to a policy of regular and comprehensive sharing of information, Board effectiveness could be adversely affected.

9.117 It is the Board’s responsibility to be proactive in determining its information needs and obtaining them from management.

Recommendations

9.118 We recommended that the Board reconsider its informational needs in light of the information presented in this section and other sections of this chapter. It appears that additional or repackaged information would be appropriate to aid the Board in assessing management progress in achieving plans, in ensuring that corporate assets are not subject to undue risk, and in ensuring that corporate policies are complied with. Additional information needed should be requested of management.

9.119 We also recommended that, as a minimum, summary level Internal Audit Group reports be provided regularly to all Board members for their review.

Board response

9.120 *The Board continues to be satisfied with the overall information flow and content from management. To date, all supplementary information requests have been fulfilled. With respect to Internal Audit Group report summaries, the Board will be receiving these on a regular basis in the future.*

Relationship between Board and CEO

9.121 The CEO has a close relationship with the Board of Directors of NBLC. He is an ex-officio member of the Board, and is the key management link with the Board. By-laws specify that *“The President shall report to the Board of Directors.”*

9.122 Regarding the appointment of the CEO, the Act states in Section 9(1) that *“The Board, subject to the approval of the Lieutenant-Governor in Council, shall appoint a General Manager of the Corporation..... The General Manager shall not be suspended, dismissed, terminated or otherwise removed from office by the Board without the approval of the Lieutenant-Governor in Council.”*

9.123 In practice, however, the CEO is selected by the Lieutenant-Governor in Council (LGIC) alone, which was not as we would have expected. The Board has no input into the CEO’s appointment. The Board only approves any salary increases.

9.124 The NBLC Act seems to specify quite clearly that the Board is to appoint the CEO, and that the appointment is to be approved by the LGIC. As a comparison, the CEO of Service New Brunswick is also appointed by the Lieutenant-Governor in Council. However, the Service New Brunswick Act clearly states in Section 11(1), *“The Lieutenant-Governor in Council shall appoint a President of the Corporation.”* We feel that the intent when the NBLC Act was drafted was different from that laid out in the Service New Brunswick Act. Our interpretation is that the NBLC Act intended that the Board should select and recommend candidates for CEO to the LGIC. The LGIC should not be initiating this process.

9.125 Based upon the definition of accountability as noted previously (i.e. the obligation to answer for authority and responsibility that has been conferred) the CEO should be accountable to the Board. This accountability would normally be discharged through a regular Board performance review of the CEO. However, Board members indicated that the CEO is not subject to a formal performance evaluation. Some Board members consider the positive comments received from the external auditors to be an endorsement of the CEO's performance. Otherwise, they told us that they evaluate his performance informally on a day-to-day basis.

9.126 We feel that the Board should formally evaluate the CEO on an annual basis. In order for such a review to be meaningful, the CEO must have a job description complete with preset objectives against which to evaluate his performance. In normal circumstances these objectives would mirror the strategic objectives and annual operating goals of the corporation. Such formal reviews are now common in Canadian corporations in both the public and private sector. In their January 1999 newsletter on governance, the Conference Board of Canada stated, "*Almost all corporations have position descriptions for their CEOs. Most boards conduct formal CEO performance evaluations.*" Given the small size of the NBLC Board, we feel that all Board members should provide input to the evaluation process.

Recommendations

9.127 We recommended that the Board select and recommend to LGIC future candidates for the position of NBLC CEO, in compliance with the NBLC Act. Alternatively, the Act should be changed to reflect actual practice.

9.128 We recommended that the Board perform a formal performance appraisal of the CEO on an annual basis. All Board members should be given the opportunity to provide input into the process.

9.129 We recommended that a job description for the CEO be prepared.

Board response

9.130 *The Board is satisfied that the section of the NBLC Act which deals with the appointment of the CEO is workable and practical as presently written.*

9.131 *While the Board is comfortable with the current approach to CEO appraisals, the Board will look at current practices relative to other Crown Corporation CEOs and departmental Deputy Ministers. With respect to a potential job description, Section 9 of the NBLC Act together with the bylaws, define the duties and responsibilities for this position.*

Board External Reporting

9.132 Our sixth governance evaluation criterion deals with governance and accountability issues:

The Board of the New Brunswick Liquor Corporation should ensure that sufficient, relevant information is reported through the Minister of Finance to allow the government and the Legislative Assembly to objectively assess the performance of the corporation.

9.133 As previously discussed, the Act gives limited guidance to Board members as to how they are to discharge their accountability obligation to the Minister of Finance.

Accountability information provided by the Board – the NBLC annual report

9.134 As previously discussed, we feel that the Board of NBLC is accountable to the Minister of Finance for the performance of the corporation. In order to discharge their accountability obligation to the Minister, they have to provide him with information through which he can objectively assess their performance (i.e. the performance of the corporation). The vehicle for communicating that information is the NBLC annual report.

9.135 The CEO noted that the Board has little involvement in the preparation or issuance of the NBLC annual report. They are involved in approving the annual financial statements and meeting with the external auditors to discuss the results of the annual financial audit. Also, the annual report includes a brief transmittal letter from the chair to the Minister of Finance. Otherwise, the Board has no involvement and they receive a copy of the NBLC annual report at the same time the public does. The CEO stated that he feels the current annual report is a management report (i.e. just an audited financial statement plus some statistics and narrative). However, we feel that it should become the document through which the Board discharges its accountability obligation by reporting on corporate performance. Therefore, we believe that the Board should review it and provide their input prior to its issuance.

9.136 In 1994, the Province of New Brunswick adopted an annual report policy for all government Departments and Crown agencies. It establishes certain requirements regarding the form and content of annual reports. The policy defines the prime function of an annual report to be *“the major accountability document by departments and agencies for the Legislative Assembly and the general public. It serves as the key public link between the objectives and plans of a government entity and the results obtained.”*

9.137 The policy goes on to state, *“To the degree possible, departments and agencies should give a clear account of goals, objectives and performance indicators. The report should show the extent to which a program continues to be relevant, how well the*

organization performed in achieving its plans and how well a program was accepted by its client groups.”

9.138 The policy is applicable to Part IV of the public service (i.e. the New Brunswick Liquor Corporation). Therefore, we undertook a brief review of NBLC’s annual report for the year ended 31 March 1998 to see how well this policy is being complied with. In general, we found that there are significant areas of non-compliance with the Province’s annual report policy.

9.139 Areas where the annual report policy was complied with included:

- information was presented on the level of client acceptance. We feel that for NBLC, the level of sales is the primary indicator of client acceptance of programs.
- actual versus budget comparisons of financial information were presented. Budget variances were explained at a summary level.
- the annual report was tabled well in advance of the deadline date for submission under the Act.

9.140 Areas where the annual report policy was not complied with included:

- the corporate mission statement was not disclosed.
- corporate strategic objectives were not presented since they have not been documented.
- non-financial performance indicators were not presented as they have not been established for the corporation. Some statistics were presented, but there is no information tying them to specific strategic objectives or attempting to interpret or evaluate the results they portray.
- there was some discussion of achievement of corporate plans, but not in connection with strategic objectives.
- since strategic objectives have not been documented by the organization, there could not be a discussion of program relevance in relation to these objectives.

9.141 We feel that the 1997-98 annual report of the New Brunswick Liquor Corporation does not act as a complete accountability document. As noted above, it lacks several of the attributes specified in the provincial annual report policy. All of these relate in some way to performance reporting and therefore accountability.

Recommendations

9.142 We recommended that the Board take ownership of the NBLC annual report as the vehicle through which it discharges its accountability obligation to the Minister of Finance.

9.143 We recommended that the annual report be modified to comply with the provincial annual report policy.

Board response

9.144 *While the Board has not exercised editorial control over the Annual Report, the ongoing reporting relationship has ensured that the report is consistent with the Board's position. Future issues will be subject to final review at the Board level prior to release.*

9.145 *With regard to the provincial Annual Report Policy, NB Liquor's publication is prepared with a varied audience in mind. In addition to its statutory reporting obligations to the Legislature, the report is circulated to other jurisdictions and various suppliers around the world. Consequently, the format and content have been structured with these audiences in mind, consistent with other Canadian Liquor Jurisdictions. The Corporation had previously been granted a compliance exemption by the Premier's office through the Clerk's office.*

Public reporting/liaison

9.146 Board members indicated that they do not have a lot of contact with the public. When they are contacted, they refer individuals to NBLC management. The Board also has little formal contact with the Minister of Finance or other provincial representatives.

Board Relationship with Crown Corporations Committee

9.147 NBLC currently appears annually before the Crown Corporations Committee of the Legislative Assembly of the Province of New Brunswick. The CEO attends on behalf of NBLC. We were told that the chair had attended up to the mid-1980s at which point he was replaced by the CEO. We feel that it would be appropriate for the Board chair to appear along with the CEO. The chair would be there to respond to governance-related questions, thereby ensuring that Board accountability for performance was addressed. However, in practice the CEO would continue to respond to the majority of the Committee's questions.

Recommendation

9.148 We recommended that the NBLC Board chair appear annually before the Crown Corporations Committee along with the CEO.

Board response

9.149 *Checks with other Crown Corporations have confirmed that NB Liquor's practice is consistent with those Corporations in this regard. Further, it is the Corporation's understanding that the purpose of this Committee is to give members direct access to the CEO, consistent with the practice of having Deputy Ministers appear before the Public Accounts Committee.*

9.150 *It is the position of the Board that the CEO is the appropriate official to represent the Corporation before this Committee.*