Policy Brief

Good Corporate Governance of Business and Economic Development Institutions

Métis Economic Development Symposium II, Vancouver B.C.
January 19-21, 2011
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1.0 EXECUTIVE SUMMARY

The characteristics of good governance have been widely established internationally. Adopting best practices in this area has been shown to improve business performance.

Métis financial institutions are examples of good governance and have outperformed Canadian and other Aboriginal financial institutions in terms of their success rate in supporting business ventures, despite inadequate resources in some cases.

Ensuring that Métis economic development institutions have sufficient funds to maintain operations over the long term and respond to the challenges of economic development has been singled out as the chief risk to the proper governance of these institutions. Given that ensuring the long-term survival of their institutions is a key governance function, a major objective of their boards and governing members should be to achieve sufficient capitalization so that the existing institutions and new funds can be sustainable without further top-ups or operating subsidies.

Continuing erosion of capital and undercapitalization would undermine governance and ultimately lead to these institutions being discredited. Without sufficient, stable capitalization it is difficult to attract effective board members, to fund proper governance functions, including board operations, or in the case of new funds and programs, to establish good governance.

Measures to sustain these institutions and broaden the benefits they can bring to Métis communities have been identified by the Métis National Council. The federal and provincial governments can be most effective in facilitating good governance in the Métis business and economic development institutions by:

• Ensuring that sufficient numbers of Métis receive the kind of training that would facilitate their involvement in institutions, including involvement at the Board level. Adequate support is needed for professional development initiatives such as the Aboriginal Financial Officers Association of Canada and the Council for the Advancement of Native Development Officers.
• Replacing business assistance programs with capital contributions to sustainable loan and equity capital funds operated by professionally managed Métis institutions;
• Devolving the equity grant contributions made by Aboriginal Business Canada to the Métis capital corporations.
2.0 CONCEPTUAL OVERVIEW

Effective governance of economic and business development institutions ensures maximum benefits to stakeholders. Literature on this topic referenced in this paper attests to the value of adopting widely-accepted principles and practices of good governance, while recognizing that these can be articulated in a variety of ways to respond to specific requirements, including cultural norms.

Métis businesses and institutions have in general adopted a set of governance principles and practices consistent with North American norms. Métis capital corporations, for example, have a history of good corporate governance resulting in the effective and efficient operation of the corporations for their stakeholders. At the same time, Métis economic institutions could benefit through continuous enhancements of governance practices as they grow in complexity and sophistication.

According to the Global Corporate Governance Forum, the benefits of achieving sound corporate governance include:

• Increased access to external financing by firms, which can lead to larger investment, higher growth, and more jobs.
• Lower costs of capital and higher value for the firm, making investments more attractive, which in turn can lead to growth and employment.
• Better operational performance through better allocation of resources and better management, creating wealth more generally.
• Reduced risk of financial crises.
• Better relationships with all stakeholders.

Corporate governance principles should include provisions to ensure that:

• Shareholders are provided with regular information and opportunities to exercise their rights.
• Legal and other obligations to all legitimate stakeholders are met.
• The board includes independent member and represents a range of skills; is able to review and challenge management performance; is of sufficient size and shows an appropriate level of integrity and commitment.
• A written code of conduct for directors and executives that promotes ethical and responsible decision-making is in place.
• The roles and responsibilities of board and management to provide shareholders with a level of accountability are clear and publicly known.
• The way in which individuals are nominated for positions on the board is fair and transparent.
• Ethical, responsible decision-making is in place to limit risk and ensure good public relations.
• Compensation arrangements for senior executives are reviewed.
• Independent verification and safeguards of the integrity of the company's financial reporting are in place.
• Internal controls and auditors are in place.
• The entity's external auditors are qualified and independent.
• Compensation policy is fair and transparent.

(Harvard Business Review)

Considerable work has been done to quantify the relationship between corporate governance and business performance. In 2004, for example, Brown and Caylor correlated business performance data on more than 2000 companies with 51 common corporate governance provisions. They concluded that, “firms with relatively poor governance are relatively less profitable..., less valuable..., and pay out less cash to their shareholders....”

Métis governance in Canada’s constitutional context

The constitutional context for Métis governance is summarized by INAC in the document The Government of Canada’s Approach to Implementation of the Inherent Right and the Negotiation of Aboriginal Self-Government.

The document states that the inherent right of self-government is recognized by the Government of Canada as an existing Aboriginal right under section 35 of the Constitution Act, 1982. Recognition of the inherent right is based on the view that “the Aboriginal peoples of Canada have the right to govern themselves in relation to matters that are internal to their communities, integral to their unique cultures, identities, traditions, languages and institutions, and with respect to their special relationship to their land and their resources.”

The extent to which this principle of self-government is applicable to Métis economic and business development activities and institutions is debatable.

INAC states that implementation of self-government cannot be uniform across the country or result in a "one-size-fits-all" form of self-government. Self-government arrangements must be tailored to meet the unique needs of Aboriginal groups and be responsive to their particular political, economic, legal, historical, cultural and social circumstances. As such, approaches to self-government consider: forms of public government; devolution of programs and services; the development of institutions providing services; and arrangements in those subject matters where it is feasible to exercise authority in the absence of a land base.

Provincial governments are necessary parties to agreements where responsibilities normally fall within provincial jurisdiction
3.0 BEST PRACTICES AND EMERGING TRENDS

Incorporation of Métis Values and Culture

Métis values relevant to this theme are consistent with the values and characteristics of good governance identified by the United Nations: good governance is consensus oriented, participatory, follows the rule of law, effective and efficient, accountable, transparent, responsive and equitable and inclusive. *(UNCTD)*

In his address to the Métis Nation Economic Development Forum in October 2010, MNC President Clement Chartier, describes characteristics of the Métis governance related to economic development functions, which are consistent with the best practices cited.

- Democratic accountability to the people they serve.
- Arms-length development institutions free from political interference.
- Arms-length institutions are accountable to the Governing Members.

The decision to establish arms lengths business and economic development institutions, and their effective performance over time, has meant that these institutions have maintained the confidence of the Métis people, business clients, other governments and the public regardless of the vagaries of politics.

Economic self-sufficiency—for individuals and communities as a whole—is another important values in Métis culture. This entrepreneurial spirit—which has been a constant throughout Métis history—is a response to this value.

The Métis entrepreneurial spirit and skills are evident in the history of their involvement on Canada’s Aboriginal Financial Institutions (AFIs). The success rate (i.e. the number of businesses remaining active after five years) of Métis businesses supported by MCCs is in the 70-80% range. This contrasts with the entire AFI sector, with a success rate of about 58%, and the Canadian norm of 33% of businesses remaining active after five years. *(Environmental Scan: New Métis Investment Opportunities.)*

Formal Processes and Structures with Flexible Application

According to Todd, corporate governance standards must be flexible. The appropriate style of corporate governance in any business is a strategic consideration directly influenced by its relative position in the corporate lifecycle.

A business plan for a proposed Métis Entrepreneurship Fund developed by Meyers Norris Penny (MNP) in consultation with Métis stakeholders provides a viable model for Métis economic and business development institutions. It proposed a set of guiding principles that reflect Métis values, culture and “core ideologies”. In generic form, these
principles offer sufficient flexibility to applicable to any Métis economic and business institution:

- The funding provided by the institution is used to stimulate and encourage economic development in Métis communities.
- Institutions create opportunities for employment and promote wealth creation within Métis communities with the intention of closing the income gap between the Métis and non-Aboriginal population.
- Institutions should be managed with an emphasis on achieving long-term, sustainable operations.
- Improved access to capital creates opportunities for Métis business ownership and strengthens Métis entrepreneurship.
- Institutions work to expand current market reach, allowing them to leverage capital for loans where they were previously restricted by lending limits.
- Management proactively explores opportunities for partnerships with lending institutions to enhance the sustainability of the Institution.
- Institutions strive to be leaders and innovators in the business and economic development field.

Challenges

The guidelines imply a series of challenges that face the Métis Nation and its institutions. Given the historical marginalization of the Métis people, there are many obstacles to overcome to achieve levels of prosperity equivalent to the Canadian norm. Experience has shown, for example, that goals such as reducing unemployment are conditional on attitudes found in the workplace, over which Métis organizations and institutions have limited control.

Inadequate capitalization can undermine the long-term sustainability of operations. Consequently, the Métis Nation has adopted an economic approach that seeks equitable access to economic opportunities, including sufficient capitalization for its capital corporations and funds to make them self-supporting in the long term.

Strong Executive and Board

A key to good corporate governance is the proper functioning of the board of directors and executive. A strong board is a generally a prerequisite to an effective executive.

There is a substantial body of literature on the composition and function of boards. The United Nations Conference on Trade and Development publication Guidance on Good Practices in Corporate Governance Disclosure (2006) suggest the following practices:

- Standard board functions are strategic planning, risk identification and management
selection, oversight and compensation of senior management, succession planning, communications with shareholders, integrity of financial controls and general legal compliance.

• Measures are called for to balance the power at the head of the corporation such that no single individual has unfettered control of the company. Typically, at least half of the board membership is independent directors chosen based on relevant expertise.

• Ethics management is important for the promotion of good business practices, transparency and risk reduction.

• Most governance guidelines and codes of best practice address topics related to directors’ qualifications and board membership criteria. These may include experience, personal characteristics such as integrity and common sense, core competencies such as business acumen and leadership skills, availability, diversity, age, specific skills, and so on.

The existing Métis financial institutions have a record of sound management by their directors. The MNP Business Plan for the proposed Métis Entrepreneurial Fund could also be referenced in establishing the structures, qualifications and functions of the boards of future Métis economic institutions.

**Challenges**

As the number of Métis business and economic development institutions multiplies, a key challenge is finding sufficient numbers of qualified persons to populate their boards.

Given the lower educational attainment and entrepreneurial experience of the Métis population compared to the Canadian average (*Environmental Scan*), there may be insufficient candidates available in the Métis population. One option is to ensure that sufficient numbers of Métis receive the kind of training that would facilitate their involvement in institutions at the Board level. Adequate support for professional development initiatives, such as the Aboriginal Financial Officers Association of Canada and the Council for the Advancement of Native Development Officers will be helpful in this regard. These organizations have a mandate to foster the skills that will be valuable to members of boards of Métis economic development institutions.

**Effective Planning and Evaluation**

Effective planning and evaluation functions are ultimately responsibilities of the Board of Directors and should be built into the governance structure. The board is accountable for the strategic direction of the organization, usually through the agency of a strategic plan.
The board is responsible for understanding and identifying the organization’s principal risks and implications as well as ensuring that appropriate systems are in place to manage risk. In the case of the MCCs, the major risk identified has been the erosion of capital and undercapitalization.

An effective internal audit function plays a significant role within the corporate governance framework. Independent external audits should provide an objective assurance that the financial statements present a true and fair view of financial conditions and performance.

Evaluation of institutional performance is another function of the board. It should conduct an annual self-evaluation to assess its effectiveness and the adequacy of the information flow to the board. A board committee should conduct an annual review of the performance of the corporation, the CEO and senior management.

**Challenges**

Challenges would include measurement of results against the broader mandate of the organization, which is to contribute to economic development for Métis communities as a whole, not just individual entrepreneurs and businesses. To what extent, for instance, do the successes and failures of clients contribute or detract from overall social goals.

**Strategic Sustainability**

Strategic sustainability is an approach to planning and implementation that allocates available resources with the greatest impact for the sustainability of the organization and its functions. Strategic planning and risk assessment, which were discussed earlier, are keys to sustainability.

One area that needs regular attention is succession planning, a key function of the board. The board should establish a succession plan for key executives and other board members to ensure that there is a strategy for continuity of operations.

Achieving sustainability is a function of the success of the business in meeting its objectives, including financial performance. Thus requirements for long-term sustainability are a function of the effectiveness of management and operational and supporting processes.

**Challenges**

Métis economic and business development institutions have a proven record of good governance. The key challenge for the Métis nation is the sustainability of their
economic institutions and their ability to meet the ongoing and expanding needs of Métis entrepreneurs.

Ensuring that Métis economic development institutions have sufficient funds to maintain operations over the long term and to respond to the challenges of economic development is the chief risk to these institutions. Given that ensuring the long-term survival of their institutions is a key governance function, a major objective of their boards and governing members should be to achieve sufficient capitalization so that the institutions and funds can be sustainable without further top-ups or operating subsidies.

Continuing erosion of capital and undercapitalization would undermine governance and ultimately lead to these institutions being discredited. Without sufficient, stable capitalization it is difficult to attract effective board members, to fund proper governance functions, including board operations, or in the case of new funds and programs, to establish good governance.

The Métis National Council asserts that stakeholders, including governments, could contribute to the sustainability of Métis economic institutions by:

- Replacing business assistance programs with capital contributions to sustainable loan and equity capital funds operated by professionally managed Métis institutions; and
- Devolving the equity grant contributions made by Aboriginal Business Canada to the Métis capital corporations.

**4.0 COLLABORATIVE POLICY DEVELOPMENT: MOVING FORWARD TOGETHER**

What then are the roles, expectations and alignments of federal, provincial and Métis governments in effective corporate governance models? What can Canada’s federal, provincial and territorial governments do to facilitate Métis corporate governance? And what specific policy and program modifications and additions would enhance Métis corporate governance?

Métis institutions are naturally required to provide the good governance demanded in relationships with government departments and agencies. Expectations have been set by government in their stated requirements for relations with businesses, such as Canada’s Code of Conduct for Procurement, which provides all those involved in the procurement process—public servants and vendors alike—with a clear statement of mutual expectations. The Métis economic and business development institutions have a strong track record in this regard.

The roles and responsibilities of the federal government—and certain expectations of provincial governments as well—have been set out in the previous discussion of Métis governance in Canada’s constitutional context. As stated, the Government of Canada...
recognizes the need for flexibility in developing self-government arrangements. As such, approaches to self-government consider forms of public government, the devolution of programs and services, and the development of institutions providing services.

With this in mind, what are the expectations of the Métis of the other levels of government in Canada? MNC President Clement Chartier elaborated on this theme in his presentation to the Métis Nation Economic Development forum. He recommended that:

- **INAC should reorganize its entire economic development architecture to be distinctions-based and responsive to the distinctive economic development strategies and plans of the Métis Nation, the Inuit and the First Nations.**

- **INAC should carry out a devolution of responsibility for a number of economic development programs it manages directly, which could be better handled by Métis governments and their affiliated institutions. A prime example is the equity grant contributions made by Aboriginal Business Canada, which could be better handled by Métis capital corporations.**

- **An equitable portion of INAC’s Community Economic Development Program resources should be allocated to new Métis economic development funds that will adopt the best practices of other Métis Nation investment funds in terms of governance structure and use of capital.**

Provincial government can also play a role in improving the stability and sustainability of development institutions. Both levels of government can support the strengthening of governance through their investments in business and economic development institutions built around a sound financial model.

A good example is the $6 million Métis Energy and Resource Program, a self-sustaining economic development program managed by the Clarence Campeau Development Fund. Another is the $10 million Métis Economic Development Fund created to stimulate the economic development activities of the Métis people of Manitoba by providing equity and capital for Métis-controlled businesses. Additional investments of this kind have been proposed by the MNC.

In summary, the federal and provincial governments can be most effective in facilitating good governance in the Métis business and economic development institutions by ensuring the sustainability of institutions which contribute to the economic development of the Métis people, especially through support for the development of Métis businesses. Proposed measures include:
• Replacing business assistance programs with capital contributions to sustainable loan and equity capital funds operated by professionally managed Métis institutions.

• Devolving the equity grant contributions made by Aboriginal Business Canada to the Métis capital corporations.

• Ensuring that sufficient numbers of Métis receive the kind of training that would facilitate their involvement in institutions, including involvement at the Board level. Adequate support is needed for professional development initiatives such as the Aboriginal Financial Officers Association of Canada and the Council for the Advancement of Native Development Officers. Adequate support will foster the skills required for Métis people to manage and operate their own business and economic development institutions.
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