

# A Discussion Paper on Canadian Wheat Board Governance

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## **Executive Summary**

**T**he Federal Minister of Agriculture and Agri-Food Canada, the Honourable Ralph Goodale, recently announced amendments to the Canadian Wheat Board (CWB) Act in the form of Bill C-72. Under the proposed legislation, the commissioner structure would be replaced with a board of directors (board) and a Chief Executive Officer (CEO). As well, the Advisory Committee would be phased out, but not before the end of its current mandate in 1998. According to the legislation, the 11-15 board members would be appointed by the federal government on the recommendation of the minister responsible for the CWB. However, the legislation also allows the minister to designate that some of the directors be elected by CWB permit holders. Under the legislation, the CEO is appointed by the government on the recommendation of the minister, who is to consult with the board.

A key characteristic of the CWB is its single-desk selling authority. The CWB's ability to act as a single-desk seller ultimately depends on having the support of the majority of farmers in the CWB area. This support requires that: (a) farmers must be able to express their views on the CWB with some chance that these views will be listened to; and (b) farmers' representatives must have effective control over the CWB's policies and operations. If farmers are not provided with both voice and control, it is unlikely they will continue to support the CWB. Since the CWB operates on behalf of farmers when selling their grain, farmers should have the ability to influence and direct the CWB's operations. Historically, these features have not been present. The CWB commissioners are appointed by government and are accountable to government, not to western Canadian grain farmers. Although the Advisory Committee is elected, there is no expectation by farmers that this body has any direct authority in determining CWB policy.

A substantial change in the governance of the CWB governance is urgently required to provide farmers with both voice and control. The CWB must become much more democratic in nature and action and must be seen to do so.

## **Does the Proposed Legislation Meet the Test?**

At a general level, the proposed legislation is a welcome change. The CWB requires a much more democratic structure if it is to operate effectively in the future and the proposed legislation moves in this direction. Although the general intent of the legislation is good, a number of changes must be made if the CWB is to realize the advantages of a more democratic structure. Under the proposed legislation, the minister and/or the federal government retains the right to appoint the directors and the CEO, and the CEO is required to be a member of the board. The legislation also does not specify that farmer-elected board members would make up a majority of the board.

These provisions reflect a lack of confidence in the democratic structure and should be changed. The legislation should provide the board with the power to appoint (and remove) the CEO. The legislation should clearly indicate that farmer-elected board members are a majority of the board (preferably 75 percent or more), that the CEO is not a board member, and that the board chair is elected by the board. The legislation should outline in more detail how the farmer board members should be elected (the preferred choice is a delegate structure – see the paper for details).

Finally, the legislation should describe the transition between the current structure and the new structure. To create a strong footing for the new CWB structure, the new CEO should be hired by the new board. The new board will then have selected the CEO it wishes, while the new CEO will know he/she has the confidence of the new board. An interim CEO should be appointed at the same time an interim board is put in place. One of the first activities of the interim board and CEO would be to hold elections for the delegate (and subsequently board) positions. Once the newly elected board members are in place alongside their appointed counterparts, a search can be instigated for a new CEO.

## **A Democratic Structure**

In addition to examining the changes contained in the proposed legislation, this paper also considers in some detail the specific features of a democratic structure for the CWB. To make the structure representative, farmers should elect their members of the board through a delegate struc-

ture; once the delegates are elected, they in turn would elect the farmer board members from the delegate body. The traditional method would be for farmers to elect delegates to represent specific geographical areas. Some thought, however, should also be given to having delegates elected to represent non-geographical interests such as on-farm or community-based value-added processing activities.

Farmers' participation in the CWB must be encouraged through effective participatory democracy. Methods include setting up working groups and an annual strategic planning process involving farmers. Farmers must feel there is real, continuous communication between themselves and the CWB board and management, so that when the board and management make decisions, they are seen to take account of farmers' needs.

The paper argues that education is a critical factor in ensuring that farmers have voice and control. The paper concludes with a number of recommendations regarding the specifics of a governance structure designed to give farmers this voice and control.

## A New Governance Model

*The Federal Minister of Agriculture and Agri-Food Canada, the Honourable Ralph Goodale, recently announced amendments to the Canadian Wheat Board (CWB) Act in the form of Bill C-72. Included in these amendments are changes to the corporate governance of the CWB.*

Currently the CWB is governed by a five member group of commissioners who are appointed by the federal government. Wheat and barley growers do not have any direct say in the running of the CWB. Although CWB permit book holders elect the members of the CWB Advisory Committee which can advise the CWB on policy matters, this Committee has no authority or control over CWB policies.

Under the proposed legislation, the commissioner structure would be replaced with a board of directors (board) and a Chief Executive Officer (CEO).<sup>1</sup> As well, the Advisory Committee would be phased out, but not before the end of its current mandate in 1998. The board would be made up of between 11 and 15 members. According to the legislation, the board members would be appointed by the federal government on the recommendation of the minister responsible for the CWB. However, the legislation also allows the minister to designate that some of the directors be elected by CWB permit holders. Under the legislation, the CEO is appointed by the government on the recommendation of the minister, who is to consult with the board.

In addition to the governance changes, the legislation proposes a number of operational changes, including the flexibility to make cash purchases and the ability to close pool accounts earlier.

The purpose of this paper is to discuss the proposed changes to the CWB governance structure and to raise some questions for discussion that should be considered as the governance structure evolves. The paper will not examine the operational changes that have been proposed. The paper begins by arguing that the CWB governance structure must be made democratic. The proposed legislation is examined in this light. The paper then

considers in more detail what the nature of the democratic changes should be, both in general and specific terms.

## **Background**

The CWB has a number of unique characteristics as a grain trader. These characteristics include: (1) the CWB has single-desk selling authority for the marketing of wheat and barley in the CWB area (with the exception of feed grains to the domestic market); (2) the CWB operates on behalf of farmers to maximize the returns from the sale of wheat and barley; and (3) the CWB requires the ability to enforce the decisions it makes regarding contracts and sales and this ability depends critically on the support of farmers.

These characteristics create some special issues for the governance of the CWB. The ability of the CWB to act as a single-desk seller ultimately depends on having the support of the majority of farmers in the CWB area. To generate the support of western Canadian grain farmers requires two things: (a) farmers must be able to express their views on the CWB with some chance that these views will be listened to; and (b) farmers' representatives must have effective control over the CWB's policies and operations. If farmers are not provided with both voice and control, it is unlikely they will continue to support the CWB.<sup>2</sup>

Since the CWB operates on behalf of farmers when selling their grain, farmers should have the ability to influence and direct the CWB's operations. Historically, these features have not been present. The CWB commissioners are appointed by government and are accountable to government, not to western Canadian grain farmers. Although the Advisory Committee is elected, there is no expectation by farmers that this body has any direct authority in determining CWB policy.

As an institution with an objective of maximizing the returns to western Canadian grain farmers, the CWB also faces problems of evaluating operating and marketing efficiency. The standard method of measuring the efficiency of for-profit firms is to examine financial performance ratios such as the rate of return on equity and the debt-to-equity ratio, and to compare these with similar ratios for similar firms. These performance

ratios, however, have been designed with for-profit firms in mind and are generally not applicable for an institution like the CWB. As well, as a single-desk seller, the CWB has few obvious firms or institutions with which it can be compared.<sup>3</sup> This lack of a comparison point means there is no sure way for farmers, on whose behalf the CWB operates, to judge its efficiency – which in turn raises questions about farmer support for the CWB.

To address the issues identified above, a substantial change in the CWB's governance structure is urgently required. The CWB must become much more democratic in nature and action and must be seen to do so. The new governance structure must provide farmers with a substantial say in the operations of the CWB and it must provide farmers with effective control over the policies and operations of the CWB. Making the CWB a democratic organization is the only way of providing farmers with both voice and control.

At the same time, the farmers in the CWB region are diverse and have many conflicting interests. Not all advice can be used or acted upon. Thus, the task of a governance structure for the CWB is to strike a balance between listening to and acting on farmers' concerns, and making decisions quickly and effectively. As well, the new governance structure must provide for a method of evaluating the CWB's actions.

### **The Proposed Legislation: Does It Meet the Test?**

*At a general level, the proposed legislation is a welcome change. The CWB requires a much more democratic structure if it is to operate effectively in the future and the proposed legislation moves in this direction.*

Although the general intent of the legislation is good, a number of changes are required in the specifics of the legislation if the CWB is to realize the advantages of a more democratic structure. Under the proposed legislation, the minister and/or the federal government retains the right to appoint the directors and the CEO, and the CEO is required to be a member of the board. The legislation also does not specify that farmer-elected board members would make up a majority of the board.

These provisions reflect a lack of confidence in the democratic struc-



ture and should be changed. The legislation should provide the board with the power to appoint (and remove) the CEO. The legislation should clearly indicate that farmer-elected board members are a majority of the board (preferably 75 percent or more), that the CEO is not a board member, and that the board chair is elected by the board. Finally, the legislation should outline in more detail how the farmer board members should be elected (the preferred choice is a delegate structure—see below for further details).

These changes will not be acceptable to everyone. Allowing farmers to be elected to the board and giving the board the power to appoint/remove the CEO will threaten the CWB's status as an agent of the federal government. Loss of agency status will mean, among other things, somewhat higher borrowing costs for the CWB. Failure to make these changes, however, means farmers will not have effective voice and control. Since it is critical that farmers have real voice and control, the changes outlined above should be embodied in legislation, even if this means the loss of agency status. However, if other options can be found that will provide farmers will effective voice and control while retaining agency status, they should be actively explored.

In addition to the provisions cited above, the proposed legislation does not give sufficient attention to how the transition should occur between the current governance structure and the new governance structure. This transition period is extremely important, since it will determine whether the new CWB structure gets off on a weak footing or a strong footing.

To create a strong footing for the new CWB structure, the new CEO should ideally be hired by the new board. The new board will then have selected the CEO it wishes, while the new CEO will know he/she has the confidence of the new board. One way to achieve this objective during the transition phase is to appoint an interim CEO at the same time that an interim board is put in place. One of the first activities of the interim board and CEO would be to hold elections for the delegate (and subsequently board) positions. Once the newly elected board members are in place alongside their appointed counterparts, a search can be instigated for a new CEO.

This transitional program will only work if the interim CEO is a person with a deep knowledge of the CWB, someone who has the confidence of a wide segment of both farmers and CWB management and staff, and who does not wish to stand as a candidate for the long-term CEO position.

## **Wheat Board Governance in Detail**

*The general governance structure proposed in Bill C-72 is common to that used by most corporations and co-operatives. This type of structure is widely used because it allows for the owners of a company to provide direction to their company, while at the same time turning over the actual running of the company to people who are technically equipped and who have the time to devote to the task.*

For corporate governance structures to be effective, the board and the management must play their proper roles. The role of the board is to develop the policies and strategies of the company or organization; the carrying out of these plans is the role of the senior management. Senior management is led by the Chief Executive Officer (CEO). The board is responsible for hiring (and removing) the CEO. The CEO, in turn, is responsible for hiring the rest of senior management. Other duties of the board include safeguarding the company's assets, making decisions to ensure the sound continuation of the company, evaluating company performance, acting with due diligence in making decisions, and acting with the utmost faith and loyalty to the company.<sup>4</sup>

To create an effective corporate governance structure for the CWB requires the use of this traditional board/CEO model, as well as three additional elements: representative democracy, participatory democracy, and education. These additional elements are required because the governance structure for an organization like the CWB requires not only an appropriate specialization of tasks, but a mechanism for giving farmers both voice and control.

The next three sections examine representative democracy, participatory democracy, and education in more detail.

### **Representative Democracy**

Representative democracy is used widely, not only in the election of local, provincial and federal governments, but by democratic organizations such as co-operatives. There are two basic forms of representative

democracy: (1) direct election of board members by farmers; and (2) the election of delegates who in turn elect the board members from within their group. Both forms have their advantages and disadvantages. The direct election of board members is less costly, but does not offer the advantages of greater farmer access to elected officials and greater decentralization. Because of the need for farmers to have a voice in the running of the CWB, the preferred form for the CWB is the delegate structure.

Under a representative democratic structure, farmers would elect their members of the board through a delegate structure. The traditional method would be for permit book holders to elect delegates to represent specific geographical areas. Some thought, however, should also be given to having delegates elected to represent non-geographical interests such as on-farm or community-based value-added processing activities. If this latter procedure were followed, there would be both geographic and nongeographic constituencies for the election of delegates. Once the delegates were elected, they in turn would elect the farmer board members from the delegate body.

Although it is the board that oversees and directs the operations of the CWB, the delegates also play an important role. The delegates primary role is to facilitate the flow of information from farmers to the board and from the board to farmers. This communication is done formally through education and informally through discussions and consultations. The role of delegates is often difficult, since they must not only act as advocates of the CWB, but must ensure that the concerns of farmers are communicated to the board and management. This traditional democratic structure provides farmers with a voice in the operations of the CWB, while at the same time ensuring the CWB operates in a reasonably efficient manner.

To be effective, the delegate body must be sufficiently large that it can adequately meet with and talk to farmers throughout the CWB area. As an example, suppose the board is made up of eleven farmer-elected members and three government appointees. A reasonable number of delegates in this case would be somewhere between 10 and 15 delegates per farmer-elected board member. Of course, operating a delegate structure of this size will involve considerable cost. While this cost can be kept down with the appropriate use of electronic communications, reducing this cost too much will result in an ineffective delegate body and a weaker CWB.

### **Participatory Democracy<sup>5</sup>**

Relying on representative democracy by itself is not likely to ensure continued farmer support for the CWB. Some form of effective participatory democracy is also required so that the relationship between farmers and CWB management and staff is strengthened. Farmers' participation in the CWB must be encouraged, perhaps through a process whereby working groups are established to design such things as new delivery contracts when changes are required. Electronic communications, such as 1-800 numbers, e-mail and Web sites, should be developed to provide farmers with a method to communicate their views. A further possibility is an annual strategic planning process involving farmers. Farmers must feel there is real, continuous communication between themselves and the CWB board and management, so that when the board and management make decisions, they are seen to take account of farmers' needs. The CWB must develop an organizational structure that is innovative, responsive and that fosters a constantly renewed identification of farmers with the CWB and its activities.

The CWB must also expand employee participation, since it is the employees that often have the greatest contact with farmers and may be in the best position to make decisions that benefit farmers. One way for increased employee participation is to involve them in a strategic planning process. Consideration should also be given to providing employees with incentive schemes appropriate to the goals of the CWB and western Canadian grain farmers.

Finally, the CWB needs to be cognizant of both its economic and social roles. The social role encompasses such things as ensuring democratic participation, providing training and education for employees and farmers, and highlighting environmental issues and concerns.

### **Education and Information**

Increased farmer voice and control cannot be ensured by democratic processes alone. Educational and informational activities are also required. A critical element in the operation of democratic boards is the effective education of farmers, delegates, board members, and management. Education is important in the effective running of the CWB for at least three reasons: (1) all organizations require the appropriate specializa-

tion of tasks among delegates, board, and management; (2) the CWB requires an understanding of its unique role in grain marketing; and (3) farmers require effective and ongoing education on the operation and policies of the CWB. In addition to the education of farmers, delegates, board members, management, and staff, education must also be provided to the general public.

The elements listed above can be learned, but to do so requires a willingness on the part of farmers, board members, delegates, management, and employees to participate in educational programs. Also required is a commitment by the CWB to provide this education in a topical and relevant manner. This commitment will cost money and the justification for the expenditure of this money will have to be provided to farmers.

The rest of this section examines the required educational elements in more detail.

### *Can a Farmer-Controlled Board Work?*

Effective governance structures require the board and management to play their proper roles. Although it is easy to say that the role of the board is to develop the policies and strategies, while the role of senior management is to carry out of these plans, in practice this specialization of tasks is difficult to achieve. Boards can often become too involved in operations and implementation, and managers are often accused of taking over boards and putting in place policies that reflect their wishes rather than those of the shareholders or members.

These governance problems are present in both corporations and co-operatives. The issue of corporate governance has recently been flagged as an issue in publicly traded companies. In co-operatives, the key issue that has long been examined is whether a farmer board can operate effectively enough to ensure farmer control. Although there are examples of co-ops where the board has not been effective at retaining control, there are many more examples of co-operatives where the members have been able to retain control of the co-op.

The solution to the problem of effective control lies in education and in the tone the board sets for the organization when making its decisions. The education of board members and management as to their tasks and

responsibilities is a powerful method of ensuring that each group plays its appropriate role. Education may be particularly important when the board is made up of both elected and appointed members. Both types of board members must feel they are legitimate and that the other board members are legitimate. The tone set by the board is also important. For example, a board committed to the democratic process will be able to ensure effective control more easily than one that is not.

### *Understanding the Unique Role of the CWB*

Both board and management must fully understand the unique role played by the CWB in grain marketing to effectively run the CWB. In addition to having an excellent knowledge of the grain trade, board members and management have to understand the ways in which the CWB is different from privately-owned grain traders and how this difference translates into the operations of the CWB. Education designed specifically to address these issues is an important feature in providing the required knowledge and understanding in this area.

Education and training in the role of the CWB must also be supplemented by the use of appropriate performance measures. Because of the lack of readily available performance measures in this area, the CWB should develop its own criteria in consultation with farmers, stakeholders and experts and make these widely available. These performance criteria must not only address the CWB and farmers, but also the general public good.

The CWB should expand its annual financial audit to a much more extensive audit that examines such things as the effectiveness of CWB operating procedures and the impact the CWB is having on farmers within the CWB area. As well, the CWB should periodically engage in independent evaluations of its pricing activities. Independent evaluations are particularly important given the confidentiality of much of the CWB's operations. Farmers need to be assured that the CWB is not using confidentiality to hide operating or marketing inefficiencies.

### *Farmer Education*

Education must not be limited to delegates, board members, and management. Farmers must also be provided with an opportunity to increase their

understanding of CWB operations and policies. This education is critical in ensuring that farmers can make informed decisions on the CWB (e.g., delegate elections) and in ensuring that farmers are able to actively participate in strategic planning processes or in suggesting changes.

## Recommendations for Effective Governance

*Boards that are effective in providing farmers with voice and control have a number of similarities. The following recommendations are derived from the experience of co-operatives, both in North America and Europe.<sup>6</sup>*

The experience of co-operatives is used because co-ops are prominent in the agricultural sectors of all western countries. As well, co-ops represent a well-known example of organizations in which the people who use the organization are also the ones who control the organization and in which both voice and control are important (although the CWB is not a co-operative, the CWB and co-ops share this characteristic).

The recommendations are:

- constantly be aware of the differences between the CWB and other traders. These differences provide the CWB with both strengths and limitations. Use the strengths and advantages provided by the CWB and its structure to compensate for its limitations.
- ensure the farmers affected by the CWB are fully informed of the CWB activities and are given the opportunity to participate in the CWB decisions.
- encourage qualified individuals to run for the board; contested elections are very healthy for the democratic process.
- ensure that elected delegates and board members are provided with comprehensive education programs and that elected delegates and board members are obligated to attend.
- encourage the appropriate participation of women in the delegate, board and management structure.
- encourage appropriate representation in other demographic elements such as age, farm type, and location.
- board members and delegates should be paid an appropriate remuneration for their important and time-consuming work. At the

same time, limits should be put on the time board members can devote to board activities.

- develop a policy for the length of term in office. Developing an effective rotation mechanism is a good way of keeping a board working well.
- develop a clear cut division of responsibilities and duties between the board and senior management.
- undertake activities to ensure that the board operates on a cohesive basis, rather than as individuals.
- undertake activities to ensure that the board and the senior management are able to work closely together.
- while the board and the senior management must work closely together, the separate roles and responsibilities of the board and senior management must be kept in mind. The board hires the CEO, and when circumstances require, must be prepared to provide the CEO with appropriate warnings or to remove the CEO. The CEO should not be a member of the board.
- board meetings, with set agendas, should be held at regular periods. The topics on the agenda should be well documented. The senior management should be informed as to the information required by the board. The information supplied must be comprehensive, short and to the point.
- the board has full right to information concerning the CWB. On the basis of agreed policy and guidelines, the board should have the right to seek independent advice if special problems or developments require outside review.
- the board must ensure the confidentiality of the information it receives, particularly concerning sales.
- the use of sub-committees should be determined by board policy. While sub-committees can be effective in dealing with large amounts of information or complex issues, they have a problem in that not all board members remain fully informed about the operations of the CWB. The result of extensive use of sub-committees is that board decision-making can become fragmented.
- the important role of the board president must be recognized when this person is selected.



- the duties and responsibilities of the board president must be clearly specified.
- audit reports can be important in controlling the CWB operations and in providing farmers with information about the CWB. Social audits can and should be used to provide information on the impact the CWB is having on farmers and other stakeholders.
- ensure that CWB management and staff are well-trained, both about the technical aspects of their job as well as the manner in which the CWB operates generally.

### *Endnotes*

1. Under the proposed legislation, the chief executive officer (CEO) is denoted as the President (see article 3.92(1)). This paper will use the term CEO, since this is the usual term given to the chief officer of a corporation. In co-operatives, which will be referred to later, the term president is usually used to refer to the chairman of the board.
2. See Chapter 2 of *Performance Evaluation of the Canadian Wheat Board* by D.F. Kraft, W.H. Furtan, and E.W. Tyrczniewicz (1996) for a detailed discussion of voice and control.
3. One comparison the CWB does make involves comparing its costs of marketing to those of other agri-business firms. A second point of comparison is the Australian Wheat Board (AWB). Comparisons with the AWB require consideration of both the differences and similarities between the CWB and the AWB.
4. See, for example, *The Contemporary Director: A handbook for elected officials of co-operatives, credit unions and other organizations* by Harold Chapman, et al. (Co-operative College of Canada, 1986).
5. For more information on participatory democracy, see *Making Membership Meaningful: Participatory Democracy in Co-operatives by the International Joint Project on Co-operative Democracy* (Centre for the Study of Co-operatives, 1995).
6. More detail on the following recommendations can be found in: "Corporate Governance and Management Control Systems in European Co-operatives: General Trends, Findings and Recommendations" by Reimer Volkers (International Co-operative Alliance, Geneva, 1995); *The Contemporary Director: A handbook for elected officials of co-operatives, credit unions and other organizations* by Harold Chapman, et al. (Co-operative College of Canada, 1986); and "Cooperative Governance: An American Model" by Glenn Webb (Agricultural Co-operatives Leaders' Forum, Sydney, Australia, October 1996).