Deloitte.

Consulting Services

Beef Information Centre & Canada Beef Export Federation Integration: Options Going Forward.

Canadian Marketing Organization Steering Committee

March 2, 2009

Audit.Tax.Consulting.Financial Advisory.

Deloitte.

Deloitte & Touche LLP
PCS Tower
Suite 400
122 – 1st Avenue
Saskatoon, SK S7K 7E5

Tel: 306-343-4400
Fax: 306-343-4480
www.deloitte.ca

March 2, 2009

Private and confidential

Mr. Brad Wildeman
President
Canadian Cattlemen's Association
Suite 310
6715 - 8th St. NE
Calgary, AB T2E 7H7

Dear Mr. Wildeman:

I am pleased to attach our draft of the report "Beef Information Centre & Canada Beef Export Federation Integration: Options Going Forward" for your review and commentary.

I would ask that you forward your feedback to Jack Slibar, Deloitte's National Agri-business Consulting Practice Lead, at our Kitchener-Waterloo regional office. I understand that you have his contact information.

As you are aware this has been an extremely challenging engagement in light of the conflicting and entrenched positions of the organizations involved in the Beef sector. I am of the opinion that Jack, the principal architect of this report, developed some very unique and creative approaches to your body's core challenges.

Should you wish to implement this report, I have confirmed that Jack would be available to oversee and manage such an undertaking. Frankly, it is my personal opinion that you would be in no better hands.

Thank you for allowing us to service your advisory needs.

Kindest regards,

Graham Pearson
Partner, Financial Advisory Services
Deloitte & Touche LLP

Table of Contents

© Deloitte & Touche LLP and affiliated entities.

© Deloitte & Touche LLP and affiliated entities.

Executive Summary

The Canadian Marketing Organization Steering Committee ("Steering Committee"), commissioned Deloitte to examine options that would allow for the further integration, streamlining and harmonization of the services and operations delivered by the Beef Information Centre ("BIC") and the Canada Beef Export Federation ("CBEF"). The rationale and imperative for this is that the domestic and international competitive market environments demand that BIC and CBEF maximize their marketing results with the resources available, while concurrently increasing their organizational "nimbleness" in order to take timely advantage of market opportunities while negating threats to the Canadian industry. The desired result is the transformation of both organizations into high-value, high-performance entities that have the potential over time to out maneuver their international counterparts.

In conducting its research and analysis, Deloitte determined that real opportunities exist to further leverage the activities of both BIC and CBEF on the industry's behalf. This includes the opportunities to streamline the delivery of marketing programs and services as well as administrative and back-office functions. It was further noted that efforts were made in the past to achieve a "working together" culture and environment between BIC and CBEF, however, these attempts proved unsuccessful due to:

- Organizational structures and designs that make cooperation challenging;
- Differences of organizational philosophy and culture;
- Institutional rivalries;
- Personality conflicts and rivalries;
- Broader industry political forces centred on differing marketing philosophies (international or Canada/US);
- An absence of 'full-time' resources, coupled with matching authority, to bring the matter to successful resolution.

With a whole industry perspective in mind, the Steering Committee provided Deloitte with a clear determination as to what constitutes the future "desired state" for BIC and CBEF. In like manner, the Steering Committee provided its views as to the "current state" of BIC and CBEF. The difference between the "current state" and the "desired state" allowed Deloitte to extrapolate a gap assessment, which provided a working baseline from which Deloitte generated the four organizational models and four governance models as contained in the body of this report. These models were further supplemented in their design by the Steering Committee's articulation of ten critical success factors. These factors became the underlying pillars which each of the models developed had to incorporate to the greatest extent possible. More specifically, the organizational models developed are:

1. Model One: Facilitation (professionally facilitated harmonization and streamlining that capitalizes on the expertise of the CEO/President of both BIC & CBEF)
2. Model Two: Streamlining & Harmonization Committee (professionally facilitated harmonization and streamlining that capitalizes on the participation of BIC's and CBEF's Board Chairs, CEO/President, and Senior Management Team).
3. Model Three: NewCo Parent with 'Independent' Subsidiaries (the creation of a new organization (ParentCo) that has as its subsidiaries an independent BIC and CBEF).
4. Model Four: NewCo with Two Divisions (the creation of a new organization (NewCo) that has as its divisions BIC and CBEF under a single new Board of Directors).

From a governance standpoint, Deloitte selected four widely accepted and established governance models, specifically:

1. Traditional: the board's function is to govern and oversee operations through committees but delegates the management functions to the CEO.

2. Policy Governance: the board's function is to develop policies to address the accountability of the board and CEO and which also provide a framework for the Board of Directors to do its job.

3. Results-Based: the board's function is to audit results; full board/CEO partnership which is evidenced by the CEO being a non-voting member of the board.

4. Constituency Representative: utilized where there is a direct and obvious link between an organization's board and its constituents such that constituents are usually represented on the board and participate in policy development and planning.

Deloitte was not mandated to recommend any particular organizational or governance model. Rather, Deloitte was mandated to provide a range of real and meaningful options from which the Steering Committee could select; these options were further extended with the addition of the Framework Partners Management Consultants report which recommended the creation of a new integrated and stand alone single organization that would replace both BIC and CBEF.

With regard to the organizational models, the models were progressively designed starting from: 1) the least costly to the most costly to implement; and 2) the least intrusive to the most intrusive to implement. Each model, if correctly implemented, will achieve the same desired end result.

The selection of the governance model is more a matter of preference. Each model, if adhered to, will achieve a solid basis of corporate governance. Regardless of the model chosen or whether the governance model is changed at all, in order to achieve the Critical Success Factors as outlined by the Steering Committee the following should be included:

1. The Board of Directors should be constituted with a blend of producer and industry representatives, and there should be no government representation.

2. The Board should consist of 13 members: 7 producer members and 6 industry members;

3. The Chair should always be a producer member however, the Chair should be subject to restricted voting rights, whereby a deciding vote is cast only in circumstances of a tie or deadlocked vote);

4. The authority of the Board officers should be kept to the statutory minimums;

5. Board committee structures should be kept to statutory minimums;

6. The terms of members of the Board should be extended to three years with a maximum service limit of two terms (6 year total).

Notwithstanding the organizational model or the governance model selected, the presence of implementation support will drive the level of success that will be achieved by BIC and CBEF in their organizational transformation undertakings. The implementation should be championed by an independent professional facilitator who is charged with driving the streamlining and harmonization of BIC's and CBEF's delivery of marketing services, administrative and 'back-office' functions. In this regard, it is the facilitator's responsibility to 'manage' the CEO and President of BIC and CBEF in order to ensure that those individuals fulfill their streamlining and harmonization responsibilities. Execution will still be the responsibility of the CEO and President however, these individuals will be directly accountable to the facilitator for the execution of that strategy. Therefore it is important that the facilitator should be:

1. Unbiased, mandate-driven and results focused;

2. Skilled in organizational transformation and change management from a technical and human capital perspective;

3. Skilled in keeping the parties involved, focused and accountable;

4. The author of a detailed work plan that outlines the process that will be followed in order to achieve the streamlining and harmonization desired;

5. Able to negotiate disputes in a manner that promotes 1) problem solving; 2) consensus building where possible; 3) an appeal to reason and business fundamentals rather than emotion and posturing;

6. Authorized to full and unfettered access to all information, documents, papers and personnel from BIC and CBEF as may be necessary to complete the project objectives; and

7. Mandated with the principal carriage of achieving the desired organizational transformation and required to provide frequent and detailed interim progress reports to the oversight body (such as the Steering Committee, or the Boards of ParentCo or NewCo).

Additionally, the transformation process should be:

1. Subject to tight but realistic timelines, with a maximum period of 12 months for full implementation;

2. Tied to the performance metrics and compensation of both the CEO/President of BIC and CBEF, whereby current performance and compensation measures are amended to incorporate the successful implementation of the desired organizational transformation; and

3. Coupled with clear and high level communication to the industry as to the intent, rationale, and target objectives and outcomes of the organizational transformation of BIC and CBEF.

In conclusion it must be recognized that any organizational transformation process is best achieved within an environment that is transparent. Transformations must be actively managed or there is a substantial risk that the undertaking will fail. It is also highly ‘people’ dependent. All parties involved must feel respected, listened to, and valued. Transformations that make these principles a cornerstone of their process are not only more likely to be successful, but also build and foster stronger more unified organizations that are able to meet the challenges of market competition in the international community.

What Deloitte was asked to do

Background

The Canadian Cattlemen's Association ("CCA") organized the Canadian Marketing Organization Steering Committee ("Steering Committee") to work with Framework Partners Management Consultants ("Framework Partners") and complete an assessment that would provide the CCA Board of Directors with a recommendation regarding the future of the Beef Information Centre ("BIC") and the Canada Beef Export Federation ("CBEF"). The guiding objective of the assessment was to consider how to maximize the return for the check-off dollars invested in these two organizations. The CCA is now seeking to expand upon the review conducted by Framework Partners, which recommended the integration of BIC and CBEF into a new organization.

In the opinion of the Steering Committee, the Framework Partners report carried three fundamental shortcomings:

- It failed to fully consult with representatives of CBEF
- It provided a single solution to the matter of BIC and CBEF integration by recommending a merger of BIC and CBEF into a new organization under one Board of Directors and one CEO.
- It fanned industry division.

Deloitte Engagement

As a result of the perceived shortcomings of the Framework Partners report and recommendation, Deloitte was subsequently engaged by the CCA in order to re-examine the matter of BIC and CBEF integration, and to provide a greater range of potential organizational options other than the Framework Partners recommendation.

Deloitte's engagement mandate was to review the matter from a fresh perspective, notwithstanding the Framework Partners recommendation. While the Framework Partners report and recommendation was to be reviewed, it was not to be the predetermined starting point for Deloitte's analysis. Deloitte was than to provide the Steering Committee with three alternative organizational model options as well as three governance model options. Deloitte's mandate did not extend to recommending a particular organizational model for adoption but rather to provide the Steering Committee with a list of advantages and disadvantages for each model.

© Deloitte & Touche LLP and affiliated entities.

What Deloitte has done

Philosophy of approach

During this engagement Deloitte has adhered to a philosophy of approach that has emphasized the following:

- Maintaining a high level of independence throughout the process.
- Scrupulously treating BIC and CBEF in a fair and equal manner.
- Providing each organization with the same opportunities, and in a like forum.
- Refraining from contacting outside industry parties to discuss the subject matter of its engagement.
- Reviewing and considering the written documentation and oral presentation provided to it from the Steering Committee, BIC and CBEF.
- Not seeking independent verification of claims, statements, or assertions made in written documentation or oral presentations.
- Exercising its professional judgement in the review and consideration of the written documentation and oral presentations.
- Being mindful that its engagement mandate must also be contextualized within the broader industry polity.

Activities to date

During its engagement Deloitte reviewed the following documentation which was provided by the Steering Committee, BIC and CBEF:

Company	Document Name	Subheading	Date
CBEF	Strategic Business Plan	April 2007 to March 2008	April 2007
CBEF	Export Premiums: Optimizing the value of Each animal		September 2008
CBEF	Analysis of Operations, Programs and Potential Integration		October 2008
CBEF	Workshop workbook		
CBEF	Japan VIP Beef Awareness Mission	Mission Follow-up Report - 6 month	June 2008
CBEF	Competitive Intelligence Report	For the markets of: Japan, South Korea, Taiwan, The People's Republic of China, and Mexico	April 2008
CBEF	Competitive Intelligence Report	For the markets of: Japan, South Korea, Taiwan, and Mexico	October 2008
CBEF	Mexico VIP Beef Awareness Mission		September 2008
CBEF	Travel Policy		July 2008
CBEF	Strategic Business Plan	April 2006 to March 2007	April 2006
CBEF	International Markets: Environmental Scan		November 2008
CBEF	Proceedings of the Semi-Annual Meeting		March 2008
CBEF	Strategy Workshop	Report of Results	September 2008
CBEF	CBEF/BIC Integration Feasibility Assessment	Final Report to the Steering Committee	August 2008
CCA/CBEF	2008/09 CCMDC Market Implementation Plan		May 2008
CCA/CBEF	2009/10 CCMDC Market Implementation Plan		November 2008
CBEF	CBEF/BIC Merger Feasibility Study		
CBEF	Proceedings of the Annual General Meeting		September 2008

Company	Document Name	Subheading	Date
CBEF	Financial Statements		March 2003
CBEF	Financial Statements		March 2004
CBEF	Financial Statements		March 2005
CBEF	Financial Statements		March 2006
CBEF	Financial Statements		March 2007
CBEF	Financial Statements		March 2008
CBEF	Organization Chart		
CBEF	Governance Manual		September 2008
CBEF	Operations Report	April 2007 to March 2008	
CBEF	Performance Report		2007
CBEF	Sales Promotion Planning System Summary	April 2007 to March 2008	
CBEF	Strategic Business Plan	Second Draft Summary April 2009 to March 2010	November 2008
CBEF	Amended Final report on CBEF/BIC Merger Feasibility	email from Ted Haney to Gib Drury	August 2008
BIC	Position Profile	Executive Director of Marketing	February 2007
BIC	Position Profile	Food Safety Manager	July 2007
BIC	Position Profile	Consumer Culinary Services Manager	April 2006
BIC	Position Profile	Manager, Nutrition & Food Safety Program	April 2006
BIC	Position Profile	Consumer Research and Marketing manager	May 2007
BIC	Position Profile	Marketing Coordinator	October 2006
BIC	Position Profile	Director of channel development	March 2006
BIC	Position Profile	US Market Development manager	March 2006
BIC	Position Profile	Director: US Market Development	March 2006
BIC	Position Profile	Process Development Manager	March 2006
BIC	Position Profile	Trade Communications Manager	March 2006
BIC	Position Profile	Foodservice Manager	March 2006
BIC	Position Profile	Foodservice Manager, Eastern Canada	March 2006
BIC	Position Profile	Quebec Channel manager	March 2006
BIC	Position Profile	Retail Manager	March 2006
BIC	Position Profile	Regional Retail Manager	March 2006
BIC	Position Profile	Foodservice Manager, Western Canada	March 2006
BIC	Position Profile	Executive Director, Operations	January 2007
BIC	Position Profile	Office Manager, Executive Assistant	March 2006
BIC	Position Profile	Office/Information Systems Manager	March 2006
BIC	Position Profile	Operations Coordination	October 2007
BIC	Position Profile	CEO	April 2006
BIC	Position Profile	Executive Director of Communications and public affairs	May 2007
BIC	Position Profile	Stakeholder Communications Manager	April 2006
BIC	Position Profile	Public Relations Manager	May 2007
BIC	Position Profile	Customer Service Manager	April 2006
BIC	Position Profile	Customer Service Assistant	April 2006
BIC	Position Profile	Customer Service Coordinator	April 2006
BIC	Position Profile	Communications and Public Affairs	March 2006
BIC	Position Profile	Quebec Communications Manager	May 2007
BIC	Position Profile	Communications & Channel Coordinator	May 2008
BIC	Organization Chart		
CCA	Amended by-laws		August 2007
BIC	Strategic Plan		2005-2015
BIC	DRAFT 2009/2010 Budget		December 2008

© Deloitte & Touche LLP and affiliated entities.

Company	Document Name	Subheading	Date
BIC	Business Plan 2008/2009	Final	August 2008
BIC	Business Plan 2009/2010	Draft	December 2008
BIC	Committee 2008/2009		
BIC	Governance Manual		March 2007
CCA	Employee Handbook		2008
BIC	Report to Stakeholders on BIC 2008/09 Business Plan		September 2008
BIC	Summary by Department		
CBEF	Strategic Business Plan		April-March 2009
BIC	Report to Stakeholders on BIC 2007/08 Business Plan	Fourth Quarter	June 2008

In addition to a thorough review of the documentation listed above, Deloitte has undertaken the following activities:

- It conducted confidential and face-to-face interviews with the respective Chairs and CEO/President of BIC and CBEF.
- It provided a verbal briefing to the Board of Directors of CBEF as to the engagement mandate. This offer was also extended to the Board of Directors of BIC but was not capitalized on.
- It conducted an informational gathering workshop with the Steering Committee at which it created a mindmap to capture the information, thoughts, opinions, etc. of the Steering Committee members. A copy of the mindmap will be provided separately to members of the Steering Committee electronically.
- It prepared draft working papers and a Preliminary Report (PowerPoint Presentation) which it presented to the Steering Committee.

Overview of BIC & CBEF

Beef Information Centre

BIC is in the third year of a ten year strategic plan. The vision that has been set out in this plan is for a sustainable, profitable beef industry whereby Canadian beef may be recognized as the most outstanding beef product by both domestic and export customers. Under this plan, BIC's role is to create an environment that will maximize demand for Canadian beef products and also to optimize the value of Canadian beef products for the benefit of Canadian cattle producers.

A cornerstone of BIC's strategy is to build a stronger overarching identity for Canadian fed and non-fed beef in the domestic and U.S. market. This beef brand identity will highlight the quality attributes and points of differentiation of Canadian beef amongst other animal protein products and importing competitors.

Operations

The majority of BIC's funding comes from national check-off sources. As a result, BIC is able to, and has effectively maximized the impact and benefit of producer dollars by leveraging the producer funding against industry development funds and private industry partners. In the table that follows, the reader can identify and quantify the funds allocated to the various strategic objectives in order to understand the overall budget that BIC operates from.

BIC's management group, CEO and Executive Directors, are responsible for the operational execution of the strategic plan approved by the BIC Committee. What follows are the mission and strategy objectives outlined in the strategic plan.

Mission

BIC's mission is to "maximize demand for Canadian beef and optimize the value of Canadian beef products."

Strategy

- Maximize domestic and U.S. demand for Canadian beef products
- Drive consumer confidence in Canadian beef
- Differentiate against alternative protein sources
- Build value chain loyalty for beef
- Strengthen the understanding of customers and consumers of beef
- Incorporate product, program and process innovations
- Meet service expectations
- Deliver meaningful value to producers

The market drivers or areas of focus that are critical for successful execution of this plan are product perception, quality and consistency, convenience and food safety. These drivers permit the brand identity of Canadian beef products to permeate into the market and thereby reinforce the messaging and communication about product differentiation to be readily accepted. According to the information reviewed, BIC is maintaining and defending a 34.5% market share for protein in Canada.

There are essentially 3 areas of market development that BIC concentrates on and include the domestic, commercial beef and the U.S. markets. The tactics to be employed in ensuring these areas are significantly addressed are outlined in the table below. Some of the performance measures that allow for confirmation and validation of the strategic plan are the following:

- Canadian share of target markets and market segments
- In-market price differential
- Customer awareness and understanding of Canadian beef value prop
- Size of market influenced by value prop
- New markets and customers created/maintained by funded initiatives
- Industry funding leverage provided to funded initiatives
- Level of completion of funded initiatives

Commented [KP1]: Any idea what this stands for?

- Objective and benefit realization
- Efficiency of CCMDC investments (Canadian Cattlemen Market Development Council)

Table 1

Consumer Marketing Tactics	Budget	Trade Marketing Tactics	Budget
Brand Management & Research		Retail Marketing	
• Multimedia marketing campaign	279K	• CBA Technical Mktg Resources	87K
		• CBA E-guide	25K
• Consumer market research	200K	• Communicating CBA	62K
		• Leveraging the Cdn Brand	231K
• Performance measures	102K	• Food Safety	3K
Nutrition Program		Foodservice Marketing	
• Nutrition communications	130K	• Communicating CBA	62K
		• Leveraging Cdn Brnad	173K
• Nutrition policy	25K	• Independent trade resources	38K
• Nutrition research	87K	Processing Development	
Food Safety Program		• Communicating CBA	20K
• Food safety policy	10K	• Value-added product dev and commercialization	69K
• Food safety resources	25K		
Consumer Culinary Marketing		Trade Communications	125K
• Cdn Beef Consumer Resources	456K	Communications Team	
		• Consumer PR	218K
		• Issues Preparedness	52K
		Customer Services Centre	
		• Website	90K
		• Direct response centre	145K
		• Resource systems mgmt	30K
		Stakeholder Communications	68K
Total		**$4,447K**	

Commercial Beef Tactics	Budget		Budget
Brand Management & Research		Food Service Marketing	
• Multimedia Mktg	818K	• Communicating CBA	18
• Consumer Mkt research	120K	• Leveraging Cdn Brand	52
• Performance measures	167K	• Independent Trade resources	12
Nutrition Program		• QSR Brand alliance	200
• Nutrition communication	85K	• Mainstream integration of OTM Beef	100
• Nutrition policy	25K	Processing Development	
• Nutrition research	20K	• Value Added product dev	485
Food Safety Program		• Communicating CBA	40
• Food safety policy	10K	Trade Communications	150
Consumer Culinary Marketing		Consumer Communications	
• Ground beef education	339K	• Consumer PR	98
Retail Marketing		• Issues preparedness	16
• CBA Technical Mktg	123K	Customer Service Support	140
• CBA E-guide	25K	Stakeholder Communications	21
• Communicating CBA	18K		
• Leveraging Cdn Brand	69K		
• Food Safety	3K		
• Source Ground Beef	150K		
• Retail Merchandising	100K		
Total		**$4,173K**	

US Tactics	Budget		Budget
Consumer Market Research	180K	Retail Market Development	525K
30 month Market Development	60K	Trade Communications	300
CBA Eguide	75K	Issues Preparedness	32
Communicating CBA	250K	Stakeholder Communications	42
COOL Communicatons/mitigation	120K	Customer Service Support	120
Ethnic Market Development	258K	Performance Measures	35
Foodservice Market development	1038K		
Total		**$4,143K**	

© Deloitte & Touche LLP and affiliated entities.

Key Organizational Roles & Responsibilities

There are essentially three streams of operations within BIC – Consumer Marketing, Trade Marketing, and Communications. Below is a description of the various roles and responsibilities of each of these three streams. In addition, there is an administrative group that handles the "back office" services of the operations.

The various stream leads report to the CEO of BIC. BIC is an entity created under the purview of the Canadian Cattlemen's Association which created a special committee to monitor its functions and objectives. This committee is led by the Executive Vice President of the CCA.

Consumer Marketing

This team is responsible for marketing BIC and managing the perceptions of Canadian beef products in the consumer market. Their responsibilities include consumer and market research, brand management, communication of nutrition and food safety for beef. They are integrated with the other BIC streams consisting of Trade Marketing and Communications.

While providing consumer market data, perceptions and demand metrics, they also provide education and culinary approaches and recommendations to consumers, customers and the media. Through the use of brand management and nutrition communications, BIC positions Canadian beef for increased consumption and also to drive product demand.

Much of the information and research conducted by this group are used in strategic plan development and shared with the other streams so that the goals and objectives of BIC are fulfilled.

Trade Marketing

The role of the Trade Marketing group is to develop the market for Canadian beef products. This includes technical knowledge and relationship/partnership building domestically and in the United States. The primary targets for market development are packers, processors, retailers, foodservice distributors and large chain retail accounts. In this group is a team that is dedicated to building the market in the United States. There are also two additional teams that concentrate on domestic foodservice and retail.

The primary responsibility of this stream is to execute the tactical aspects of the strategic plan to ensure that Canadian beef has a market, both domestically and in the United States.

Communications

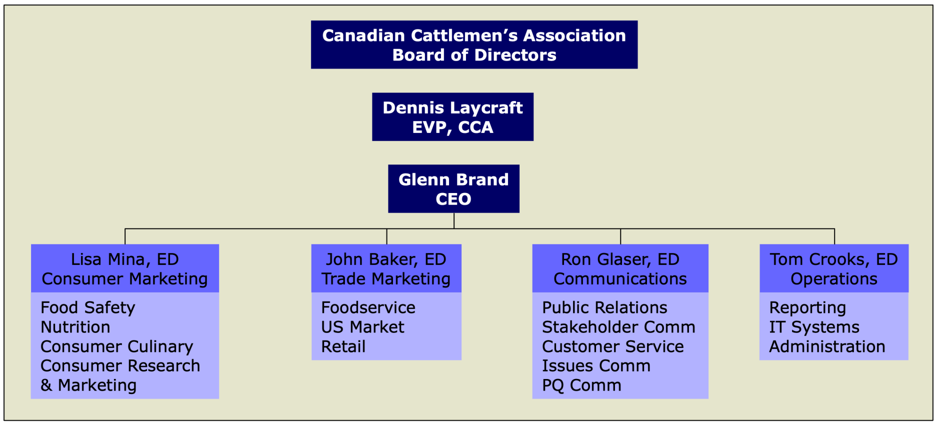
The communications group manages any external communication to the industry, and aligns the messages and communications from Trade Marketing and Consumer Marketing to leverage the information, activities, reputation and expectations of BIC in the industry. This group is also responsible for issue/crisis management and customer service. There are several communications processes that are managed from this group including public affairs, stakeholder communications, media, website, translations and coordination of information.

Communications at the producer associations, and other industry value chain players, are administered and coordinated through this team as well. Moreover, performance indicators and industry facts are consolidated and analyzed by this group.

Staffing Org Chart

BIC's organizational chart is found below. There are a total of 31 employees that work out of the Calgary, Mississauga or home offices.

© Deloitte & Touche LLP and affiliated entities.



Governance

The principal stakeholders for BIC are the members of the CCA, management, and the board of directors. Other stakeholders include the provincial and federal government, industry organizations, regulators, and all the players along the Canadian beef value chain.

Mandate of the Board – BIC Committee

The CCA created the Beef Information Centre to maximize the demand for Canadian beef, domestically. It has since acquired the mandate to develop the U.S. market for Canadian beef. A committee of thirteen elected beef producers governs BIC. This committee represents the interests of over 90,000 beef producers across Canada. The BIC Committee sets the policy, strategic direction and the budget of the Beef Information Centre, and it is accountable to the 29-member board of elected directors of the Canadian Cattlemen's Association.

Selection and membership to the BIC Committee is done at the provincial association level. Each of the associations select and appoint a member to the BIC Committee. Proportional representation of the Committee is done on a formula basis which provides additional Committee appointments to the association. The formula is based on the assessed contribution to the National Check-Off. These individuals serve a term of 1 year and have no limit on the number of terms they serve.

Nominations for Chairman and Vice-Chair are held annually at the CCA AGM by secret ballot. Executive committee members are selected by the provincial organizations and not the BIC Committee. These individuals serve a term of 1 year and no more the 2 consecutive years.

Role and Mandate of Board Committees

At the time of writing, there are no special sub-committees created by the BIC Committee.

Role and Mandate of the Board Officers

One of the primary responsibilities of the BIC Committee is to review and recommend a formal strategic plan to ensure that the vision and mission of BIC are being pursued and realized. This strategic plan is the foundation for the day-to-day operation of BIC's management team. Another responsibility that follows closely is the monitoring and reviewing of the strategy's implementation by the management team.

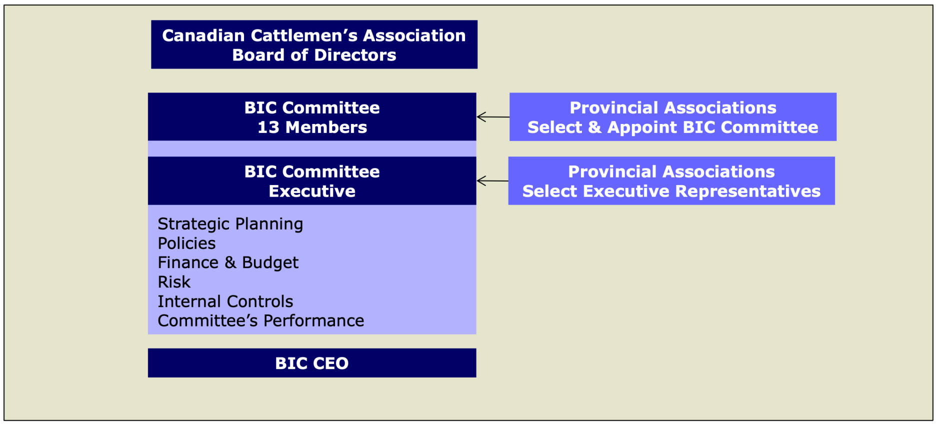
In addition, the officers are responsible for recommending the annual BIC budget, and reviewing the operating and financial performance of the BIC. This is done through monthly and annual financial statement reviews.

Other traditional roles and responsibilities of the BIC Committee include policy and risk review, internal controls and the Committee's performance assessment.

© Deloitte & Touche LLP and affiliated entities.

Board Org Chart

As a sub-committee of the CCA, the BIC Committee functions as a board to BIC. This sub-committee is appointed by producers and oversight is provided by all producer members from the various provinces.



Governance Model

The BIC Committee has a traditional governance structure. Due to the funding provided by the producers through the National Check-Off, the stakeholder group is effectively providing an oversight role to the CCA while maintaining a vested interest in the successful strategic execution of the plan. The BIC Committee reports to the Board of Directors of CCA, and consequently is bound by the specific terms of reference.

Major emphasis is placed on the strategic plan and the monitoring of its successful implementation. As such, representation and feedback is provided to the management group, through the CEO, that allows the management group to fulfill the objectives derived from BIC's Mission and Vision, which are terms of reference for the BIC committee. Communication from CCA members to management is done through the BIC Committee chairman to the CEO of BIC.

With the mandate of maximizing demand for Canadian beef, the policy role of the BIC Committee does not have within its scope the ability to implement or contemplate trade and market access policies, changes or recommendations.

© Deloitte & Touche LLP and affiliated entities.

Canada Beef Export Federation

The Canada Beef Export Federation was established in 1989. Its vision is to have Canadian high quality beef products recognized as the symbol of excellence by global customers. There are specific countries that CBEF actively develops and engages with based on market access conditions and competitive demand and include Japan, Korea, Taiwan, Hong Kong/Macau, China and Mexico. CBEF works closely with its members and the importing countries to build knowledge, educate, stimulate demand and develop products specific to those countries' needs.

Operations

Funding is provided through the National Check-Off, Legacy Funds and federal and provincial governments. Membership of this organization consists mainly of processors/packers, producers and exporters.

Mission

The Canada Beef Export Federation facilitates the expansion of strategic global markets for Canadian beef products. Its mandate is to identify and develop key export markets to increase the sale of Canadian beef products with the cooperation of all companies, organizations and institutions that benefit from this success.

Strategy

The strategy for accomplishing this mission has been set out in the following points. In addition to the development of markets for Canadian beef products, CBEF is also concerned with the price sensitivities of Canadian beef, specifically as it relates to alternative animal protein and cuts of beef, in order to maintain profitability. CBEF strategies are to:

- Secure and increase markets outside the United States for Canadian beef products in order to decrease export dependence on the United States.
- Prevent international price erosion with a mid-term goal of achieving and sustaining United States price equivalence.
- Secure and develop improved access to international markets
- Create strategic partnerships and alliances in order to improve co-operation, coordination and information sharing

The following table highlights the budget of CBEF in the countries that it is currently engaged with. There is consistency in the programs across the various countries and also on implementation.

Canada Market Development	Budget
• Partner Market Development Program	500K
• Member Info and Liaison	60K
• Emerging Markets	100K
• International Marketing Seminar	25K
• Market Research Program	45K
• International Consume Website	75K
• Technical Marketing Materials	200K
Total	**1,005K**

Japan Market Development	Budget
• Market Representation	439K
• VIP Beef Awareness Mission	95K
• Canada Beef Seminars	190K
• Retail and Food Service Promotions	175K
• Food Shows	135K
• Promotional Materials	150K
• Newsletter and Website	70K
• Market Research	20K
• Advertising & Public Relations	151K
Total	**1,425K**

Korea Market Development	Budget
• Market Representation	203K
• VIP Beef Awareness Mission	80K
• Canada Beef Seminars	140K
• Food Shows	40K
• Promotional Materials	100K
• Newsletter and Website	15K
• Market Research	20K
• Advertising & Public Relations	25K
Total	**623K**

Taiwan Market Development	Budget
• Market Representation	207K
• VIP Beef Awareness Mission	80K
• Canada Beef Seminars	50K
• Retail and Food Service Promotions	160K
• Food Shows	50K
• Promotional Materials	60K
• Newsletter and Website	12K
• Market Research	8K
• Advertising & Public Relations	95K
Total	**722K**

China Market Development	Budget
• Market Representation	411K
• VIP Beef Awareness Mission	66K
• Canada Beef Seminars	80K
• Retail and Food Service Promotions	175K
• Food Shows	45K
• Promotional Materials	70K
• Newsletter and Website	12K
• Market Research	20K
• Advertising & Public Relations	65K
Total	**944K**

Mexico Market Development	Budget
• Market Representation	394K
• VIP Beef Awareness Mission	85K
• Canada Beef Seminars	115K
• Retail and Food Service Promotions	450K
• Food Shows	140K
• Promotional Materials	95K
• Newsletter and Website	5K
• Market Research	12K
• Advertising & Public Relations	125K
Total	**1,421K**

As is readily apparent from the above charts, the largest portions of the budget are being spent in Mexico, Japan and Canada. It is also important to note the above do not take into account operational program administration for the various countries.

Key Organizational Roles & Responsibilities

There are two separate groups within CBEF – international offices and the Canadian group. The Canadian group consists of the President, VP Marketing and VP Exports, Technical Services, and administration. The international offices consist of Country Directors and their marketing managers and support staff.

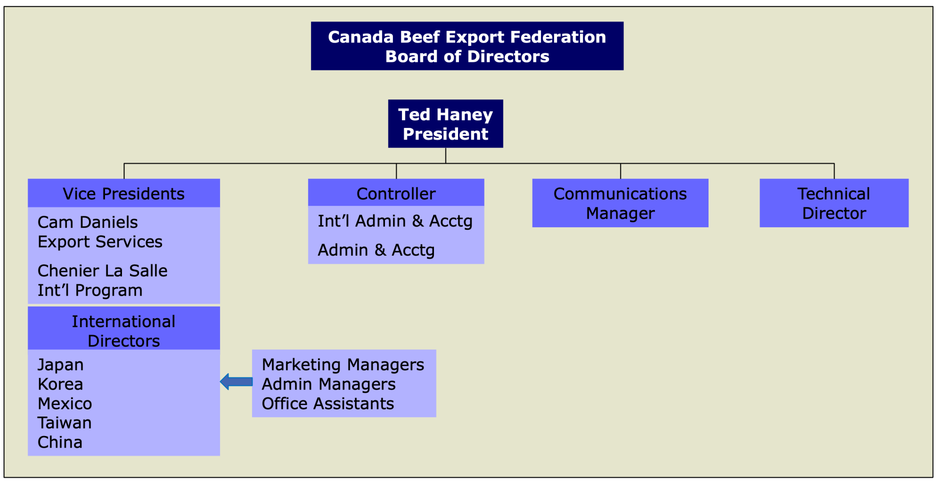
The Canadian group's principal activities appear to be around the "partner program". This means managing export members, preparing and educating these members on beef importing countries, and gathering market intelligence from around the globe.

At the various international offices of CBEF, personnel are responsible for developing relationships, contacts and demand requirements for Canadian beef. This is done through a variety of means including seminars, food show attendance, promotional activities with retail and foodservice clients, advertising and VIP missions.

Market research and intelligence is gathered internationally and then disseminated throughout the member group through reports such as Competitive Intelligence Reports.

Staffing Org Chart

The Canadian team has a complement of 12 people while the international team consists of 19 personnel. In addition, there are contractors and suppliers that are used on a case by case basis in order to enhance the quality of delivery and the individual programs.



Governance

Mandate of the Board

CBEF's board is responsible for the management of the organization, and has the primary role of stewardship on behalf of the members. The board provides direction to the total affairs of the organization. It oversees the conduct of the organization's business and supervises management. Leadership quality, depth and continuity are provided by the board to ensure major strategic and operational objectives are achieved.

Selection and membership to the CBEF Board is done by voting members at the annual general meeting. CCA and eligible members may then appoint representatives as Directors only once the Chair, Finance & Audit Committee Chair, Promotion Committee Chair; Membership Committee Chair, Technical Committee Chair and 3 Vice Chairs have been elected. Board directors serve a term of 1 year and have no limit on the number of terms they serve, with the exception of a limit of 4 consecutive years in any chair position. The President is appointed by the Board.

Role and Mandate of the Board Officers

The CBEF Chair has the role of managing the board, overseeing and providing guidance to the President, and fostering relationships in the best interest of the federation. This individual also serves as the Chair of the Governance and Compensation Committee. Directors and other committee chairs act to fulfill the mandate of CBEF

Role and Mandate of Board Committees

<u>Governance and Compensation Committee</u>

© Deloitte & Touche LLP and affiliated entities.

This committee monitors and manages the corporate governance and management compensation processes. They have unrestricted access to personnel and documents of CBEF and may affect any investigation within the scope of its duties.

The Board Chair serves as the Chair of this committee and appoints 3 directors and up to 2 external advisors. This committee is responsible for the board and committee structure, management appointment and succession, and also reviews and approves management performance and compensation.

<u>Finance and Audit Committee</u>

Responsibilities of this committee are the review of CBEF's financial reporting, accounting systems and internal controls.

This committee must report to the board on the financial statements, external auditor relationships, accounting systems and internal control integrity, performance measurement and investment policy/performance.

<u>Promotion Committee</u>

The Promotion Committee is responsible for coordinating all domestic and international promotion activities carried out by the management team.

This committee reviews and audits the market development strategy, the Strategic Business Plan and the promotion program established by management. The committee ensures that the federation's members are consulted with during the formulation of the Strategic Business Plan, in addition to input from the Board.

<u>Membership Committee</u>

The Membership Committee coordinates all membership activities of the federation, plans for maintenance and expansion of membership, the membership approval process, and recommendations of new memberships for board approval.

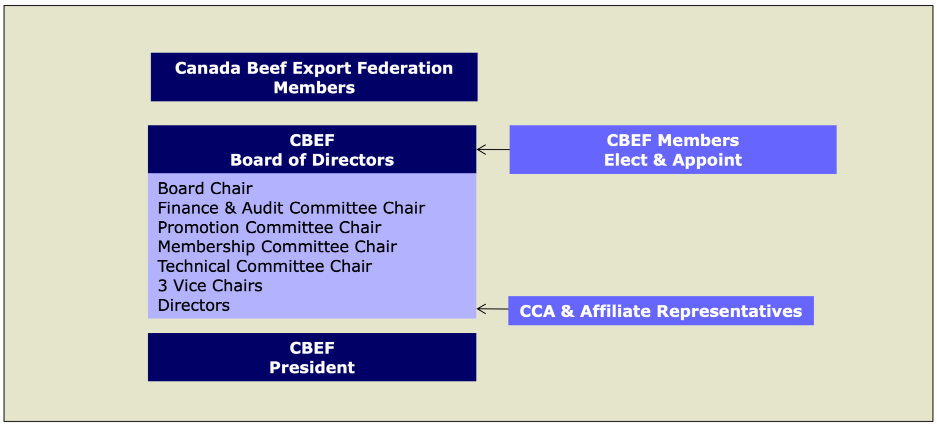
<u>Technical Committee</u>

This committee identifies production, processing, transportation and market access and trade policy issues affecting the membership and develops positions on these issues for presentation to the board for approval.

With respect to the technical issues, this committee is responsible for the following:

- Identification of domestic and international production, processing, transportation issues that may prevent the federation from attaining its export goals, and those of its members
- Identification of all bilateral and multilateral market access and trade policy issues that may prevent exportation of Canadian beef products to international markets
- Develop technical and policy solutions to address identified impediments
- Communicate and advocate adoption of solutions to the board, members and Canadian and international governments

Board Org Chart



Governance Model

The governance model adopted by CBEF enables the board, through voting members, to develop the trade policy and market access required by its members to effectively sell Canadian beef into international markets.

One of the greatest contributions of the board is to ensure position policies are developed and communicated into various markets and through the various government mechanisms to provide access to Canadian beef product. This is a critical role in allowing its members to fulfill its beef exporting requirements and facilitating business transactions directly or indirectly into foreign markets.

Analysis of Operational Overlap

The following table provides a comparison of activities that each organization is responsible for delivering as per their strategic plans.

Beef Information Centre **DOMESTIC**	**Canada Beef Export Federation** **CANADA**
Brand Management and Research • Brand Identity Development • Primary Research – Qualitative/Quantitative • Market Research Data • Advertising and Brand Identity Tracking Nutrition and Food Safety • Health Professional Communications • Nutrition Policy, Analysis, Knowledge & Issues Management • Food Safety Policy, Industry Liaison and Knowledge Management • Nutrition Research Consumer Culinary Marketing • Consumer Promotion Program Retail Marketing • Communication of Canadian Beef Advantage • Retail Merchandising Program • Meat Case Convenience Enhancement • Retail Merchandising and Technical Services • Retail Nutrition Based Lean Cuts Program • Canadian Beef Quality Resource Foodservice Marketing Budget • Communicating the Canadian Beef Advantage • Foodservice Merchandising and Technical Services • Technical Resource Development • Product Misrepresentation of Canadian Beef Processing Development • Communicating the Canadian Beef Advantage • Value-added Product Development and Commercialization Trade Communications • Direct Communication to Retail and Foodservice Trade • Trade Advertising and Media Relations Consumer Communications and Public Affairs • Consumer Media Relations • Issues Preparedness BSE Recovery/Marketing Contingency Customer Service Centre • Website Development, Hosting, Email and Maintenance • Direct Response Centre • Resource Systems Management Stakeholders Communication	Partner Market Development Program • Generic Export Development • Generic Export Readiness • Brand Promotions Member Information and Liaison Emerging Markets International Marketing Seminars Market Research Programs International Consumer Web Site Strategy Technical Marketing Materials

U.S. MARKET DEVELOPMENT	Japan, Korea, Taiwan, China, Mexico
• Brand Management & Research • Communication of Canadian Beef Advantage • Retail Brand Development • Foodservice Merchandising • Commercial Beef Re-Entry • Trade Shows, Seminars and Trade Missions • Ethnic Market Development • Trade Advertising and Communications • Issues Preparedness • U.S. Customer Service Support • Partner Program Development • Substantiating the CBA • Establish the CBA •	• Market Representation • VIP BEEF Awareness Missions • Canada Beef Seminars • Retail and Food Service Promotions • Food Shows • Promotional Materials • Newsletter and Websites • Market Research • Advertising and Public Relations
COMMERCIAL BEEF	
Consumer Beef Tactics • Integrated Multimedia Marketing Campaign • Lean Ground Beef Health Check Promotions • Nutrition Policy, Analysis, Knowledge and Issue Management • Food Safety Policy, Industry Liaison and Knowledge Management • Source Ground Beef • Retail Merchandising of OTM Beef Products • Foodservice Merchandising of OTM Beef Products • QSR – Strategic Alliances • Brand Management and Research • Value Added Product Development • Cutouts Analysis and Value Optimization • Retail and Foodservice Industry Communication • Consumer Media Relations • Issues Preparedness • Commercial Beef Customer Service Support • Defining and Communicating the CBA	

The table has been divided in 2 rows – Domestic and U.S. Development. Domestic is defined as the Canadian market and any activities that occur within the borders of Canada to build knowledge, capacity, awareness and demand for opportunities to provide Canadian beef. U.S. development is defined to capture any beef that leaves the realm of Canadian consumption, and this is regardless of how either entity defines foreign or domestic. Commercial Beef is a category that includes domestic and U.S. development since it deals primarily with maximizing demand and awareness for different beef cuts and commercial process beef.

It is important to point out that this categorization has been done to simplify and present the analysis, and does not serve to indicate a preference for mandates of either of the organizations.

Domestic Market / Canada

Both of the organizations are engaged in the domestic market. These activities include branding of Canadian beef, promotion of specific beef products, technical data, market research, websites, member communications, and seminars. Included within these activities is a categorization of activities specifically around communication of the value of Canadian beef and those activities that promote the demand and sale of Canadian beef.

There is an overlap of activities around demand and sale of beef irrespective of the organizations members. BIC works closely with retail, foodservice and processing and provides much information and experience in assisting these groups increase throughput. CBEF builds on their members' innovation and flexibility in providing access of their products into other countries. With such a wealth of information and experience in both organizations, there exists a huge potential to leverage this information into each other's programs to increase effectiveness and efficiency.

© Deloitte & Touche LLP and affiliated entities.

Technical experience and research can be shared to better understand the existing conditions in the value chain, and more importantly how demand and improvement, or innovations, may be introduced to the industry to create demand and profitability.

While each organization is managing communications across the industry and their trade partners, the messaging is confusing. Although some improvements have been done with respect to the branding and identity of Canadian beef, some of the messages have not been integrated across the value chain. Websites of the 2 organizations can improve the image and the available data to consumers and industries.

Marketing and communications are done to increase consumer demand in Canada, build sales through retail, foodservice, and product promotions. CBEF works with the processors, exporters and foodservice clients to position demand and sales of Canadian beef. Much can be learned and coordinated since the majority of the members and value chain players in Canada are limited. This coordination would work very well with respect to the public relations/affairs on crisis mitigation.

The level of investment and budget allocation by both organizations into the domestic market is substantial, almost $6 million dollars between the two bodies. There are areas that can benefit from coordination and cooperation which will thereby increase overall industry acceptance and ultimately generate profitable growth for all players.

U.S. Market Development / Global Market Development

As defined and understood above, beef exported from Canada has several destination countries. The largest market is the United States. It has achieved this status due primarily to long standing relationships and trade experience that Canada has nurtured throughout the years. There are other countries that import Canadian beef products and these countries offer a large potential market for Canadian beef. There is much activity currently underway in developing the messaging, specific product requirements, relationships and market awareness of Canadian beef in these countries.

Similar to the domestic market, activities aimed at building existing and new beef demand opportunities involve creating the awareness of the Canadian Beef Advantage, branding and partnering with foodservice and retail, and market research. Both organizations participate in various food shows and provide beef information to similar audiences in the industry. There is an overlap with respect to relationship building of the various industry players at the multi-national and retailing levels. Experience and contacts should be leveraged to extract the maximum and strongest potential to engage with clients, and countries, in generating additional beef sales.

One of the most critical aspects of these organizations is to ensure that countries keep their borders open to Canadian beef. Stronger positions on trade policy and comparative analysis and representation at the government levels can be maximized to ensure trade policy is beneficial to all players in the Canadian beef value chain. Whereas the U.S. relationship has traditionally provided for a long established understanding with the Canadian beef industry, there is evidence in the global arena that the U.S. will be adopting a more protectionist position with respect to all foods being imported. As such, the need for diversification for Canadian beef products should be seriously considered and coordinated. A "united front" from the Canadian beef industry has to be established and similarly a coordinated effort in trade policy, market access and market development.

The organizations can benefit from this coordination and alleviate some of the overlap which has the potential to create a strong voice for the Canadian beef industry worldwide. If both organizations understand the importance of integrating and consolidating best practices in market development and practice sharing mutual positions for the beef industry, then it becomes very difficult for any single country to hold Canadian beef demand hostage due to political or trade policy issues. Everyone within the Canadian beef value chain benefits from using each others strengths in aligning to serve it.

Approximately $7.5 million dollars is allocated to the development and maintenance of beef demand and sales into foreign countries. In focusing messaging and communications across the various borders, sharing best practices and ensuring brand and identity are consistent across all of them, both organizations can make more effective use of their respective budgets.

Commercial Beef

Aside from fulfilling demand for specific beef products, all the players in the value chain accept the importance and sustainability of maximizing the entire animal for profit. Commercial beef is a broad category that captures the industry's need to provide processed beef products and other products that would otherwise not be utilized. Each of the organizations are concerned with fulfilling the unique requirements of their partners, as such it is critical that each understands the different offerings and how to market them to generate beef product sales.

BIC has developed various programs that attempt to provide and build acceptance of these products. Similarly, CBEF is managing the unique product specifications from other countries. There is an opportunity to share and coordinate products, specifications and awareness of different beef products available. It may be that certain products in high demand may be processed differently, and knowing these parameters can assist the various players in realizing the appropriate profit and product for these demands.

Different initiatives can be uniquely positioned in different countries to satisfy a beef product need. Alternatively, introduction of ethnic specialties can create an entirely new market. However, each organization needs to be in tune with their respective clients/partners and provide information to the other so as to realize opportunities and satisfy the customer demands, and more importantly, generate profit for beef.

Other Opportunities

There are some opportunities identified that may allow both organizations to be more effective and efficient in fulfilling their respective mandates, and they include: communications, regulations and brand.

Although these have been introduced above, it deserves further comment in that both organizations have to satisfy the individual needs of their members. Funding for both organizations is done primarily from the National Check-Off System. Communication across stakeholders on different initiatives is critical to ensure maximum return on dollars expended. This communication is especially critical in conveying the nutritional value of Canadian beef, easy identification of Canadian beef, consumer and business information and resources, and crisis management. A commitment is necessary to ensure that each message is consistent and supportive of the other.

Considerable effort has been exerted in building a Canadian beef 'brand' and while not exactly providing a 'common' identity, it serves in offering consumers distinguishing characteristics. These characteristics are critical in forming the brand promise to the consumer. If this promise is broken, Canadian beef is truly another commodity. It is critical that both organizations work closely in establishing that brand identity and understanding what promise they are attempting to fulfill for the different value chain players.

Regulations, government and public relations are embedded in the beef industry. While each organization works closely with the different and applicable levels of governments, foreign and domestic, the opportunity exists to leverage the collective requirements of the value chain. This ultimately begs the need for communication and coordination. Positioning and letters of concern need to be coordinated so that governments will listen and act. Alternatively, if requirements aren't addressed, they have the ability to exert pressure through the domestic government to ensure the industry remains competitive.

Communication and coordination are the essential tools to ensure the successful execution of each organization's mandates and successful competitive improvements of the Canadian beef industry.

© Deloitte & Touche LLP and affiliated entities.

Overview of the problem

Overview

The international and domestic competitive environments demand that BIC and CBEF maximize their marketing results with the resources available. In order to accomplish this, BIC and CBEF need to streamline and harmonize their service and program delivery efforts to capitalize on the real opportunities that exist.

Notwithstanding the positive work that both BIC and CBEF currently deliver, there exists a real opportunity to further leverage BIC and CBEF on industry's behalf, and transform both organizations into highly efficient, high-value and high-performance entities.

Even though significant efforts and resources have been expended in the past to have BIC and CBEF "work together" effectively, these efforts have been stymied by:

- Organizational structures and designs that make cooperation challenging;
- Differences of organizational philosophy and culture;
- Institutional rivalries;
- Personality conflicts and rivalries;
- Broader industry political forces centred on marketing philosophies (international or Canada/US);
- An absence of 'full-time' resources, coupled with matching authority, to bring the matter to successful resolution.

Gap Analysis Between Current State and Desired State

In relation to the information collected during the Steering Committee workshop organized by Deloitte, below is an analysis which highlights the differential between the current state and the desired state of the two organizations.

Current State	Desired State
There is a perception that, currently, funds are not allocated fairly. GMAC makes a recommendation as to how funds are allocated based on past practice but has not revised their recommendation to reflect changing times and issues or the differences in operational requirements that BIC and CBEF have.	Check-off funds need to be more fairly allocated between BIC and CBEF based on their respective needs. GMAC should review each organization's funding needs annually and base their allocation recommendation on what is required by each organization at that time. The funding system needs to be more flexible and nimble so that it can respond to unforeseen or unexpected events quickly and shift funds accordingly between BIC and CBEF.
CBEF and BIC currently approach government and industry separately; sometimes with differing views and messages, which may produce conflict or result in contradictory information being provided; sometimes with the same view or message, in which case there is redundancy and a potential for cost- and time-savings.	To have one unified, coordinated voice that speaks to government and industry on behalf of both organizations whenever possible. This will ensure one consistent message is provided to government and industry; it may add strength to the message; it would reduce mixed and redundant information being provided; and reduce costs by having only one spokesperson disseminating the same message.
BIC and CBEF conduct their business and operations separately with little or no integration	More coordinated and efficient operations that would provide more flexibility and nimbleness, as

Current State	Desired State
or engagement. Both organizations appear to be doing some of the same things in terms of resourcing, operations, strategies, programs. Objectives are not integrated, synergies are not taken advantage of, expertise remains with each organization and is not shared.	well as potential cost-savings → increased engagement between internal resources of BIC/CBEF → optimization of financial and human resources → integrate objectives of BIC and CBEF to produce synergies between the two organizations → make use of the expertise available in both BIC and CBEF for the benefit of both organizations → Eliminate, or at least reduce, duplication in the operations, programs and strategies of the two organizations
There is representation of processors/packers and producers on the CBEF board but only producer representation on the BIC board. As a result, CBEF is seen as representing processors/packers and BIC is seen as representing producers. There is no retailer representation on either board.	Representation of the full value chain (combined with representation based on economic size) to provide increased engagement across the full value chain.
There is a perception that BIC and CBEF have to compete with each other for decreasing funding, as well as the attention of stakeholders who have limited time available to devote to each of the organizations.	Diminished competition between BIC and CBEF in terms of funding, stakeholder attention and engagement.

Critical Success Factors

Below is a summary which highlights those factors, as established by the Steering Committee during the workshop, which must be addressed in any future structure that is proposed for CBEF and BIC. In developing the proposed organizational models, Deloitte endeavoured to ensure that each of the critical success factors was satisfied to the extent possible or practical.

1. One organization cannot be assumed by the other. It is not an option for one of the organizations to be merged into the other organization. If a merged structure is contemplated it would have to be under an entirely new entity.

2. It would be unacceptable in any future structure for the CEO/President of either of the organizations to report to the CEO/President of the other organization. Both the CEO of BIC and the President of CBEF must remain in their current, or an equivalent, position, in any future structure.

3. Operational continuity must be maintained during any transition to a new structure. There can be no significant interruption to service delivery or to the day-to-day operations of the organizations.

4. The benefits of changing to a new structure must be clearly visible and demonstrable to stakeholders, and must be such that the benefits outweigh any costs associated with changing structures.

5. True and meaningful accountability in terms of performance, financial deployment and market effectiveness must be present in any future structure. This appears to be lacking to a certain degree in both organizations at the present time.

6. It is of paramount importance to CBEF that the producer-processor/packer representation on the board of directors that currently exists within the CBEF governance structure be maintained.

7. In the event both CBEF and BIC continue as separate organizations from each other, BIC should no longer be a committee of the Canadian Cattlemen's Association but should be constituted as a separate legal entity similar to CBEF. However, the funding bodies should continue to have control over Board appointments.
8. There must be increased co-operation and coordination between the two organizations in any future structure that will result in the optimization and flexibility of financial and human resources and will allow for more synergies between the two organizations and more nimbleness in their operations.
9. Once a final decision on the future structure of the organizations has been made, there must be third party implementation, or at the very least third party supervision of implementation, of the decision. This is to ensure that the decision is implemented and that the implementation is completed quickly and with impartiality.
10. Any future structure must be a final solution and must resolve as many of the problems as possible once and for all. Otherwise, there is the concern that if it is not a final solution there may be increased polarization among stakeholders, as well as between the two organizations; government support may be lost; the national check-off system may collapse; and key industry resources may be demoralized.

Critical review of organizational models

Underlining Principles

Deloitte has developed four different organizational models:

- Model One: Facilitation
- Model Two: Streamlining & Harmonization Committee
- Model Three: NewCo Parent with 'Independent' Subsidiaries
- Model Four: NewCo with Two Divisions

Each of these models address both the gap assessment and, to the extent practical, the critical success factors as developed by the Steering Committee during the workshop and which have been outlined in the previous section.

The models have been progressively designed, starting from:

- The least costly to most costly to implement (except for models 3 and 4 where model 4 would be less costly than model 3);
- The least intrusive to most intrusive to implement;
- Models one and two require no legal reorganization; and
- Models three and four require legal reorganization.

All models will require independent third party implementation support and professional facilitation.

Identified Key Factors

Notwithstanding the organizational structure that is selected, each model requires the use of an independent, professional facilitator. To be successful in the facilitation role, it is of paramount importance that the person chosen for this role have the following characteristics:

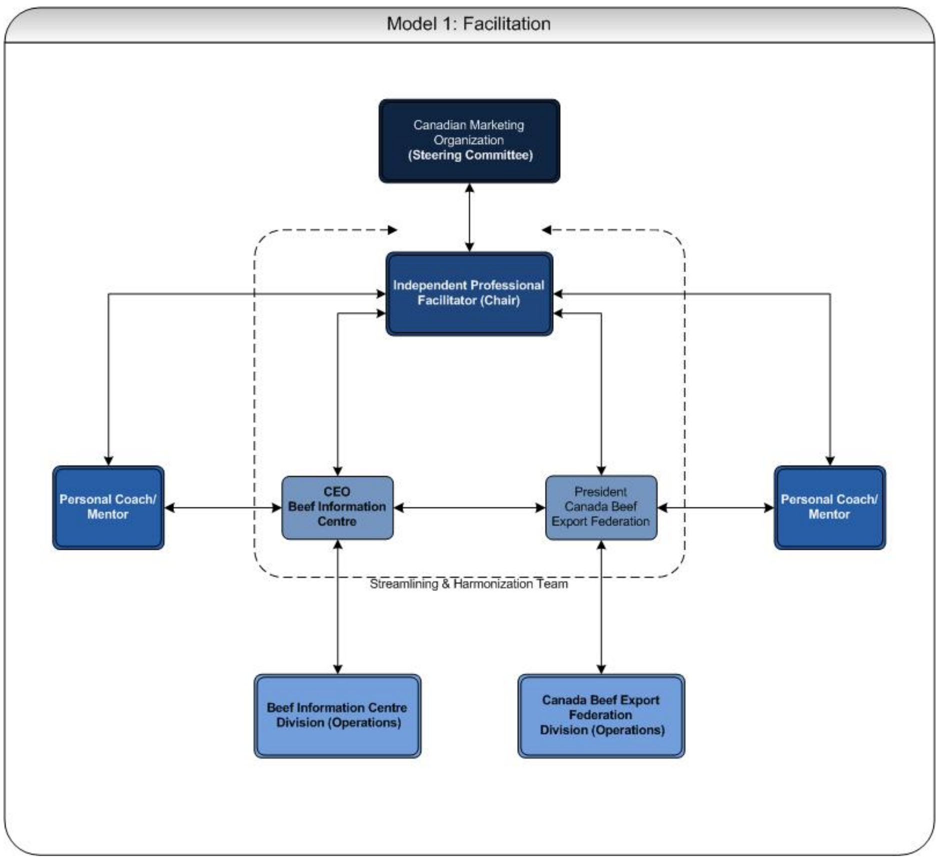
- Unbiased, mandate-driven and results focused;
- Skilled in organizational transformation & change management from the technical and human capital perspectives;
- The author of a detailed work plan that keeps the parties involved, focused and accountable;
- Able to negotiate disputes in a manner that promotes: 1) problem solving; 2) consensus building where possible; 3) an appeal to reason and business fundamentals rather than emotion and posturing;
- Authorized to full and unfettered access to all information, documents, papers and personnel (from BIC & CBEF) necessary to complete the project objective;
- Mandated with the principal carriage of achieving the desired organizational transformation and required to provide frequent and detailed interim progress reports to the oversight bodies (i.e. funding agencies).
- Able to achieve tight but realistic timelines (maximum period 12 months for full implementation).

In addition to the above, there are two additional factors that must be present during the implementation process itself, regardless of the model chosen:

© Deloitte & Touche LLP and affiliated entities.

- CEO/President performance metrics and compensation must be amended to incorporate the successful implementation of the desired organizational transformation to provide these two officers with an incentive to achieve the chosen outcome; and
- Clear and high level communication to the stakeholder community as to intent, rationale, and target objectives and outcomes of the organizational transformation of BIC and CBEF.

Organizational Model One: Facilitation



Fundamental Characteristic

The fundamental characteristic of this model is that it mandates professionally facilitated harmonization and streamlining that capitalizes on the expertise of each CEO/President (BIC & CBEF), while maintaining the current structures of the two organizations.

Under this model, the CEO of BIC, the President of CBEF and an independent, professional facilitator will form a harmonization and streamlining team that will work together to streamline and harmonize the two organizations' service and program delivery efforts in order to capitalize on the real opportunities that exist. The CEO and the President will each work with a separate personal mentor or coach that will guide them through this process and act as an independent and confidential support base. The facilitator would be responsible for developing a work plan, as well as reporting back to the Canadian Marketing Organization Steering Committee on the progress of the team on a regular and frequent basis (for example, every two weeks).

Advantages

The advantages of this model are that:

- it provides a face saving mechanism for all parties involved;
- it is the most cost effective, least disruptive, and quickest to implement;
- structured engagement between BIC and CBEF allows for the building of confidence measures and negotiation based on corporate interests and business fundamentals rather than personal positioning, posturing or appeals to emotion or the dissemination of mixed corporate messaging;
- an independent facilitator becomes an honest messenger and reporter to the stakeholder community;
- it compels the examination of 'sister organization's' interests, challenges, and objectives (builds empathy);
- it does not require structural or organizational change;
- it maintains organizational independence while allowing for 'virtual' harmonization of program delivery and 'back-office' services;
- it avoids potentially divisive and bitter industry split over BIC and CBEF support and supremacy;
- personal coaches provide an independent and confidential support base for each CEO/President thereby enhancing the probability of success; and
- in the event of failure, builds a clear and obvious case for more aggressive action.

Disadvantages

The disadvantages of this particular model are that:

- there is the potential for false perception of weakness by industry stakeholders, BIC and CBEF based on a failure to take an action that is clearly 'visible';
- advancement is dependent on the willingness of both the CEO and President to participate in good faith rather than on a system or legal structure that can compel them to act;
- if implementation of Model One is unsuccessful, the change process is set back by four months;
- one or both the President/CEO may take a minimalist approach, cooperating to an absolute minimal standard, while waiting for the integration 'storm' to blow over;
- once the initial streamlining and harmonization task is completed, and the facilitator departs, there is no structural system in place to ensure continued and enhanced integration. The risk of regression exists; and
- this model does not meet one of the critical success factors (7) outlined in the previous section in that BIC would continue as a committee of the Canadian Cattlemen's Association rather than be constituted as a separate legal entity similar to CBEF. It is possible for BIC to become

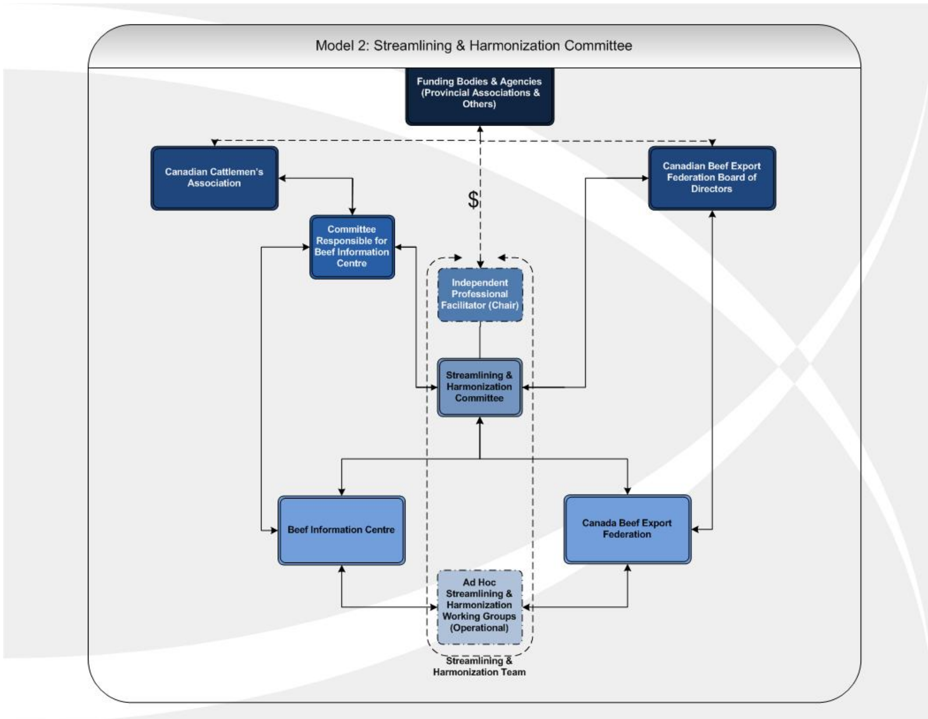
a separate legal entity under this model if it so chooses, but doing so would add additional costs and complications when there is no real added value.

Caveat

In order for this option to be successful and meet the demands of stakeholders, it should be limited to a 4 month time period to demonstrate significant progress. What constitutes "significant" progress must be determined beforehand by the Steering Committee.

In addition, this option should only be chosen in conjunction with option 3 or 4, whereby a predetermination is made that either option 3 or 4 is the automatic default option in the eventuality that no significant progress in made within the 4 month period.

Organizational Model 2: Streamlining & Harmonization Committee



Fundamental Characteristic

The fundamental characteristic of this model is that, similar to Model One, it mandates professionally facilitated harmonization and streamlining, but rather than limiting this to the CEO/President of the organization, it capitalizes on the participation of BIC and CBEF's:

- Board Chairs
- CEO/President
- Senior Management Team

The Board Chairs and CEO/President of BIC and CBEF would form a Streamlining and Harmonization Committee, with an independent, professional facilitator who would act as the Chair of this Committee and would report back to the Canadian Marketing Organization Steering Committee on a regular and frequent basis. In addition, an ad hoc Streamlining and Harmonization Working Group would be established at the operational level and would be made up of the CEO/President of BIC and CBEF, as well as members of the senior management team (staff) from each of the two organizations. Together, the Committee and working group would make up the Streamlining and Harmonization Team, and would be under the leadership of the facilitator who would develop the work plan. It would be an inclusive, cooperative and dynamic process but one that it is results oriented. The Committee and Working Group would be responsible for identifying and implementing any streamlining and harmonization opportunities within the two organizations' service and program delivery efforts, and back-office services.

Again, similar to Model One, this model would not require any changes to the current structures of the two organizations.

Advantages

Advantages of this model are that:

- it provides a face saving mechanism for all parties involved;
- it is less cost effective than Model 1 but more cost effective than Models 3 & 4;
- it is more disruptive than Model 1 but less disruptive than Models 3 & 4;
- it broadens participation to include Board of Directors (Political) participation and Senior Management Team participation;
- it has been suggested that at the political level, and sub CEO/President levels cooperation between BIC and CBEF exists and works; this model takes advantage of this;
- structured engagement between BIC and CBEF allows for the building of confidence measures and negotiation based on corporate interests and business fundamentals rather than personal positioning, posturing or appeals to emotion or the dissemination of mixed corporate messaging;
- it compels the examination of 'sister organization's' interests, challenges, and objectives (builds empathy);
- it does not require structural or organizational change;
- the independent facilitator becomes an honest messenger and reporter to the stakeholder community;
- organizational independence is maintained while allowing for 'virtual' harmonization of program delivery and 'back-office' services;
- the potential exists to submit joint business plans and budgets; and
- it avoids potentially divisive and bitter industry split over BIC and CBEF support and supremacy.

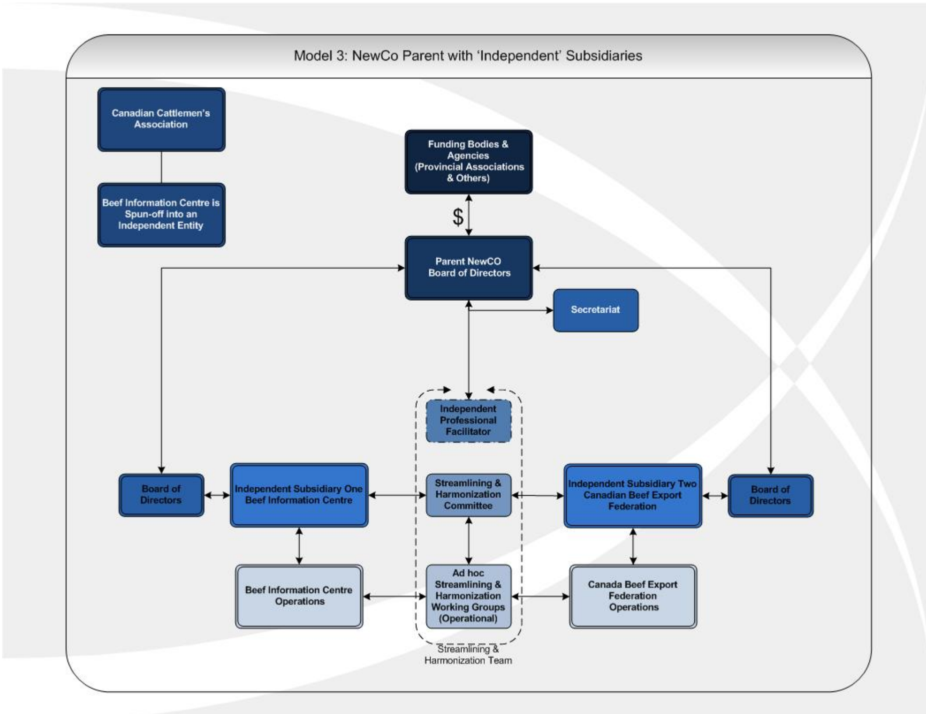
Disadvantages

The disadvantages of this model are:

- the potential for false perception of weakness by industry stakeholders, BIC and CBEF based on a failure to take an action that is 'visible';
- advancement is dependent on the willingness of both Board Chairs, CEOs and respective senior management staff to participate in good faith; rather than on a system or legal structure that can compel;

- one or both organizations may take a minimalist approach; cooperating to an absolute minimal standard, while waiting for the integration 'storm' to blow over;
- once the initial streamlining and harmonization task is completed, and the facilitator departs, there is no structural system in place to ensure continued and enhanced integration. The risk of regression exists though less so than in Model 1; and
- this model does not meet one of the critical success factors (7) outlined in the previous section in that BIC would continue as a committee of the Canadian Cattlemen's Association rather than be constituted as a separate legal entity similar to CBEF. It is possible for BIC to become a separate legal entity under this model if it so chooses, but doing so would add additional costs and complications when there is no real added value.

Organizational Model 3: NewCo Parent with 'Independent' Subsidiaries



Fundamental Characteristic

Under this model, BIC would be spun off from the CCA and constituted as a separate legal entity similar to CBEF. BIC and CBEF would then become separate and independent subsidiaries of a completely new organization that would be created (ParentCo). ParentCo would not require much in terms of operating expenses but would be composed of a small Secretariat. The operating assumption of this model is that the check-off dollars that fund the marketing activities of each of the organizations would be funneled without any type of division to ParentCo. ParentCo would be responsible for dividing up the funds between BIC and CBEF as necessary. As a consequence, ParentCo would carry not only the financial responsibility for fund allocation, but also the burden for ensuring that performance, as well as streamlining and harmonization efforts, are maximized between the two entities.

As with the previous model, this model also requires the use of a Streamlining and Harmonization Team comprised of a Streamlining and Harmonization Committee and an ad hoc Streamlining and Harmonization Working Group. The Committee would be made up of the Chairs of BIC and CBEF, the CEO and President of BIC and CBEF respectively, and the independent, professional facilitator. The Working Group would be made up of the CEO of BIC and the President of CBEF and members of the senior management team (staff) from each of these two subsidiaries. This Team would be responsible for identifying and implementing any streamlining and harmonization opportunities within the two organizations' service and program delivery efforts, as well as back-office services. The facilitator would provide the Team with a work plan and would also report regularly to ParentCo on the success of the streamlining and harmonization process.

© Deloitte & Touche LLP and affiliated entities.

Advantages

The advantages of this model are that:

- a legal structure is created that oversees and has the power to direct and compel BIC (spun-off from CCA) and CBEF;
- ParentCo becomes the recipient of all funding and as such has strategic and financial control and accountability for the actions and activities of BIC and CBEF;
- ParentCo's Board of Directors is comprised of producers and industry representatives with producer control in the event of a deadlock that is split along factional lines;
- the seven (or other odd number that has been agreed upon) producer representatives of ParentCo would be appointed by the provincial cattlemen's associations/Canadian Cattlemen's Association. The industry positions would be open to appointment through industry proxies (i.e. Canada Meat Council, Export Broker or Dealer associations or such similar bodies);
- ParentCo would appoint all the directors to the Board of Directors of BIC and CBEF;
- the action is 'visible' to the stakeholder community and as such fulfills the "call to action" need of that community;
- both BIC and CBEF come under an industry governance structure;
- structured engagement between BIC and CBEF allows for the building of confidence measures and negotiation based on corporate interests and business fundamentals rather than personal positioning, posturing or appeals to emotion or the dissemination of mixed corporate messaging;
- an independent facilitator becomes an honest messenger and reporter to ParentCo;
- it compels the examination of 'sister organization's' interests, challenges, and objectives (builds empathy);
- it maintains managerial organizational independence while allowing for 'virtual' harmonization of program delivery and 'back-office' services.

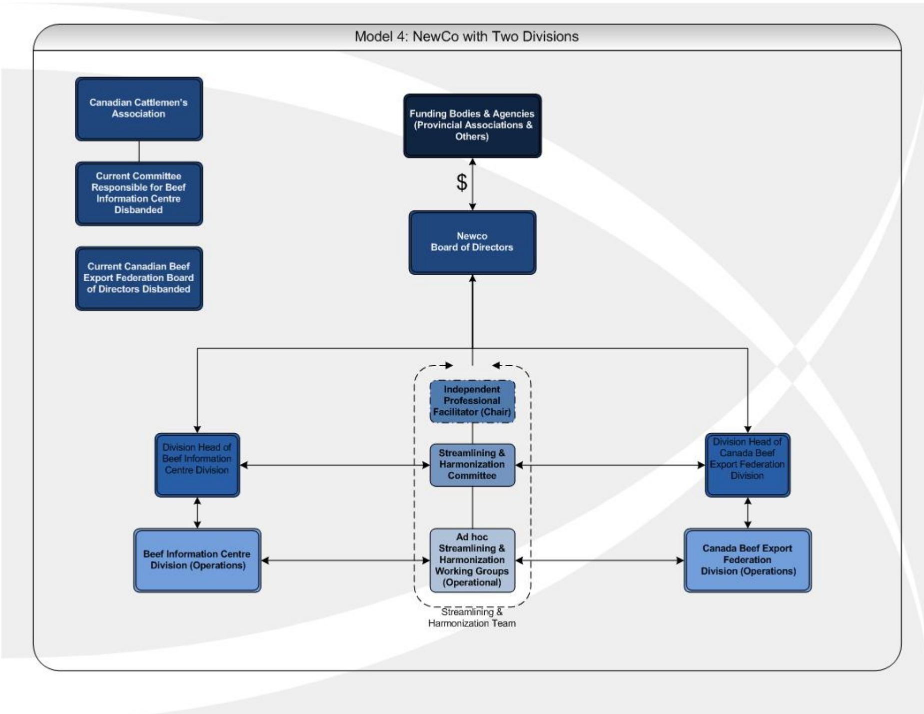
Disadvantages

The disadvantages of this model are that:

- in addition to the direct and indirect costs associated with facilitation, it carries the cost of maintaining ParentCo and its secretariat;
- there would be legal and audit costs associated with establishing ParentCo;
- there would be legal costs associated with revising CBEF's articles of incorporation and potentially reorganization under a new statute;
- there would be legal and audit costs associated with creating BIC as an independent entity;
- there is the potential that subsidiary boards act in contravention of ParentCo, however this risk should be minimal given ParentCo's control of establishing strategic direction, annual funding (which could be modified to quarterly funding), and director appointments to both subsidiaries;
- from a legal standpoint great care would need to be taken to ensure compliance with corporate law; and
- from a tax perspective care would need to be taken to ensure compliance with the Income Tax Act (consolidated reporting, and similar matters).

© Deloitte & Touche LLP and affiliated entities.

Organizational Model 4: NewCo with Two Divisions



Fundamental Characteristic

This model involves the creation of a new organization (NewCo) that has as its divisions BIC and CBEF. BIC and CBEF, as they currently exist, would be discontinued and organized as separate divisions of NewCo. Under this structure, since BIC and CBEF are no longer separate legal entities but rather divisions of NewCo, they would not maintain independent boards of directors.

The operating assumption of this model is very much the same as the operating assumption for Model 3, which is that the national check-off dollars that fund the marketing activities of each of the organizations would be funneled without any type of division to NewCo. NewCo would be responsible for dividing up the funds between BIC and CBEF as it deems necessary. As a consequence, NewCo would carry not only the financial responsibility for fund allocation, but also the burden for ensuring that performance, as well as streamlining and harmonization efforts, are maximized between the two divisions.

Where this model differs from Model 3 is that NewCo directly controls and directs BIC and CBEF, rather than indirectly in the case of ParentCo. In addition, the President/CEO of BIC and CBEF become directly accountable to a single Board of Directors and their status as President/CEO changes to that of Division Heads; however, practically speaking they have the same functions as they do under their current structures; what changes is to whom they report.

As with the previous models (2 and 3), this model also utilizes a Streamlining and Harmonization Team made up of a Streamlining and Harmonization Committee and ad hoc Streamlining and Harmonization Working Group. The Committee would be comprised of the two division heads (BIC and CBEF division heads) and an independent, professional facilitator. The Working Group would be comprised of the two division heads and members of the senior management team from both divisions. As with the previous models, the facilitator would be responsible for developing a work plan and reporting back on a regular and frequent basis to the NewCo Board of Directors on progress made by the Streamlining and Harmonization Team. The Team itself would be responsible for identifying and implementing any streamlining and harmonization opportunities within the two divisions' service and program delivery efforts, as well as back-office services.

Advantages

The advantages of this model are that:

- a legal structure is created that directly controls and directs BIC (spun-off from CCA) and CBEF;
- the CEO's of BIC and CBEF become directly accountable to a single Board of Directors and their status as CEOs changes to that of Division Heads;
- it simplifies the corporate law and taxation issues;
- it eliminates the potential of subsidiary Board of Director revolt;
- NewCo becomes the recipient of all funding and as such has strategic and financial control and accountability for the actions and activities of BIC and CBEF;
- NewCo's Board of Directors is comprised of producers and industry representatives with producer control in the event of a deadlock that is split along factional lines;
- the seven producer representatives of NewCo would be appointed by the provincial cattlemen's associations/Canadian Cattlemen's Association. The industry positions would be open to appointment through industry proxies (i.e. Canada Meat Council, Export Broker or Dealer associations or such similar bodies);
- the action is 'visible' to the stakeholder community and as such fulfills the "call to action" need of that community;
- both BIC and CBEF come under an industry governance structure;
- structured engagement between BIC and CBEF allows for the building of confidence measures and negotiation based on corporate interests and business fundamentals rather than personal positioning, posturing or appeals to emotion or the dissemination of mixed corporate messaging;
- an independent facilitator becomes an honest messenger and reporter to NewCo;
- it compels the examination of 'sister organization's' interests, challenges, and objectives (builds empathy); and
- it maintains managerial organizational independence while allowing for 'virtual' harmonization of program delivery and 'back-office' services.

Disadvantages

The disadvantages of this model are that:

- in addition to the direct and indirect costs associated with facilitation, there is the additional cost NewCo and its secretariat.
- there are legal and audit costs associated with establishing NewCo; and
- while distinct and unique from the Framework Management Consultants' recommendation of disbanding BIC and CBEF and creating a single organization under a single Board of Directors, single CEO and amalgamated staff, Model 4 does carry some of the consequences in practice. As such, it may generate some level of stakeholder community dissatisfaction on a go forward basis.

© Deloitte & Touche LLP and affiliated entities.

With the four models outlined above, Deloitte has attempted to provide the Steering Committee with four feasible options that take into account the critical success factors that were established by the Steering Committee and which also provide the Steering Committee with a continuum of options that range from simple, unobtrusive, relatively inexpensive to implement and requiring no structural changes to the other end of the continuum where the options are more complex to implement, more obtrusive and costly and which require the two organizations to change their operating structures.

Critical review of governance models

Governance vs. Management

In discussing board governance, a good starting point is to define what we mean by board governance and to clarify how it differs from management.

“Governance” can be defined as the combination of structures, functions, responsibilities, practices and organizational traditions that the board of an organization puts in place to ensure the accomplishment of the organizational mission. These also determine how power is exercised, how decisions are taken, how stakeholders have their say and how decision-makers are held accountable within the organization. In other words, governance is about developing the vision for the organization, translating that vision into policy and providing the overall, essential direction to the organization.

“Management” on the other hand is about managing the organization and making the decisions required to implement the policy developed by the board. Management is about:

- knowing the vision and strategic direction of the organization;
- examining the various alternatives for realizing the strategic direction;
- selecting the best or most viable option;
- ensuring appropriate resources are available for implementation;
- regularly assessing progress and making any necessary adjustments; and
- reporting back to the board.

It is important to keep these definitions in mind when determining what type of board governance structure to have in any future structure. If the current governance structures are functioning more or less effectively, it may be better to keep such structures and simply make changes to those structures to address any deficiencies.

Underlying Principals

In conjunction with providing the Steering Committee with various options regarding operational models, Deloitte was also asked to provide a review of three governance models that could work within the context of each of the operational models. The models that Deloitte reviewed and assessed were:

- Model One: Traditional Governance
- Model Two: Policy Governance (including the Carver model)
- Model Three: Results-Based Governance
- Model Four: Constituency/Representative Governance

All models address the gap assessment and the critical success factors as developed by the Steering Committee during the workshop.

Regardless of the governance model chosen, there are certain fundamentals that it is recommended should be present in any future board structure:

- the board(s) should be constituted with a blend of producer and industry representatives so that the full value chain is represented and has a voice;
- government representation should be excluded;
- the board(s) should consist of 13 members:

© Deloitte & Touche LLP and affiliated entities.

- 7 producer members
- 6 industry members

- the Chair should always be a producer member;
- the Chair should have restricted voting rights: he or she should only vote in circumstances of a tie or deadlock vote;
- the authority of board officers should be kept to statutory minimums;
- board committee structures should be kept to statutory minimums; and
- board member terms should be extended to three years with a maximum service limit of two terms (6 years total).

For the industry to move forward there needs to be a high level of co-operation between producers, processors and other industry members. Nevertheless, it cannot be forgotten that the entities funding these two organizations principally, although not exclusively, are the producers. Therefore, it is important that producers are able to exercise control in those circumstances where there is an issue that is divisive along factional lines. However, in order to encourage consensus building as often as possible, that level of control should not be seen as absolute authority in each and every situation. By ensuring that the chair is a producer member with restricted voting rights what you really have is six industry members and six producer members that are encouraged to work things out and try to find a common consensus solution because they are effectively representing an equal number of votes. It is only in the extreme that the Chair would exercise a vote in terms of a tie or a deadlock. This structure encourages the Chair to take on the role of a broker or consensus builder – someone that is effectively able to bring the parties together. For the same reason, it is important that the board is the one that is ultimately, not only in law responsible for what goes on, but in practical terms responsible for what is going on because they all have such a high stake in the success or failure of the programs or activities that are being done by these entities. Therefore, board officers' authority should be kept to a minimum in deference to the board which should be acting cohesively and collectively. Likewise, board committees should be kept to a statutory minimum, such as the audit committee and potentially the compensation committee, because you do not want the delicate balance achieved at the board level to be distorted at the committee level where the committee is within the control of producers or industry members as a result of the committee not being evenly split. Finally, the current terms of the directors are too short and should be extended to three years with a limit of two terms. This would allow the boards to be really effective in terms of being able to understand the organizations and able to contribute to the extent that they need to. This also encourages good succession planning and good turnover.

Thus, even if it is decided that the current governance structures should remain rather than changing to a new model, the current structures should be amended to address the above recommendations.

In addition to the recommendations made above that are specific to BIC and CBEF, there are other criteria that tend to characterize successful boards in general, which include:

- Strong board and staff leadership;
- A positive working relationship between the CEO and the board characterized by:
  - mutual respect;
  - intellectual flexibility;
  - a willingness to ask and answer tough questions;
  - a clear understanding and respect for the boundaries between staff and board roles; and
  - a constructive process for dealing with areas of overlap;
- Clarity in the respective roles, relationships and expectations of the Board, individual board members and the CEO;
- A high level of key stakeholder agreement on organizational values, mission and objectives;
- Respect for organizational norms and board decisions – playing by the rules and as a team;

- Regular assessment of the effectiveness of board practices, the performance of the board, its individual members and the CEO;
- Consensus or near-consensus decision-making rather than majority rule;
- Constructive confrontation/conflict resolution within the board, and between the board and CEO; and
- A good balance between organizational stability and adaptation to a constantly changing environment.

Factors That Influence Governance Model Chosen

Factors that may influence which governance model should be chosen include: ownership of the organization; how the board is selected; the form of incorporation of the organization; the organization's legislative mandate; the developmental phase of the board; the size and complexity of the organization; organizational history; the geographic scope or jurisdiction of the organization; and critical events or transitional phases affecting the organization.

1. Ownership

Rather than having 'shareholders', not-for-profits are comprised of members and stakeholders. In addition, not-for-profit organizations tend to have broader public interest missions, as opposed to 'for-profit' corporations which have as their mission corporate profit making. As a result, not-for-profits are subject to much greater scrutiny from funding authorities, the media and the general public than for-profit corporations generally receive from their shareholders. When ownership is referred to in the context of the not-for-profit it is used to identify that group of members or directors who carry the public trust vested in a not-for-profit organization.

Primary 'ownership' is most often associated with how the board is selected.   It is considered joint staff/board ownership in collective organizations; member ownership in those organizations with an active membership base; board ownership where boards are self-regenerating; funder ownership where the board is appointed by funders; and, taxpayer ownership where boards are publicly elected. Identification of 'owners' and lines of accountability are more difficult to recognize in organizations with more than one method for selecting board members.

2. Board Selection Process

The process used to select board members can greatly affect ownership and accountability. Individuals whose board membership is based on different selection processes (e.g. election, appointment) do not begin their terms of office on common ground. This can create an environment from the beginning of suspicion and distrust between the two groups. This may disappear once the groups begin working together and members are able to base their opinions more on the abilities of the other members rather than their initial biases.

Appointed members are generally perceived as having more influence with, and being more subject to the influence of, the government or organization that appointed them. Elected members are generally perceived as having greater latitude but having less informal influence with government or appointing organizations than appointed members. However, the increased legitimacy that is attributed as a result of their elected status may give them undue dominance and create a risk of greater conflict.

3. Form of Incorporation and Legislative Mandate

Incorporation under co-operatives or special purposes legislation has considerable influence on the governance model of the organization.

Organizations mandated by special purposes legislation are more likely to have key aspects of their governance structure and by-laws guided by the legislation or regulations under that mandate.

4. Developmental Stage

The developmental stage of an organization is an important determinant of the governance model in the founding or organizing phase. The board has a high degree of operational involvement in creating the by-laws and organizational infrastructure in the early developmental stages but this involvement decreases as the organization develops.

5. Size and Complexity

The size and complexity of an organization is perhaps the most significant determinant of the governance model. The 'traditional', 'policy governance', and 'results-based' models appear to be more appropriate for and more likely to be adopted by boards of larger and more complex organizations that rely on professional management and staff, rather than smaller organizations that rely on volunteers.

6. Organizational History

Most boards that undergo a transition from one type of governance structure to another experience difficulty in giving up past practices in favour of new approaches to governance. The greatest difficulty is moving from the intensive operational involvement of board members to a situation where more of the operations are done by management in the context of growing financial, management and staff resources. This factor in particular should be kept in mind by the Steering Committee, CCA, BIC and CBEF when considering changing governance structures.

8. Critical Events and Transitional Phases

Critical events and transitional phases include such things as significant growth or downsizing of staff or budget; substantive changes to an organization's mandate; prospective merger with another organization; significant turnover of board members; turnover in the CEO position; major public controversy; and significant changes in the financial, political or policy environment. Each of these events and phases may require a change in the governance model chosen in order to address such events appropriately.

Governance Models

General Overview of the Models

	Traditional	Policy Governance	Results-Based	Constituency/ Representative
General Focus	• Operations/event driven	• Policy driven; ends & governance processes	• Vision/results driven	
Leadership	• CEO dominant; Chair is link to board; Executive Committee comprises core group	• Board ends/CEO means	• Full board/CEO partnership to set direction and expected results	
Planning	• CEO leads; committees vet; board reviews and approves	• Board ends/CEO means	• CEO leads; board actively engaged, links organization to stakeholders	
Committees	• Parallel management functions	• Ad hoc task forces	• Based on board responsibilities	
Accountability	• CEO dominant in reporting to key stakeholders; board nominally responsible	• CEO reports to full board, which monitors policy compliance and reports to owners	• Board dominant; sets direction, monitors, audits, reports on results • CEO reports to full board • Executive Committee members act as core advisors	

Commented [KP2]: I will need to find out what we put in this column. Jack I believe you should have this in your copy. If so can you please let me know.

Traditional Model

This model is also referred to as the structural model and is based on the idea that the board must be structured: the way in which the board makes decisions, holds meetings, and the parameters by which it must abide must be put into an approved structure and format. Another fundamental concept is that the board only speaks as a board, and members of the board speak on behalf of the full board. Board members do not have an individual voice on the outside world. The board chair is usually structured to be the "voice" of the board, but can only speak in a way that has been authorized by the board as a whole.

This model usually defines the delegation of responsibilities from the board to:

(a) The CEO and management, and/or
(b) Board Committees (including the Executive Committee)

The board under this model governs and oversees operations through committees but delegates the management functions to the CEO. Committees are used to process information for the board and sometimes do the work of the board. In other words, the CEO leads the planning for the organization, the board committees vet and the board reviews and approves.

Traditional models have also been used to create larger boards with "representative" members from either geographic or constituent elements, and may attribute weighted voting to different ownership parties/classes.

One of the challenges of this model is that it remains silent on the issues of accountability mechanisms and expectations for reporting back to the board in cases where the board has delegated its powers to board committees, the CEO or management. Therefore, if a board employs this model it must create policies or by-laws to define the responsibilities, expectations and accountability requirements for management and any board committees that are established.

Another challenge comes when the CEO creates operating committees of management and staff that interface with board committees of similar-sounding responsibility. Board committee members may interface with members from the management committee to gain information for the Board and may inadvertently direct staff without going through the CEO. This can lead to confusion on the part of staff and board members crossing the boundary between governance and operational management. Therefore, the board must actively work to ensure its committees do not get involved into operational matters and usurp the CEO's role in the process.

A final challenge of traditional boards is that they typically fail to clearly delineate between governance and management roles. Therefore it is important that the board create clear job descriptions for board members, the CEO, and terms of reference for any board committees.

Policy Governance Model

The policy governance model has become the dominant model used by not-for-profit organizations. Policy governance is a method of governing an organization that is based on the development of policies. These policies identify the many ways in which a not-for-profit organization needs to show accountability. They also provide a framework for the Board of Directors to do its job. A policy governance board therefore identifies which policies need to be developed, develops the policies and then holds itself and staff responsible for doing business within these policies.

Boards operating under the policy governance model are characterized by a high level of trust and confidence in the CEO. There are relatively few standing committees, resulting in more meetings of the full board. Committees are only created as needed in order to support the board. Board development is given a high priority in order to ensure that new members are able to function effectively. Members are recruited for their demonstrated commitment to the values and mission of the organization.

Within the policy governance model the job of the board is to:

- create the vision, mission, values and strategic priorities of the organization;
- establish the guiding principles, policies and procedures for the organization;

- delegate responsibility and authority to those who are responsible for enacting the principles and policies;
- defining the limits with regards to delegated responsibilities and authority;
- ensure that staff and board are held accountable for their performance; and
- ensure responsiveness to the stakeholders.

Under this model the board speaks with one voice to the CEO and the CEO in turn is responsible to the full board. Specifically, the CEO is responsible for:

- providing operational leadership in managing the organization to fulfill its mission,
- attending to all operations, and
- staff management.

In short, the board decides what goals or objectives the organization should achieve and the CEO decides how exactly to go about achieving them and getting the work done. The board does not focus on what exactly the organization is doing or how it is being done, as this falls under the CEO's purview.

Policy Governance – Carver Model

The Carver model is the leading policy governance model. Under this particular model of policy governance, the board monitors existing policies in terms of its own work and the CEO's work and determines how well each is doing its job. The Carver model works with four areas of policy; the first two areas of policy describe how the board needs to do its work. The third area of policy sets forth how the CEO does his or her work, and are referred to as the Executive Limitations. The final area of policy is around what the board thinks the organization should be achieving, and is referred to as the Ends.

Thus, there are two 2 fundamental concerns under the Carver model:

1. what the organization is trying to achieve, i.e. the "ends"; and
2. creating policies that the board and management must follow in pursuing these ends.

One of the assumptions of the Carver model is that all the individual directors and the board as a whole represent a certain group of people. One of the board's primary responsibilities is to decide who exactly that group is. The board is then responsible for connecting with this group.

Under the Carver model, the board may develop as many policies as is necessary to be aware of and accountable for what is going on in the organization. Each policy can be as in-depth as the board believes is required. After the board has completed writing the policies, it is up to the CEO to interpret the policies and put them into play. The board evaluates the CEO against these policies. In the operational environment, the board's policies define what the CEO is not allowed to do, the limits to his/her decision-making, and the parameters within which the CEO must operate – i.e. the executive limitations. As long as the CEO does not violate these limitations, he/she has significant autonomy in deciding the means (what, when, how) of getting to the ends.

The board policies also describe the parameters within which the board must operate; for example, the minimum number of meetings per year, minimum number of members, requirement for annual meeting with members. According to Carver, as long as the board operates within these parameters, the board Chair has the freedom to decide how to do things in the area of governance.

Carver also suggests the reduction, or even the elimination, of Board committees, and that as much as possible is done by the full board.

One of the disadvantages of the policy governance model overall is that the board spends so much of its time focused on developing policy that they neglect some of their other board responsibilities.

As well, although under this model there is an emphasis on "ends", which help define the direction and which goals to pursue, it does not establish clear strategic expectations or measures of success and it does not necessarily suggest strategy. Therefore, boards using this model must supplement their policy work with a comprehensive strategic plan, business plan and budget.

In addition, board and staff relations may be vulnerable and become disconnected because of the model's emphasis on the separation of roles. This can have a negative impact on developing a constructive board/staff partnership. One result of this is that staff have a tendency not to trust the board's ability to govern because of their perception that the board does not understand operations, and the board feels disconnected from the organization's programs and operations as operational information is less relevant.

Finally, some boards that have attempted to implement the policy governance model have found that it is too complex to understand and implement, requires too much time and training, creates too much distance between the board and organization and actually erodes board control and accountability.

Results-Based Governance Model

The results-based model of governance is considered to be somewhat of a 'hybrid' that is emerging in many not-for-profit organizations. It seemingly addresses the weaknesses identified in other models through the limited use of committees which are structured around board, rather than management, responsibilities. The distinction between board-ends and management-means is retained for the general management of finance, human resources and program operations. Under this model, the board's focus in on values, mission, strategic planning, objectives, effectiveness in achieving goals and the efficient use of resources.

One distinguishing feature of the results-based model is that the CEO is a non-voting member of the board and as such has considerable influence over policy-making. He or she is viewed as a full partner with the board and has a reasonable amount of freedom in accomplishing the objectives established by the board. Committees are then used for monitoring and auditing the performance of the board, CEO and the organization as a whole. Board members are selected for their community representation, commitment to the organization's purpose, capacity to open doors for the organization and may be used for particular tasks in their area of expertise.

The results-based governance model acknowledges that there is a legitimate board role in certain operational activities such as the development of public policy. It also legitimizes board activities in support of management or management-type functions if required during critical events or transitional phases. It reorganizes the structure of the board such that the focus is on clearly defined board responsibilities and the measurable results of organizational activities and management processes.

The results-based board can be distinguished from the policy governance board by four principle factors:

1. The CEO is a non-voting member of the board with full entitlement to attend and participate in all board meetings and discussions.
2. The CEO is a full partner with the board in direction and policymaking.
3. The board's general focus is on auditing results rather than on policy compliance.
4. The board uses 'standing committees' to guide, monitor and audit board, CEO and organizational performance.

Although the results-based board monitors performance, it is similar to the policy governance board in that it is not involved in day-to-day operations. It is also similar to the policy governance board in its focus on organizational goals and objectives.

The results-based board can be distinguished from the traditional board in the following ways:

1. The results-based board uses committees to do the board's work rather than to review management activities.
2. The general focus of the board is on governance responsibilities rather than on operational matters.
3. The general focus of the board is on results.
4. There is a full partnership between the board and CEO; neither the board nor the CEO dominate the relationship.

Constituent/Representative Board Model

The constituency/representative model addresses groups of associated organizations by having representatives of each on the board. Constituency/representative models of governance are often used by organizations where governance is partially or wholly in the hands of publicly elected officials; for example, in organizations where there is a need to ensure direct representation of constituents' interests. As such, there is a direct and obvious link between the organization's board and its constituents. Constituents are usually represented on the board and participate in policy development and planning. This participation benefits the constituents by offering them control over policy decisions that may have an impact or affect on them through their board representative. These boards typically range in size from about thirteen to over forty members, although the trend has been to reduce the size of such boards. Strict policies govern the composition and election or appointment of board members representing specific constituents. Because this model primarily addresses the appointment or election of board members rather than the functions of the board, it can be combined with one of the other models such that you have, for example, a constituent/representative results-based board.

Under this model, the board's relationship to the CEO is not always clearly defined and is susceptible to changing expectations with changing representatives on the board. Within larger boards, the board/ CEO relationship tends to be similar to the policy governance model, in that the board empowers the CEO to manage the operations of the organization within the limitations set by the board.

Perhaps the biggest challenge for board members is to balance the interests of their particular constituents against the best interests of the organization as a whole.

Some of the advantages of this model are that:

- there is a broad base of participation;
- power is decentralized;
- the vision includes constituents' perspectives;
- constituent participation is generally decentralized into committees which are action oriented;
- communication is emphasized due to the need to involve large numbers of diverse stakeholders;
- the board is more focused on the 'big picture' as a result of the broad based constituent input;
- the issue of how to deal with multiple interests and the potential conflicts that may result is recognized and addressed in a variety of ways;
- directors are personally connected to the industry and therefore they are typically enthusiastic and committed contributors;
- having directors who are respected within their constituencies can provide credibility and ownership among stakeholders. Such directors are generally able to predict whether management strategies and proposals will be acceptable to constituents.

Some of the disadvantages of this model are that:

- there can be a lack of critical skills and experience, including experience as directors;
- as communication is critical, communications must be timely, adequate, consistent, clear and accessible at all times; this can create difficulties in meeting high constituent expectations.
- due to the possible high number of committees and activities, energy may become too dispersed and become unproductive;
- the board may lose focus and commitment to the organization's vision as board members turn over and other constituency interests come in;
- conflicts, which are a normal and common occurrence in any multi-interest group, may not always get resolved and can damage board relationships;
- there is a tension between directors' obligations to the organization as a whole and their commitments to at least some of the goals of their constituency. This may result in conflicts between the need for the board to operate in confidence and demands from constituencies for reporting back.
- if the board gets too large, poor group dynamics tend to develop including factionalism, caucusing, or defending prior positions, as opposed to productive discussion.

© Deloitte & Touche LLP and affiliated entities.

- confusion may develop around board and management's respective accountabilities as board members may lack the ability to see appropriate boundaries to their role. Passion for a cause can make representative directors more likely to assume a more 'hands-on' role and inevitably become involved in 'micro-management';
- constituencies can fail to monitor the performance of their representative, once elected (or appointed), resulting in reduced individual accountability.

For some, having a board that represents constituents may seem attractive because, in theory at least, having a governing body that is representative of all interests would seemingly maximize the sense of ownership and engagement by the organization's stakeholders.

Another factor to consider is that while the board of any organization has a fiduciary duty under law to act in the best interests of the organization as a whole, its long-term viability is dependent upon the maintenance of stakeholder confidence and/or support. Encouraging engagement through representation on the board may assist in accomplishing this. However, boards with this constituency or representative structure need to be able to gather the knowledge and perspectives from different stakeholder groups, but still be able to come together, focus on and make decisions that are in the best interests of the whole organization.

There is no one governance model that delivers everything. All systems have their weaknesses. As a result, some boards have attempted to develop their own hybrids – combinations of the various models.

Whatever model is used for determining the composition of a board, the objective must be to produce stable and effective leadership which supports the realization of the organization's objectives.

Immediate Next Steps: Key Factors to Consider…

In considering its next steps the Steering Committee should consider that acceptance of its recommendation by the stakeholder community will hinge on clear, accurate and consistent communication of:

- how the Steering Committee balanced competing interests;
- the rationale underlying the desired organizational state of BIC and CBEF and the critical success factors on a go-forward basis;
- the rationale underlying the Organizational Model and the Governance Model that is selected.
- the rationale why alternative Models (organizational and governance) were rejected.

To that end the Steering Committee may wish to consider commissioning a DVD/Webcast (15 minutes) that addresses:

- the general background that led to the establishment of the Steering Committee;
- the mandate of the Steering Committee in addition to who comprised the Committee;
- a summary of the reports submitted by Framework Partners Management Consultants and Deloitte;
- a summary of the Steering Committee's balancing of competing interests and related rationales;
- the Steering Committee's recommendation;
- next steps and estimated timelines.

Copies of this DVD/Webcast should be distributed (downloadable) to provincial associations, key industry groups, government stakeholders, and producers.

In the alternative, the Steering Committee may wish to consider drafting a written report that addresses the foregoing.

Finally, it is recognized that there exists a great desire within the industry to address this issue and move forward in a timely fashion. However, this is a significant industry issue, which has generated strong feelings on all sides. The drive to implement a timely solution, which is acknowledged and agreed to, should be tempered by a suitable timeframe for critical stakeholder review, feedback and, if possible, consensus building. It is important that the drive to implement a required solution does not become the next line of division within the industry.

www.deloitte.ca

Deloitte, one of Canada's leading professional services firms, provides audit, tax, consulting, and financial advisory services through more than 7,600 people in 56 offices. Deloitte operates in Québec as Samson Bélair/Deloitte & Touche s.e.n.c.r.l. The firm is dedicated to helping its clients and its people excel. Deloitte is the Canadian member firm of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, its member firms, and their respective subsidiaries and affiliates. As a Swiss Verein (association), neither Deloitte Touche Tohmatsu nor any of its member firms have any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names. Services are provided by the member firms or their subsidiaries or affiliates and not by the Deloitte Touche Tohmatsu Verein.

© Deloitte & Touche LLP and affiliated entities.

Member of
Deloitte Touche Tohmatsu