



Performance Management Policy

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Authority:

The Crown Corporations Act, 1993
CIC Board Minute Number 169/2012

Applicability:

This policy applies to CIC and all its subsidiary Crown corporations.

Purpose:

The intent of this policy is to outline the process for decision makers to approve, monitor, evaluate, and enhance performance at each of CIC's subsidiary Crown corporations. It is also intended to ensure that an external balanced scorecard reporting system exists for presenting Crown corporation performance to the public on an annual basis.

Definitions:

Performance Management - The process that monitors, evaluates, and enhances Crown strategies and links expectations of the CIC Board with individual Crown corporation business strategies, initiatives, and resource deployment. Performance management sets up management accountabilities, monitors and reports on key business objectives intended to drive business success, gauges the results of operations and activities of the organization, and allows comparison to the final results.

Balanced Scorecard - A management tool that translates and integrates broad strategy into tangible business objectives and measures intended for application across an organization. The balanced scorecard system evaluates performance in the areas of finance, innovation and growth, customer satisfaction, and internal operations, adapted from the four perspectives in the original Kaplan and Norton balanced scorecard model. Each Crown corporation's strategic priorities within these perspectives should be the foundation for the balanced scorecard.

Balanced Scorecard Measures and Targets - Balanced scorecards should have a balance of leading and lagging measures that will enable the corporation to show progress in implementing initiatives (leading) and show the success of those initiatives (lagging). In addition, where possible, outcome measures that track the ultimate success of an initiative are preferable to output measures that track the steps along the way. Measures should be key, meaningful, controllable, and have easily understood benchmarks when possible. Targets are quantifiable or observable goals for each measure which become the overall performance management goals of the organization. While the CIC Board only approves the targets for the upcoming year, targets should extend out a minimum of five years. As well, a long-term target should be set, if possible, to provide a strategic view of the future.

Capital Spending Approval - An annual dollar amount, authorized by the CIC Board, for reinvestment in the Crown corporation to sustain, grow or diversify. The distribution of spending within the capital spending approval is the responsibility of each Crown corporation board, subject to consistency with other policies and balanced scorecard objectives, measures and targets. In authorizing this annual amount, consideration is given to the competing uses for cash, including debt reduction required to improve financial sustainability and dividend payments to provide a return to the shareholder. Dividend payments are established in alignment with the CIC subsidiary *Crown Dividend Policy*.

Policy Statements:

The Performance Management Policy sets out guidelines to ensure alignment of individual Crown corporation business plans to overall shareholder direction as indicated in the Crown Sector Strategic Priorities. These guidelines also become the foundation for establishing best practices for balanced scorecards.

CIC and its subsidiary Crown corporations are responsible for submitting comprehensive Performance Management and Capital Allocation Plans (PMCAP), including balanced scorecards, key financial targets, and capital spending allocation plans on an annual basis, to be reviewed and approved/amended by the CIC Board. The Crown Sector Strategic Priorities and the PMCAP together form an integrated strategic management system for the Crown sector.

The PMCAPs must comply with the CIC Board's existing policies that pertain to subsidiary Crowns as detailed in CIC's Subsidiary Crown Policy Manual such as the *Dividend Policy*, *Governance Policy for Crown Held Subsidiaries*, *Enterprise Risk & Opportunities Management Minimum Standards*, etc.

Background:

The performance management system seeks to balance the need for corporate operational autonomy with accountability to the CIC Board and the public. By requiring Crown corporations to develop annual performance plans and balanced scorecards, the performance management system allows Crown corporations to test their business strategies by:

- defining the strategic plan in performance terms;
- providing a feedback system that allows for testing the validity of the strategy and the opportunity to modify;
- encouraging accountability by articulating clear expectations and by assigning responsibility for achieving specific results; and,
- enabling the evaluation of the quality of the organization's initiatives against performance results.

General Provisions:

Crown Sector Strategic Priorities

The CIC Board is responsible for establishing the Crown Sector Strategic Priorities (CSSP). The CSSP are developed from the broader government vision, focusing on the government's priorities for the sector and the strategic priorities of each of CIC's subsidiary Crown corporations. They provide overall strategic direction for the entire Crown sector and outline different areas that are deemed critical for achieving the government's goals for sector wide business success.

The CSSP elements must be a part of every Crown corporation's PMCAP. Adhering to this requirement helps to ensure that each Crown corporation's corporate strategy is aligned with government strategic direction.



Performance Management Improvement Plan

On an annual basis, CIC will prepare a Performance Management Improvement Plan (PMIP). The PMIP will be distributed to Crowns, typically in May or June, to relay key shareholder direction as preparations for PMCAPs begin for the upcoming year. Specifically, the PMIP will:

- ensure a consistent message to the subsidiary Crown corporations on shareholder direction;
- engage subsidiary Crown corporations in a discussion about potential improvements to their strategic plans and/or balanced scorecards; and,
- discuss any other potential improvements to the Crown sector performance management system.

Performance Management Forum(s)

The purpose of the Performance Management Forum(s) is to improve the Crown sector performance management system through the exchange of information and discussion. Subsidiary Crown officials involved in the performance management process are invited to attend the forums. Members are encouraged to actively represent the perspectives and viewpoints of their Crown to the forum.

Performance Management Approval Process

CIC will advise subsidiary Crown performance management practitioners annually, in or around October, of the specific deadlines within the following months for completing elements of the next year's PMCAP. The approval process typically begins with the submission of the Crown corporation's PMCAP to its Board for approval in November. Approved plans are subsequently submitted to CIC staff for analysis and preparation of decision items for the CIC Board. Decision items are typically completed by CIC in December, at which time they are provided to Crown officials for comment before being provided to the CIC Board.

To promote further efficiency in the approval process, Crown corporations are encouraged to send draft PMCAPs to CIC in advance of Crown Board approval. This process allows for earlier feedback and clarification, and it ensures fewer points of contention in each Crown corporation's Board approved plan.

Performance Management Days

Performance Management Days (PMD), usually scheduled for mid-January each year, give the CIC Board a full strategic and financial overview of the sector and details related to each Crown corporation. Each Crown corporation Board Chair and President have an opportunity to present and request approval of its PMCAP for the coming year, followed by CIC's presentation of its analysis and recommendations. Following consideration, the CIC Board will ratify/modify/direct changes to the corporation's plan. Following PMD, CIC will notify each Crown corporation President and Board Chair of the CIC Board's decisions.

Crown corporation plans are subject to change following PMD as a result of Cabinet Budget Finalization (CBF). Decisions made during CBF will be ratified and relayed to the affected Crown corporations.

Each Crown corporation and its board are responsible for overseeing the implementation and achievement of the approved PMCAP. Any changes to Crown corporation plans following PMD approval require CIC Board approval. This includes changes to the balanced scorecard targets and increases to the capital spending approval. Such changes should not be frequent or a usual occurrence.

Internal Audit of Crown Balanced Scorecard

The balanced scorecard is a strategic planning and management system that facilitates alignment of business activities to the strategy of an organization. As such, this tool must be a credible reflection of performance to stakeholders and the public as well as a valuable tool for internal strategic planning. To ensure this, measures must be:



- Relevant - The measures must clearly link to the corporation's strategic objectives and drive the correct behaviors required to achieve them;
- Reasonable - The measures must be supported by a methodology that is capable of yielding accurate results; and,
- Accurate - The measures must be consistently calculated as per the documented methodology.

To ensure achievement of the above principles, Crown corporations must periodically (based on risk profile) include a balanced scorecard review as part of their internal audit plan and ensure measures are reported as per the CIC Board approved plans. This process will also identify areas of opportunity and improvement as well as highlight any action plans and assign accountability to the measures.

Quarterly Reports

CIC will compile and provide a performance management report to the CIC Board on behalf of the Crown sector on a quarterly basis. Subsidiary Crown corporation reports should be submitted to the CIC Analyst responsible for their Crown corporation within the timeframe detailed in the request sent by CIC to Crown corporations each quarter.

These reports are the primary means of monitoring progress of the approved PMCAPs. As such, balanced scorecard measures and targets must mirror those approved by the CIC Board in each Crown corporation's PMCAP for the year. Quarterly reports should include information on all balanced scorecard measures and targets, comparative financial statements, and variance analysis. Quarterly reports should also include background commentary identifying risks and opportunities, and discuss key achievements of interest to the CIC Board. CIC will review and report the results to the CIC Board each quarter and provide copies of the information provided to the CIC Board back to each Crown corporation President.

Periodically, material business changes occur and result in changes to a Crown corporation's capital spending approval and/or balanced scorecard measures and targets. These changes will require CIC Board approval prior to implementation. Such changes should not be frequent or a usual occurrence.

Public Disclosure

Crown corporations must balance their business needs with being accountable and transparent to the people of Saskatchewan. The performance management and balanced scorecard system acts as the window for accountability and transparency to the public. As such, these tools become the foundation for relaying company vision, purposes, values and objectives in each Crown corporation's annual report. Specific objectives, measures and targets, as detailed in Crown corporation balanced scorecards, are not only used to determine internal company objectives, but also to enhance public accountability and public knowledge of operational success.

Most of CIC's subsidiary Crown corporations operate in a competitive environment where operations could be unduly impaired by disclosing commercially sensitive information. As such, Crown corporations should disclose strategic planning and performance management information taking into consideration the need to protect those aspects of its operations that are commercially sensitive. Best practice standards of disclosure such as those set out by Chartered Professional Accountants Canada (CPA Canada), the Canadian Securities Administrators (CSA), and the Conference Board of Canada (CBoC) should be looked to as reference areas.

Biennially, Crown corporation annual reports are subject to review by the CBoC, which analyzes the reporting and disclosure practices of CIC and its subsidiary Crown corporations and benchmarks practices against best and leading practices in Canada. The CBoC provides the results to CIC who reviews and relays the results to each Crown. Crown corporations are expected to stay abreast of industry best practices.



Executive Compensation

Crown corporation President and executives' corporate objectives and short-term incentives (STI) must be directly linked to balanced scorecard targets. STI targets are considered to be 'stretch' goals. Crown corporation Boards have the ability and responsibility to challenge management to ensure targets are truly 'stretch' in nature. Crown corporation Boards should look to historical trends and actual results when considering targets. A full description of the STI framework can be found in the *Crown Executive Compensation Policy and Procedures*.

Administrative Information

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