

THE IMPORTANCE OF CEO / CFO LEADERSHIP IN MODELING VALUES AND PRINCIPLES

Remarks By Gwyn Morgan, Executive Vice-Chairman
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to

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I have just entered my 60th year – and a new chapter in my life journey.

Almost exactly half of my life has been dedicated to the building of the company which is today known as EnCana Corporation, and it is with great pride and confidence that I have handed the CEO role to Randy Eresman – a person who has helped to build our company over 25 of those 30 years. There is another person here with us tonight who worked at building our company for four months longer than I have – John D. Watson, EnCana's CFO.

We first met in the fall of 1975 – a young engineer and a young accountant – both about 29 years old. John was focused on, among other things, getting our first public share financing done, and I was focused on getting natural gas wells drilled to give us our first production and revenues.

Neither of us could have imagined that today we would be handing over the batons to the new CEO and CFO of a flagship Canadian company which ranks at the top of its North American peer group, which has been Canada's most profitable company in three of its first four years, and which ranks in the top three of Canada's most respected corporations.

I know that John didn't find working with this CEO dull – in the 12 years we worked as a CFO/CEO team, we invested US\$28 billion in capital projects, bought and sold companies and assets totaling over US \$31 billion – some of them via what I termed “unsolicited friendly” deals. John oversaw US\$7 billion of equity financings, and US\$24 billion of bank and public debt financings. (total US\$90 billion.)

We issued over 50 quarterly financial statements, adapted to accounting and regulatory changes, executed Canada's largest merger, and of course, grew exponentially.

And you know what -- never in my time did I need to worry about the accuracy and integrity of our financial accounts.

We trusted each other, we relied on each other, we respected each other, and together with other corporate and operational leaders, we formed a team dedicated to integrity, accountability and delivering shareholder value.

In recent years, the integrity of company financial accounts, and indeed the integrity of all corporate leaders, has been called into question by abhorrent behaviour of an unethical few.

Responses such as Sarbanes Oxley and SEC rules applying to U.S. listed companies, including EnCana, combined with Canadian regulatory rules and corporate government guidelines are intended to prevent future occurrences, and they will play a part.

However, experience has shown that no law or guideline can protect from the dishonest, or the incompetent.

On the other hand, organizations built upon sound values staffed by honest, capable people will find that laws such as Sarbanes Oxley add process and cost... but they don't change the reliability and integrity of the accounts where teamwork, trust and integrity have always governed behaviour.

And, for me, this has been made enormously easier by the many years during which John Watson and I worked together. So when it came time to sign off our accounts under Sarbanes Oxley, I did so with a steady hand, confident in John and the people throughout the company who had prepared them. In other words, I trust both their competence and their personal values.

So how are strong personal values formed?

Life's journey is full of choices, full of challenges and full of opportunities.

Countless studies have shown that a person's progress along the pathway of life isn't based solely on natural born gifts. I believe that one's natural gifts are fuel for the engine that can propel us forward. But it's the values by which you choose to live your life that control the steering wheel. All too often we see very gifted people steer off course, destroying their own lives and the lives of those around them.

But if you steer by strong values, then the other thing you must do is make the most of your opportunities and for this you need a positive attitude.

Speaking of a positive attitude reminds me of a quote from a wonderful Edmontonian, Bill Hunter, who said, "In life, it's not your aptitude, but rather your attitude which determines your altitude."

I often use the term "glass-half-full-people versus glass-half-empty people" to contrast those with positive versus negative attitudes. But sometimes things just aren't that simple... a few weeks ago, our tablemate at dinner told my wife how he was explaining the "glass half full, glass half empty" attitude to his eight-year-old daughter. After listening carefully, she said "But daddy, doesn't it depend on whether the glass was full or empty when you got it?" Now there is a young person with natural gifts!

Tonight, this room is full of people with fulfilling life journeys because you make the most of your natural gifts, live by sound values, and seize opportunities.

Speaking of seizing opportunities, I'm sure many of you have been asked; did you plan to be the leader of a business school, or a comptroller, or a CFO or a CEO ? My personal response to that question is: How could an Alberta farm kid, who had never even been on an airplane until he graduated from university, ever imagine he could and would play a role in building a great Canadian-headquartered enterprise?

Some years ago, I read a book called "Business as a Calling". To me, the title symbolized that being a business leader carries with it both a noble objective and important responsibilities.

So this brings me to the main theme of tonight's remarks. I believe that private sector business is the world's greatest force for advancing human progress.

It doesn't take a lot of deep thinking to reach this conclusion. Almost all the great technological progress which has transformed the way we live has been created or harnessed, and made available to people by private business. And private business drives social progress by providing essentially all of the funding for government services - both directly and indirectly through the employment of tax-paying individuals. In fact there is no historical record of any country providing a good quality of life for its citizens without a strong and thriving private sector.

But what, after all, is private business? Some people refer to it as a Capitalist system, and they refer to situations where governments dominate business as being a Socialist system.

I believe that referring to them simply as alternative systems is like comparing democracy with totalitarianism. Socialism, founded in Marxist ideology, requires that government forcefully take over the means of production, eliminating private business -- an ideology that has been unsuccessful everywhere it has been tried. In fact, the only places where full Marxist socialism has been sustained for long periods has been during the dark tragic era of this past century when Communism devastated the lives of most of the world's population. Communism is, at its root, Socialism without a choice. And, as Winston Churchill said "the inherent vice of Capitalism is the unequal sharing of blessings. The inherent virtue of Socialism is the equal sharing of miseries."

Socialism is an ideological based system. But Capitalism is *not* a system nor an ideology. It is simply economic freedom, and that's why the term "free enterprise" describes it best. It is doing what has come naturally to human beings since recorded time. From the first transaction when people traded a stone axe for a pair of leather moccasins, the natural forces of economic freedom have been unleashed. People are natural traders and almost every ideological attempt to interfere with economic freedom is *unnatural* - and destructive. Today, private business has advanced to a much more sophisticated level, but only those countries that allow a high degree of economic freedom achieve good living standards for their citizens.

Now this is not to say that economic freedom alone creates a great place to live. Successful societies are almost always constitutional democracies. Well written constitutions provide for effective allocation of roles between government, public institutions and business.

Governments need to enact effective and fair civil and criminal laws, provide basic infrastructure, handle international affairs, national defense and help those unable to provide for themselves. The role of public institutions, is generally to carry out the responsibilities of government, most notably through regulatory bodies, the court system, police and military, customs and so on.

And of course we all know the role of private business is to create the country's wealth through providing goods and services, employment and generating taxes to fund government.

In leading developed countries, including Canada, these roles have generally worked pretty well. There are two basic ways, however, in which things can break down.

First, when roles become mixed... when governments try to run businesses. In private sector business, we are accountable for respecting the laws and regulations set by government. And the regulators and courts are responsible for prosecuting those who step out of line. But when government gets into business, the regulator becomes the regulated and in this mixed role they almost always fail. So it's no wonder that the former Communist countries have by far the worst environmental and human rights records, regardless of what their laws and regulations said.

Here in Canada , we see the regulator attempting to regulate itself in our health care system, where government tries to be both the provider of the service and the monitor of availability and quality. The result is a health care system that is not only difficult to access, but also where huge numbers of patients harmed by systemic errors and poor quality control. These unnecessary injuries and deaths would create huge outrage if the private sector was the service provider. And yet, somehow, because government is the provider, the public tolerates it...taken in by repeated propaganda that it's a superior system. In fact, Canadian health care ranks dead last compared with western European countries in terms of quality and accessibility - and it's the only country in the world where government claims a legal monopoly --- although a persistent doctor and patient from Quebec have won a supreme court ruling which is shaking the foundations of that monopoly.

The second basic factor that destroys the potential of any society is corruption. Let's look at this again from the perspective of the three societal roles: government, public institutions and business. Starting with business, we have all seen the unfortunate impact of private sector corruption. But, we have also seen regulatory and shareholder actions lead to severe penalties for those involved, and quite often, failure of the corporation. One of the great disciplines of the private sector is that those companies that are either poorly run and/or corrupt eventually cease to exist. Accountability ultimately prevails.

Unfortunately, personal accountability for corruption in government seldom occurs, and government institutions simply don't go out of business. Anyone who works outside of the western developed countries knows that government corruption is the most destructive force of all. Here again, the root problem is that those who are supposed to be responsible for enforcing the law are in fact those who are breaking it. Worse yet, the most corrupt countries have a bloated and bureaucratic public sector who are both empowered to spend public money and to regulate the private sector. This results in both the stealing of public money and extortion from private business and individuals... an institutionalized cancer that eats away the very heart of the country's potential.

So over and over, we see two universal truths: when governments try to be in business, economic freedom falls, and when corruption occurs, society suffers.

I have long had great respect for the Fraser Institute credo of "*If it matters, measure it.*"

This is clearly demonstrated by the fact that countries at the top of the Fraser Institute's economic freedom index have the highest living standards; while countries at the top of the world corruption index are the worst places to live.

So, why do I think it's important for business leaders to discuss these things? I talk about them because of my love for Canada and because I believe that the only way Canada can remain a great place to live is for us to never forget why this is so. Canada's historical success has been fostered by an intolerance of dishonesty on the part of both business leaders and elected officials. Our public service and our public institutions including the courts, regulatory bodies, and police forces have a reputation of being among the most ethical in the world.

But we have seen ethical breakdowns in business. And the country is just moving on from a tragic tale of ethical breakdown in government. It was up to the voters of this country to pass judgment on ethical transgressions in government. And I am very confident that Stephen Harper's government will bring a whole new moral compass to Parliament Hill. Likewise, business leaders must ensure that we build our organizations on an ethical foundation.

When it comes to building an ethical foundation, one of the things I am very proud of is EnCana's *Corporate Constitution*. It sets a standard of behaviour and an expectation of performance for everyone throughout our company. I invite you to sign on to www.encana.com to read our *Corporate Constitution*. As you electronically turn its pages, I think you'll see what I mean.

If leaders throughout our country build their businesses on a foundation of strong ethical values, and strive to leave the communities and countries in which we work better off than they would have otherwise been, and if at the same time, we can demonstrate that Canadians have the ability to compete with the best in the world, then we will truly have dedicated ourselves to "*Business as a Calling.*"

So let me throw out a challenge to all Canadian business leaders -- a two-fold challenge: first, seize opportunities to help people understand that our country's success is not guaranteed. There are only a few countries in the world - making up a small part of the world's population, who enjoy our quality of life. To preserve what we have, here are four things we must do:

- We must understand that mixing the role and responsibilities of government, public institutions and the private sector leads to dysfunction;
- We must remember that this thing some call capitalism really means economic freedom and we cannot maintain our quality of life without it;
- We must ensure that corruption and dishonesty be exposed and vigorously prosecuted at every level of all public and private institutions; and

- We must remember that every family, every business and every country eventually gets the behaviour it tolerates, so there can be no quarter given to those whose actions contribute to the destruction of our society.

My second challenge to business leaders is to lead by example. Be role models for our young people. To recognize that with "rights" comes responsibility and with leadership comes accountability.

In this era of sound byte communication, where government and even business people often focus on reacting to symptoms rather than underlying problems, business leaders must focus on the real factors which make our country a great place to live. Leaders must not only run successful enterprises, but also show vision beyond the bottom line to the huge importance of building an ethical, productive, competitive, and accountable society --- a society that provides opportunities for people to learn and build on their abilities and careers through honest effort, where people's progress and rewards are based on the principles of meritocracy.

Doing these things means pursuing "*Business as a Calling*" by showing that a strong, ethical private sector can be the single greatest force in the wellbeing of our society.

There are those of you, like me, who are nearing the time when you will hand off the baton and there are those who have only recently been passed that baton. I firmly believe that leaders achieve success because they are lifted up on the shoulders of those they work with. For example, it was the people of EnCana who were the true winners of the CEO of the Year award.

And that brings me to some of the people who have lifted me up on their shoulders. I'd like to introduce them now and ask them to stand as they're introduced and if you'd like to recognize them, please wait until they are all introduced.

Dick Wilson, Advisor to the President (a.k.a. "Gwyn's Agent")

Kathy Underhill, VP Financial Risk & Audit

Debbie Simpson, VP Financial Compliance

And the Accounting guy who joined with this Engineering guy in a three decade journey of teamwork and trust, one of Canada's all time great CFO's John Watson!

John and I are handing off the batons, to CEO Randy Eresman and CFO Brian Ferguson. Randy and Brian have been part of our leadership team for more than 10 years. So we know that the crucial CEO / CFO teamwork and trust relationship will continue at EnCana .

Ladies and gentlemen. One of my great mentors and supporters, Ray Nelson, a wonderful Albertan, once said to me, "It's not what you build; it's what you leave". I have had the privilege of working with special people who have built an enterprise that demonstrates Canadian s can compete with the best. An enterprise built upon a foundation of fine values, sustainable assets, and committed, passionate, proud people. On this foundation, I have great confidence that EnCana will, to quote a famous first officer on an imaginary journey through the stars, "live long and prosper".