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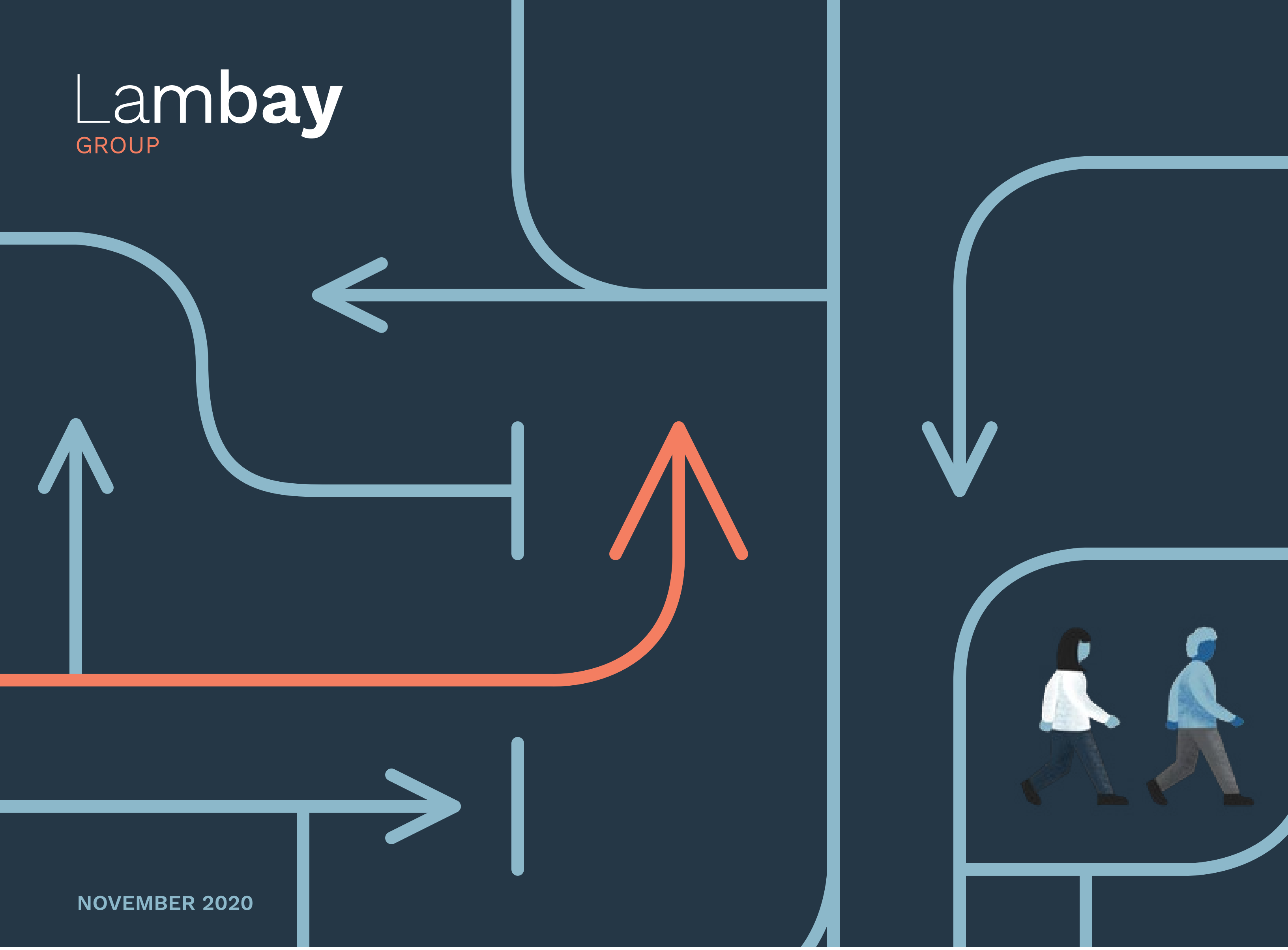

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High Performance in the Boardroom

Tony Gaffney
Corporate Director

An exclusive report on contemporary best practices of high-performing boards in a time of accelerating change.

Supporting partners

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Purpose

GOVERNANCE IN A PERIOD OF ACCELERATING CHANGE:
Insights that can make companies better.

Our goal is to identify and understand what it is that boards of high-performing companies across different sectors are doing differently that contributes to their success in this dynamic era, and then to share these findings with senior business leaders.

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Foreword

Certain projects, like people, find their moments.
And so it is with this report.

Conceived at a time when boards of directors are being tested like never before, it brings a unique perspective to the ongoing dialogue on the elevation of governance in Canada.

Having chaired and served as directors on boards in Canada's public, private and not-for-profit sectors, we know firsthand what high performance in the boardroom looks like and how it is critical to making companies better.

What excites us about this volume is that it offers readers at every stage of their own governance journey a window on the same scene. It is an opportunity to sit in on authentic, candid discussions among exemplary board leaders as they reflect on the accelerating pace and nature of change that confronts them and how their practices are evolving to keep up.

Most of the changes discussed emanate from changes in the business environment and in companies' business models rather than radical shifts in the structure of governance. As such, there is a strong focus on execution. And while the bulk of the participant interviews were conducted prior to the arrival of COVID-19, the pandemic experience has brought that fundamental into even higher emphasis.

The report features a **diverse assortment of more than 30 chairs and select executives**, all chosen for their records of achievement, experiences, ideas and opinions.

We're honoured to be among them. But it will be obvious to readers as they pore over the pages that the participants don't agree on every point. The feedback is honest and unvarnished, reflecting the fact that boards are dynamic bodies operating along a variety of continuums that best serve the needs of their particular enterprises at specific points in time.

This underscores the document's value. Readers can weigh the differing viewpoints, draw on those that are right for their organization, and return to it as their circumstances evolve. The message being: regardless of where you are at and what type of organization you represent, there is an obligation to engage in continuous improvement.

It's a lesson embodied in the report itself. Not only is it a great resource—authentic, dynamic, multi-jurisdictional, multifaceted—but we're optimistic that its publication will also serve as a springboard for further reflection and dialogue.

Kathleen (Katie) Taylor
Chair, Royal Bank of Canada

Ian Bourne
Former Chair of Ballard Power and SNC Lavalin

Acknowledgments

This report is dedicated to Tom O’Neill, who passed away on April 2, 2020. His knowledge, experience and contributions enabled this paper to come to life and are reflected throughout. Tom’s friendship and wise counsel are greatly missed by all.

Tom was my lead advisor on this initiative, and from the outset I benefited immensely from his passion for its purpose along with his continuous engagement and invaluable advice.

I also want to acknowledge Katie Taylor, who immediately upon Tom’s passing volunteered to step into the lead advisor role, with the thought that together we could finish the report as our gift to Tom.

In addition, I also want to thank Barb Stymiest, who bolstered my confidence to undertake the initiative and counseled me in crystalizing the thesis of the report—“the pace of accelerating change” and the purpose of “making companies better.”

Thanks, as well, to governance and business journalist and writer Brian Banks, who participated in many of the interviews together with me. We then distilled the contributions of everyone we engaged with to produce the final text.

The report is also the product of an extensive collaboration with the Institute of Corporate Directors (ICD) and the support of Odgers Berndtson in Canada. Thanks to Rahul Bhardwaj, president and CEO of the ICD, and the rest of his team, for their valuable contributions, guidance and support from inception to finish. Likewise, to Carl Lovas, chairman and CEO of Odgers Berndtson in Canada, and his team for their strong backing, advice and input. Thanks also to Lambay Group for sponsoring the initiative including the funding of writing, design, production and distribution resources for the finished product.

I want to add a final thank-you to all the leading chairs and executives who, when we asked them to share with us their time, insights and experience, responded enthusiastically. They made this entire project possible.

Tony Gaffney
Corporate Director

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Opening Remarks

We live in interesting times. The pace of change is accelerating. Markets are being disrupted. Customer preferences and needs are evolving rapidly. Businesses are striving to be agile in responding and adapting to this environment—and, of course, COVID-19 and its continuing economic, political, social and technological aftershocks, all add to the challenge.

For public companies, public agencies, co-operatives and non-profits, the pressures and demands just keep growing.

What is it that leading boards are doing to ensure that they are responding with the level of performance demanded by their shareholders and stakeholders? What could we learn from and what could we do with such insight? For certain, the status-quo is not a solution.

If there was ever a time when organizations needed a high-performing board of directors, that moment is now.

In individuals, high performance is distinguished by certain traits. The list typically includes things like clarity, discipline, self-confidence and resilience.

But what are the hallmarks of today's high-performing boards? Or, to put it another way, imagine your task is to build a Canadian board of directors from scratch—one equipped to govern, help drive organizational success, and create and sustain value in a business, social and political environment defined by accelerating change. What traits do you most want that board to have?

In late 2019 and the first half of 2020, we conducted in-depth interviews with more than 30 of Canada's leading board chairs and consulted select executives—50 plus hours of recorded interviews—to discuss emerging governance priorities and how they are responding to the challenges of the day. The COVID-19 pandemic hit as we were well into that work. While hugely disruptive, it has subsequently proved to be an affirming use case of the principles, practices and insights gathered in those interviews and which now make up the substance of this report

In the process of conducting our research, we also observed a number of common attributes that those directors' boards possess:

- Sense of purpose
- Awareness
- Collaborative approach
- Agility
- Foresight
- Trust and respect
- High-quality decision making
- Courage

It's easy to see how such attributes—qualities of nimble, adaptive, intelligent leadership—might enable boards to react, evolve and excel in a fast-paced, increasingly unpredictable environment.

Significantly however, they aren't attributes you can just pick up off the shelf. Instead, they represent pinnacles of achievement—outcomes realized via the approaches to governance expressed and applied by those we consulted in this report.

What we are pleased to present is a unique dialogue between leading board chairs, that works on three levels:

1. Identifying pressing challenges and emerging priorities in governance today
2. Discussing ways that boards can respond to both mitigate threats and seize opportunities
3. Revealing with examples how high-performing boards and chairs, in particular, are getting it done.

It is a collection of wisdom, knowledge and experience that other chairs, directors and boards can hold up as a mirror to their own practices, skills, culture and ambitions—and perhaps revisit periodically—en route to the same goal.

In spotlighting issues that boards are now focusing more time on—such as emerging technologies, fundamentally different perspectives on ESG, new forms of political polarization and a duty to consult—along with new approaches to foundational areas of governance—such as board composition, director education, the role of the chair, strategic planning and risk management, talent management and oversight—the report also challenges the conventional thinking of the director community at large.

As you read the report, keep in mind that the participating chairs represent a diverse range of industries, companies of differing size and also regions across Canada—their varying views and priorities reflect that diversity.

All of the chairs and executives who participated were exceedingly generous with their insights, opinions, anecdotes and engagement. Their pedigrees are first-class: private, public, regulatory, co-op and non-profit board and executive achievement at the highest levels. The result, we believe, is a landmark, inside-the-boardroom analysis of next-wave thinking, and ideas set to become new standards.

1 Not Business As Usual

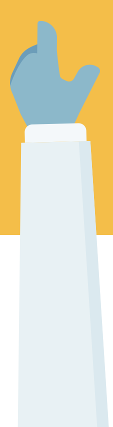
Section 1

Not Business as Usual

Q: **Our discussion in each section is anchored around a set of core questions. To begin, we wanted to get a read on the participants' overall reaction to our initial premise. So, we started each interview with the same two-part question:**

Do you agree with our thesis, that the pace of change in business and governance is accelerating?

If so, what's different about this period?



Before Colleen Johnston retired from TD Bank Group in 2018, having spent 10 of 14 years there as chief financial officer, she held a special executive role reshaping the bank's technology capabilities and the digital and customer experience. One of the outcomes of her work was a recommendation that the company do more to educate members of its board on complex, rapidly evolving technologies like cloud computing, data analytics and artificial intelligence.

"It's hard to be a fiduciary of an organization when you don't have that literacy and yet you have to be asking tough questions," says Johnston. "If your management team comes up with a hypothesis on how they should be thinking about data and analytics or AI, you have to be able to start asking: 'OK what's out there? What do we do? Why does that make sense? What are others doing? What's their hypothesis about the future?'"

Today, Johnston is chair of the board at Unity Health Toronto (a three-hospital network) and a director on the boards of Shopify, McCain Foods and Q4. She sees directors across multiple sectors in similar need. "You need to have your bearings in those kinds of discussions. How boards get up to speed is important."

Johnston's remarks about technology—the challenges directors face understanding it and keeping pace, and the implications for the integrity of board oversight of management—were widely echoed by many of the chairs we interviewed. Not surprisingly, technology is the first place many go when talking about change. However, it's just one big area within a wider range of external topics identified as having the biggest implications for governance and risk oversight by those we interviewed.

Some of these topics expose gaps in director knowledge and board composition, others demand new approaches to strategy (in terms of both risk and opportunity), decision making and board structure, while most prompt re-examination of the board's engagement with management and accountability to shareholders and other stakeholders. In combination, they also place particular onus on board chairs to ensure that everything is addressed.

> For more specific insights on the chair-CEO relationship, see Deeper Dive: "Role of the Chair"

As this report unfolds, we'll look first at those topics as defined by the chairs we interviewed, then dive deeper into the ways in which they and their boards are responding. Their discussions provide a wealth of insights into the ways high-functioning boards are evolving and adapting to "get up to speed." Beyond that, what's truly impressive is how the issues and responses raised proved increasingly salient once the tumultuous events of 2020 began to unfold. Of course, no one predicted the specific cocktail of pandemic, economic shock and civil rights activism that ensued. But the key themes and commentary reflect an awareness and a preparedness that many of the participants' boards and companies will have been able to draw on to successfully navigate through these challenging times.

Accelerating change?

To help frame these findings, it's important to start with a high-level view of the environment in which boards are now operating and with a glimpse of our chairs' mindset.

We obtained that by starting each interview asking them a pair of related questions, as noted, that tested their reaction to our premise and asked them to characterize the current period in their own words.

The vast majority of chairs interviewed agreed with our thesis, though with a few qualifiers and caveats: all boards and sectors are different; there are still peaks and valleys driven by major events; one commented that there is an equally dramatic shift underway in the rate at which public perception and expectation of change is accelerating, due to factual distortions in social media.

The impact is certainly real. Judging by their remarks, the feeling in most boardrooms these days is that demands on directors are increasing, more issues are vying for their attention, and yet the time to consider such things and respond is shrinking.

"There are so many things coming at you," says Ian Bourne, chair of Ballard Power Systems from 2007 to 2018. "It used to be you could work through them almost in sequence. Now you can't." Brenda Eprile, chair of Westport Fuel Systems, has a similar view: "You're hit, bombarded," she says. "In the past, there might have been one thing you really worried about that was moving quickly. Now we've got so many different things to be concerned about."

"It's the end of the status quo. All of the old methods of doing business are being challenged at the same time."

Maureen Jensen

Rob Goodwill, chair of the board at Gay Lea Foods Co-operative, notes the faster pace is accompanied by greater unpredictability. "That's why it's so hard to create a strategic plan," he says. It's the end of the status quo, adds Maureen Jensen, chair and CEO of the Ontario Securities Commission from 2016 to early 2020 and now a director of Franco-Nevada: "All of the old methods of doing business are being challenged at the same time."

Isabelle Courville, chair of the board of Canadian Pacific and former chair of the board of directors of Laurentian Bank of Canada, hints at the adjustments chairs and boards must make. "It changes the work you need to do in advance. You need to always be prepared."

The biggest driver of this change, pretty much all agree, is the proliferation of new technology—not in the specific, issue-driven sense Johnston described, which we'll return to in the next section—but just in terms of its reach, capabilities and ever-growing integration into all facets of business and society.

"Technologies just keep building upon each other," says Karen Farbridge, board chair at Meridian Credit Union. It's the rate of technological change "compounded by the interconnectedness of our world," adds Kate Stevenson, a director on the boards of CIBC, OpenText and Capital Power. Mark Hughes, chair of the Global Risk Institute, links advancing technology with social media. "They amplify the need for change in some instances and the opportunities for change in others," says Hughes.

In some advisory circles, social media is flagged as a risk in itself. Those we interviewed recognize it as an important variable to be managed—whether the concern is how it can add scrutiny around reputation, weaken an organization's ability to control its own narrative, or indeed present opportunity to leverage it as a platform—but say mostly it just adds to the pressure for faster "always on" response.

Technology aside, at the level of "What's different today?", three other areas were most frequently cited, as follows:

- most boards today are coping with more shareholder engagement and activism as well as a greater range and number of non-equity stakeholders;
- customer, client, regulator and other stakeholders' expectations are rising overall and becoming more segmented among different groups and between generations;
- emerging issues such as climate change, sustainability, and topics contained under the broader umbrella of ESG—particularly diversity, equity and inclusion—are demanding, and deserving of, more space on every board's agenda.

It should also be pointed out that none of the chairs interviewed complain, or sound worn down by the accelerating pace of change.

Some admit to being taken aback now and then by what they're navigating—"We're learning as we go," says Ellen Pekeles, board member and past chair at Mountain Equipment Co-Op (MEC)—but it's clear they also embrace the challenge. "I find this a very exciting time," says Roberta Jamieson, a director on the board of Deloitte Canada and president and CEO of Indspire, a national Indigenous-led charity. "I also know that in times of change, there are incredible opportunities to make the kinds of structural shifts that are going to be required to create a more inclusive and productive society." Or, as Bill Anderson, chair of Sun Life Financial, puts it: "It's a lovely time to be involved in all of these changes, right?"

It's probably a good thing they feel that way, since, as Don Lowry, board chair at Capital Power, notes, while things may have never moved faster, "it will never again be as slow as it is today."

2 External Factors

Section 2

External Factors

Q: **With the overall dynamic established, we honed in on the chairs' reading of the external environment, asking:**

What are your top two or three emerging priorities from a governance and risk oversight perspective, and why?

Knowing that change is accelerating is one thing, but the participants' answers to our second set of questions (see box above) reveal which parts of that wave are putting the most pressure on boards, testing their capabilities and driving change. These are the challenges high-performing boards are equipped to handle—ensuring management is able to realize opportunities and guard against underperformance—and less-effective boards are not.

Many of the chairs' responses touch on both external factors and internal vulnerabilities. We'll focus at this stage on the main external points within several categories, but in some internal areas—particularly director knowledge and board composition—it's more of a continuum. We'll delve deeper on internal factors in the next section, where the chairs walk us through the steps they and their fellow directors are taking, in concert with company CEOs and management, to address and respond to the challenges posed by the current environment.

Emerging technologies

As noted at the outset, many of the chairs in our study cite different aspects of technology among their top emerging priorities.

"Every business is a technology business now, regardless of what their end product is," says John Manley, a senior member of Prime Minister Jean Chrétien's cabinet from 1993 to 2003, including nine years as industry minister, who now chairs the boards of both CIBC and CAE and is a director at Telus.

"If anything, we're still moving at a slow pace compared to what I think is about to come. That also means that a lot of traditional businesses are going to find themselves challenged by new entrants, disruptors, new approaches, new technologies."

Manley made these comments before the pandemic. Chairs we consulted more recently highlight how COVID-19's impact on workplace and marketplace dynamics has further hastened the speed of technological adoption and innovation. **"What I'm seeing certainly on my own boards is that companies that were averse to making changes in technology are suddenly finding the imperative is there," says Jensen.**

Tom Woods, who is a director on the boards of Bank of America and Alberta Investment Management and the former chair of Hydro One and Unity Health Toronto, says what makes technology a "massive" issue for boards is that it has so many different dimensions. Among them: talent, cybersecurity and the competitiveness-cost ratio of your customer-facing technology platform.

"I think talent is one of the most difficult challenges," says Woods. "As a board, how do you gauge if your company or your organization has an environment that is attracting and retaining the best people, many of whom are young and tech savvy?"

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>
> **John Manley**

Security is more straightforward, with boards relying heavily on third-party audits of their systems and processes. But it's not as simple, Woods says, when boards have to evaluate whether or not the CEO and management are investing the right amount of money on core technology.

"Any expense is a drag on earnings per share, right?" explains Woods. "A skeptical board member might look at a CEO who has a year

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> TOM WOODS

or two to go before stepping down and ask, 'Is he or she being incented to cut the tech budget just to keep the numbers going up'" to boost compensation, with consequences for the organization a few years later after they've gone?

Sizing up how your company compares to the competition is another part of that equation. "As a board member, as much as I'm concerned about cybersecurity, I'm also worried about seeing my competitor come up with something that we have not seen, a new way of doing something, a new offering in the market," says CP chair Courville.

Such concerns are familiar ground for Paul Tsaparis, chair of the board of governors at York University and a director at Ontario Health, Metrolinx, Teranet and Indspire. He became a full-time director after a 28-year career with Hewlett-Packard (Canada), including 12 as president and CEO. Tsaparis says the technology that is transforming industries and segments of our society "puts great stresses on businesses, great stresses on organizations and, as a result, great stresses on the boards that need to support the senior leaders within those businesses."

While Johnston, in her work for TD, recommended focusing on director education to ensure boards can cope with these stresses, some of the chairs we interviewed say the issue goes beyond education; that many boards need to look at adding new members who don't need any extra training on tech to be able to work with management.

"I'd say the biggest risk right now for most companies is the impact of technology," says Bryan Davies, chair of the Financial Services Regulatory Authority of Ontario. "On the negative side, it's what do we do with cybersecurity? On the positive side, it is how are we going to change our business model to embrace and avail ourselves of the opportunities that new technologies are bringing?

"So, you need people on boards who are abreast of these things," he continues. "They aren't necessarily technology experts, but they know when to call in experts and they know when to hold management accountable to make sure they're calling in the experts."

Jensen says decisions around technology expertise and director composition are unique to each board and their organization. "If in every single one of your board meetings you're talking about large-scale digital transformation, you should have someone who understands that on your board. If you are doing one project you can buy the advice."

Both Jensen and Anderson stress that there are also important issues for directors in looking at technology through a data lens. It's a topic that spans security, smart use of data as an asset, limitations on its use due to privacy and regulatory constraints, as well as challenges raised by the growing use of artificial intelligence to manage systems and make decisions around it.

"The protection of data, that's important. And I think every board is trying to figure out how to deal with data security. But how you use data and the governance around client data is becoming equally important. There are pretty high expectations. That's the other side of the coin," says Anderson.

Adding to the tension is a growing realization at any company that has a lot of data—and increasingly, that's most of them—that it represents a tremendously valuable asset. Most companies now understand how to use it internally, to increase efficiencies, enhance customer service and so on. The next step, which is to commercialize it, is more emergent.

"Everybody is trying to figure that out," says Anderson. "How do you incorporate all this data capability into some kind of predictive analysis, artificial intelligence? And it's not only what the opportunity set is. But how do you balance the investment from a capital allocation perspective?"

In her role at the OSC, Jensen was on the front lines of data automation in trading and other market activities. As with most big data environments, it's a world in which algorithms rather than individual decisions drive much of the activity. But the algorithms themselves originate with humans, who determine inputs and set parameters.

"You have to understand what the inputs are. There have to be basic principles, like the law of robotics," she says.

Without such principles to set some rules or provide a check against built-in bias, say, things can get out of hand.

Traders think in terms of maximizing revenue, says Jensen. "But if you just write an 'algo' that maximizes revenue, within not too long of a period you're going to be breaking the rules."

The lessons extend to every board overseeing such processes. They don't necessarily need AI technical expertise, but they do need expertise in understanding the possibilities and implications of its use. It's as much about understanding use cases along with conduct and reputational risk as anything more technical.

"One of the most interesting jobs that is going to come out of this is going to be ethicists for AI," says Jensen. "You're going to have to have people who are actually thinking about the ethics of the programs."

New perspectives on ESG

Environmental, social and governance concerns have come out of their silos.

In the past decade, the practice of senior directors meeting with a company's major shareholders has gone from something rare and innovative to relatively mainstream. The meetings usually involve the board chair and the head of the Human Resources and Compensation Committee and, traditionally, the key focus of investor interest has been executive pay.

While executive pay is always of interest, according to John Cassaday, chairman of the board of Manulife, in his meetings with shareholders the past two years, ESG is rising to the top of the shareholder agenda.

According to Cassaday, investors meeting with the Manulife board are now looking to discuss concerns that span a broad spectrum of environmental, social and governance issues. This includes things like board composition and board diversity, succession, employee satisfaction and retention, health and safety, ensuring work in their communities is socially responsible, as well as their environmental performance and risk of exposure to climate change.

"You have to be mindful of the specific industry you're in. The ESG parameters for Irving Oil or Sysco [companies where Cassaday is also a director] would be quite different than they would be for Manulife," he says.

"It even varies by company in the same sector," Cassaday adds. "Beyond the ethical investment side, we also have to be mindful of our direct investments and their ESG profile."

The shift from shareholder to stakeholder capitalism

The fact that this intense focus on ESG is facing companies across the board can't be stressed enough. The lightning speed with which this year's reawakening to issues of racism, structural discrimination and social and economic inequality is a case in point, Directly or indirectly, consumers, employees, the capital markets and even regulators are making it every board's responsibility. And with that comes a wave of associated new financial and non-financial reputational risks.

There also continues to be a spotlight on those in extractive or high-polluting sectors for their environmental impacts; similarly, on companies in sectors like the garment industry and mining known for significant labour issues.

"It will be different for every company," says Linda Hohol, chair of the board of the Institute of Corporate Directors, "but you better really understand: What are those risks? What are the metrics you're going to create? And what's your disclosure going to look like?"

Bill Hatanaka, chair of Ontario Health and a director on the boards of Invesco Canada and ICE NGX, says this means boards must embrace accountability and transparency.

"In order to build a competent, sustainable organization—whether corporate or non-profit—you have to accept that everything matters and everything that you touch needs to be looked at through a lens of accountability. A critical priority for the board is to ensure that a process of accountability is embedded throughout," Hatanaka says. "Members of the board must embody absolute accountability in order to set the tone for the entire organization."

Boards that have been out front in this area recognize that it is foundational to their values, purpose and strategy, says Tom Woods. That, in turn, also means they are better equipped to deal with the recent heightened scrutiny. "If it's not foundational," he adds, "you have to make it foundational because the world has changed."

Doing it can still be difficult, however. As one chair we spoke to notes, for some companies it can require a conscious decision to take a lower return for shareholders, at least in the short term.

That gets especially challenging for some chairs where it potentially puts public companies at a disadvantage when competing with private equity, sovereign wealth (SWE) and state-owned (SOE) enterprises that are not affected by the same trend.

"Corporations are being asked more and more to do things that were traditionally done by other organizations in society," says Tom Jenkins, chairman of OpenText, "yet there's been no change to the fundamental construct of the corporation." Meanwhile, "we're seeing these three other entities emerge as being very powerful impacts on economies and business. I think we have to demand a level playing field.

"Do we allow corporations to take on the attributes of an SWE or SOE? Or do we force those other three actors to play by the rules that govern public entities?" asks Jenkins. "I'm sanguine on which direction we go, but it's a bad outcome if we don't go in one direction or the other."

Barb Stymiest, a director at Sun Life, BlackBerry and Weston, and a former member of the executive leadership team at RBC, agrees that the "institutionalization of money" and the rise of private equity and a corresponding decline of public companies does change the nature of accountability. However, she also counters that private equity, at least, has effective forms of governance that even out the playing field.

Employees as stakeholders

While much of the scrutiny and risk related to ESG is external, James Cherry, chair of the board of Logistec, lead director of Cogeco and Cogeco Communications, and a member of the boards of the Canada Infrastructure Bank and McGill University Health Centre, says boards can't overlook their accountability to their own employees. "Board members are now asking more questions about health and safety, for example," says Cherry, who was also the CEO of Aéroports de Montréal from 2001 to 2016. "They're asking more questions about employee satisfaction."

Woods agrees: "[At Bank of America] we survey our employees continuously. The toughest critics and the best judges of a [company's] commitment to ESG are the employees."

"It's not just from a risk point of view," Cherry adds. "That would only be protecting the downside. **I think more and more, boards are looking at this and saying, 'Where are the opportunities in this? How does it make us a better employer? How does it enable us to get better people?'"**

Climate change

Climate change has been one of the biggest catalysts in elevating ESG. Not only is it a global problem to which everyone contributes, but it's one where financial exposure—either as a consequence of direct climate impacts or investment in fossil fuel assets and other holdings whose values are increasingly at risk—is similarly widespread.

As you'd expect from the chair of the Global Risk Institute, Hughes provides an interesting take on the arc of this issue.

"From a board perspective, you have to look at it from two directions," he says. "One is how does your institution impact climate? And that is what most boards and institutions have been dealing with the last few years. Are you in a building that's LEED compliant? Are you, in your operations, emitting carbon or not? In terms of ESG reporting, they tend to talk about their footprint.

"But now," Hughes says, "the equation is switching to the second part." The view here is outward, looking at a company's relationships with other institutions, with exposure hinging on one of two possibilities: either the value and sustainability of those other institutions is directly at risk due to climate impacts, or because they are directly contributing to the problem and can only survive if they find a way to transition to a climate-friendly business model.

Property and casualty insurance firms, mortgage lenders and asset managers are front and centre in the first scenario, as Raymond Mikulich, chair of the board at Altus Group, a cloud-based software, data and analytics, real estate services company, explains: "In the global commercial real estate asset management industry, one's level of risk exposure to such factors as extreme weather, changing storm patterns, wildfires and rising water levels can dramatically impact portfolio performance and valuations."

While that dynamic, today, is already pretty clear cut, relationship with companies facing the second scenario is more challenging because the impact may not affect you for another five, 10 or 20 years. Hughes calls this "transition" risk.

"If you're a bank lending to oil and gas companies, they will presumably have to change their footprint. Do you think they will be a good credit risk 10 years from now? If you're lending to car manufacturers, will they be able to make the transition from petrol engines to electric engines?"

> "It's no longer just good to do. They're saying [ESG] is now a reputational risk."
>
> **John Manley**

In the coal sector, this shift has already hit home, with many lenders and customers stepping back. While, collectively, those funding oil and gas companies are not as far along, they are weighing similar concerns. And with that, oil and gas producers face the prospect of it becoming harder and harder to raise capital if the banks and other investors decide the risk outweighs the potential return—or if they simply decide to focus more funding on renewables for the good of the planet.

At CIBC, Manley, who like Cassaday meets regularly with his largest investors, says he's seeing examples of this changing scrutiny firsthand. "They are increasingly looking for this, because their stakeholders are saying the environment matters to them."

In the boardrooms he's in, more generally, Manley says ESG has shifted from a topic that people say they "should talk about" to one that most recognize is impacting their business. "It's no longer just good to do. They're saying this is now a reputational risk."

As a wholesale electricity supplier to municipalities, provinces and corporations across North America, Capital Power's Lowry is on the other end of the financing equation. That makes his company's ESG performance critical to the viability of the business.

"We know that large banks and hedge funds are taking a look at companies like ours and asking, 'Where's our capital at risk?'" he says. "If we, as a board, were blind to that, we could soon be facing a situation where we can't get financing, raise equity or roll over debt, because nobody is going to supply it or it's going to be at a cost that we're not viable."

What is he hearing when he meets with his investors?

"They are positive about what we are doing," says Lowry. "From an environmental perspective, we are taking visible steps to be the best, most admired and responsible supplier of power in our markets. From an ESG perspective, we are striving to be leaders in what we're measuring and to ensure that the metrics clearly link to our strategy and overall purpose.

"But the choir is building. They're not saying it's an absolute and you have to hit this standard, but unless you're visibly taking these actions to mitigate and be aware of that, then you're going to be considered high risk."

"It really is about building a sustainable corporation. Companies that are high-performing are going to have a sensitivity to what their place is in their community and how that fits with their employees, their clients and suppliers. They're going to **have a culture where there's integrity and sensitivity around how people are treated**."

BILL ANDERSON

Diversity, equity and inclusion

If the choir is building on climate change, there's a full band joining them on diversity, equity and inclusion and a related suite of human capital issues that includes culture, health and safety, training, and employee satisfaction and retention.

For some time, leading companies have tracked metrics on these elements, and an increasing number now disclose this data either in their annual proxy or ESG report.

But given the uneven impact of the pandemic on vulnerable workers and disadvantaged communities, and the subsequent groundswell of demand for meaningful action to address systemic racism, increased scrutiny on companies and their boards, and the need for measured, sustainable responses, is inevitable.

"It really is about building a sustainable corporation," says Anderson. "Companies that are high-performing are going to have a sensitivity to what their place is in their community and how that fits with their employees, their clients and suppliers. They're going to have a culture where there's integrity and sensitivity around how people are treated."

Kathleen Taylor, chair of the board at RBC, points to a recent shift on the part of many large institutional investors to start voting against board and committee nominations at companies that haven't embraced diversity. "They started saying, 'If you don't have any women on your board, we're going to vote against your governance committee chair.' What that meant in practice was that if you didn't have any women on your board, investors were going to vote against some of your men. This was a massive wake-up call. And all of sudden, the numbers [of women directors] started to change much faster."

The #MeToo movement is another driver changing the perception of reputational risk, says Kate Stevenson. "It has heightened the urgency with which boards are evaluating, or trying to evaluate, that risk within their companies, and in my experience, this has been a catalyst for learning and an opportunity to enhance a culture of respect and inclusion."

Culture

Culture is clearly the key. While not an emerging issue in and of itself, according to Stymiest, it's something many boards still struggle with in terms of its oversight and evolution.

For companies at that stage, Anderson says to start with some basic questions. "Determine what your culture is and think about what you want it to be. What do you want your employees to think about you? What do you want your customers and suppliers and investors to think about you?"

Successful cultures both create and protect value. Stymiest says boards should focus on general archetypes to aspire to, such as innovation, brand-building and protection, customer-focus, or quality and efficiency, rather than trying to define it in detail. "Then work up a plan with your CEO to identify gaps in your current culture and move the dial."

Pekeles relates it to purpose. "When your purpose is clear...it's easier to create the kind of culture that you need, the accountability that you need," she says.

This framework—culture reflecting purpose and values—resonates with Woods. "[At Bank of America] we operate on a dual mandate. Number one is growth to benefit all of our stakeholders—clients, employees, shareholders and communities. Number two...is to help address societal priorities."

Social inequality

Sitting on the board of a U.S. bank, where the regulatory culture has explicit rules around such things as fair lending practices linked to both individuals and communities, Woods has more experience than some directors in confronting issues of social inequality and inequity.

"Inequality is something any big company has to address," he says. "You try to address it by being sensitive to that and respond to it—with respect to your own people, your customers and your communities. It's not just reputation, it's doing what's right, being able to convey how you are living your values."

To illustrate, he cites two examples.

The first has unfolded over time. "We have a huge emphasis on tailoring our benefits programs to lower-compensated employees. We've raised our minimum wage to $20 per hour and since 2012 there has been no increase in health insurance premiums for employees making less than $50,000."

The second, from June of this year, saw the bank announce a $1-billion, four-year commitment to advance racial equality and economic opportunity. Woods says this measure had already been planned, but its announcement was brought forward following the death of George Floyd in Minneapolis, Minn., in late May.

As we've seen, many other companies, in Canada as well as the U.S., have announced pledges and commitments in response to this event and the resulting calls for action to address systemic racism.

Substance over form

Taylor, of RBC—which announced its own measures, including raising executive staffing targets for executives identifying as black, Indigenous or people of colour (BIPOC)—says that this is a moment in time that demands change from individuals, companies and society at large. But from a corporate ESG risk perspective, she stresses that "substance over form" is essential.

"One, because form won't create any progress. Two, form will erode trust if it isn't accompanied by substance," she says. "It has to bring with it detailed, tangible, measurable programs that actually change outcomes. If actions don't generate impact, in the end they will be considered ineffective, inauthentic and ultimately could be damaging to the organization."

"This is a moment in time that demands change from individuals, companies and society at large. Substance over form is essential.

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KATIE TAYLOR

Taylor's point echoes Anderson's comment at the opening of this section about the need for board oversight and company action on ESG-related issues to be "foundational." The manner in which both RBC and Bank of America rolled out their responses are emblematic of that approach.

No doubt, many companies have made pledges and commitments with much less pre-existing planning or preparation, and time will tell—and stakeholders will see—whether or not they were more "form" than "substance."

Woods acknowledges that it's easy for critics to dismiss their actions as "reactive," but he argues that the moment demanded a response. "You can call it reactive or you can call it the right thing to do. The fact of the matter is, if your employees—not just people of colour, but their allies, everyone—are struggling, particularly when they're home [working remotely due to COVID] and they're not able to actually meet with people in person, you have to take action immediately."

ESG's overall importance

Manley brings the issue back to the importance of ESG as a whole.

"The future of the capitalist system requires that businesses figure out how they align with broader societal goals and objectives," he says. "Because although social license is not defined in anything that I've ever seen, the concept still is there. And because I believe the impact of public policy on businesses is so profound, unless you get that licence aligned, the Bernie Sanders of the world are going to really come in and manage things for us.

"If we think capitalism is a good system to create prosperity, then we better make sure we figure out how to address the broader concerns about the distribution of the prosperity, the protection of the environment, the achievement of other goals and objectives."

Escalating political polarization

There's a link between Manley's last point and a third and otherwise separate external priority area identified by a number of our interviewees—that of political risk stemming from an increasingly polarized and mercurial policy environment.

It's a problem seen at two levels. First, geopolitically, around issues like trade wars, the rise of nationalism, tribalism and protectionism. On this scale, our chairs say there is little that individual companies can do other than be aware and be as flexible as possible.

The second level relates more to domestic and in-country policy decisions. In that context, they see a higher risk of governments enacting policies that unduly challenge companies or harm certain sectors. As one chair states: "I suppose politicians have always been focused on getting re-elected, but today it seems like more of an obsession than ever. And because information flows so quickly, they face a barrage of opinions and it leads to a lot of ill-informed policy decisions."

To be clear, political risk isn't a new concept, and government relations has been a key management file in most larger companies for decades. But several chairs see an increasing onus on boards and companies to consider different strategies to either influence policy decisions or redefine their purpose to include more direct action and advocacy on issues that are important to them and to broader society.

Which is where Manley's point ties in. "Businesses have to recognize that to get good public policy, or a benevolent or even benign public policy environment, they need to be dealing with the needs of other stakeholders beyond their shareholders," he says. In other words, doing more to help governments solve their problems.

Given the wide reach of government, this is a topic of potential concern for corporate boards in most sectors, regulated and non-regulated, as well as most non-profits, health care organizations and other public service agencies.

"Nearly every board I am on, the No. 1 strategic risk is government intervention," says Lowry.

The issue, as he defines it: "Governments are moving at a pace too often on an interventionist and catch-up basis [with] policies, regulations and taxes that have … well-intentioned short-term or long-term aspirations but are very poorly thought out and can cause major upheaval."

In response, Lowry says, boards need to determine how they can be agnostic politically while applying the best possible "intelligent listening devices" to gauge the likely course of policy decisions in order to "find a way to run our business such that if they do make those decisions, we minimize their impact."

"Businesses have to recognize that **to get good public policy, or a benevolent or even benign public policy environment, they need to be dealing with the needs of other stakeholders beyond their shareholders**. In other words, doing more to help governments solve their problems."

JOHN MANLEY

Being politically agnostic doesn't mean being silent on the issues. "We're very aggressive in submitting our views on policy and having them well thought out," says Lowry. "As one of our directors put it: 'Our job is to provide [the government] the facts and the data and make recommendations, but it's their role and responsibility to make decisions.' And that's what we try to do."

No two companies are exactly alike in how best to address this topic, according to our chairs.

"Every company has got a different story and a different degree of dependence on the government—and therefore a different risk aversion to speaking out," says Bill Young, chairman of the board at Magna International.

Take internet and telecommunications services. "The whole industry has been criticized for the cost of broadband. The government and the industry are fighting about it all the time," says Cherry, who is lead director on his boards in the sector.

How to respond? Major players in this space, unhappy with government policies that they see as more punitive than constructive, have recently agreed on a strategy to collaborate—despite being traditionally bitter rivals—on a potential solution to get reasonably priced broadband to everyone in the country.

"They're saying, for the good of the industry and for the good of the community, we have to do something," says Cherry.

Norman Loberg, who is chair of the board of Alectra Inc., a fast-growing regional Ontario electric utility, frames regulatory policy as a "huge" risk. "Inconsistent policy, unclear policy and changing policy—you have to be adept and flexible, as a board and as management, to either adjust or anticipate or speculate what the regulator is doing."

"We have a very aggressive and strategic government relations initiative [led by management] to take our message to the appropriate people in government in order that they can make fully informed decisions affecting our business," Loberg adds. "But to me it's more important than ever that boards understand how governments at all levels can influence or directly impact their organization."

"Boards honing their strategy on government relations need to start by ensuring they have clarity on which specific issues and files they want to engage on," says Barb Stymiest. Another important perspective to bear in mind, she says, is that a company's government relations function, when applied effectively, isn't just one-way lobbying, but a collaborative effort that can help governments do their job.

In some sectors, exposure to government policy is explicit. In the dairy industry, for example, companies operate under a supply management regime that is a frequent trade issue and an area where Canada made concessions in the recent negotiations for the Canada-United States-Mexico Agreement on free trade.

To ensure its voice is heard, Gay Lea Foods has a lobbyist in Ottawa and its three-member board executive are registered lobbyists as well. "We are very active. We have a voice not only for Gay Lea, but for the greater industry as well. We see that as a big part of who we are," says Rob Goodwill. "We do try to lobby. Whether or not the government listens to us is another thing."

Courville, who is also familiar with federally regulated industries, echoes Manley in noting that boards and management, in choosing a strategy, should try to appreciate where governments are coming from.

"Looking at the big picture, I think governments are struggling with the same accelerating pace of change that boards face," Courville says. "The way they respond is by regulating what they can regulate. It's why this risk is going up."

Duty to consult

"We are not stakeholders. We are partners waiting to be engaged"

Roberta Jamieson

Recognition of the rights and standing of Indigenous peoples, and the responsibilities companies have in working and engaging with First Nations and other Indigenous groups, is another emerging subject cited in a number of our interviews. While it is sometimes included under the ESG umbrella—the subject has wide-ranging social and governance implications—Indigenous peoples' unique legal standing has thrust the topic to the forefront of consideration in a way that justifies distinct categorization.

There have been several pivotal moments in this process, but the turning point was a 2004 Supreme Court of Canada ruling affirming the Crown's "duty to consult" with Indigenous peoples prior to undertaking or permitting activities that potentially impact their rights and title claims. "We are not stakeholders. We are partners waiting to be engaged," explains Roberta Jamieson. "There are no other groups in the country with constitutionally recognized rights."

Relations with First Nations and other Indigenous groups as an issue predated 2004, of course. Hal Kvisle, who chairs the boards of ARC Resources and Finning, and is the former CEO of TransCanada and Talisman Energy, notes that companies in energy and other resources sectors have a long history of employing Indigenous workers. In that respect, community investment was treated as a given to win support for local projects.

But increasingly, Kvisle says, the issue goes far beyond pragmatic trade-offs. Instead, companies are expected to see working with Indigenous people in the areas where they operate as a social and legal responsibility.

For Tim Hodgson, chair of the board of Hydro One, First Nations relations go to the heart of strategy and boardroom decision making. Hodgson says that Hydro One, as Ontario's largest electricity transmission and distribution provider, needs to be "world class" in partnering with First Nations if it is going to be able to continue to improve and expand its power grid.

"There are over 100 First Nations communities in Ontario. Our lines cross, I think, 88 of those communities. You don't hear about it as much, but our reality is no different than pipelines today," he says. "There will not be another major piece of transmission infrastructure built in this province unless there is a partnership with the First Nations that are affected. **At the board level, we need a mindset that doesn't see this as a risk but as a business imperative to be dealt with strategically."**

Jamieson, previously a director on the Hydro One board, as well as the board of Ontario

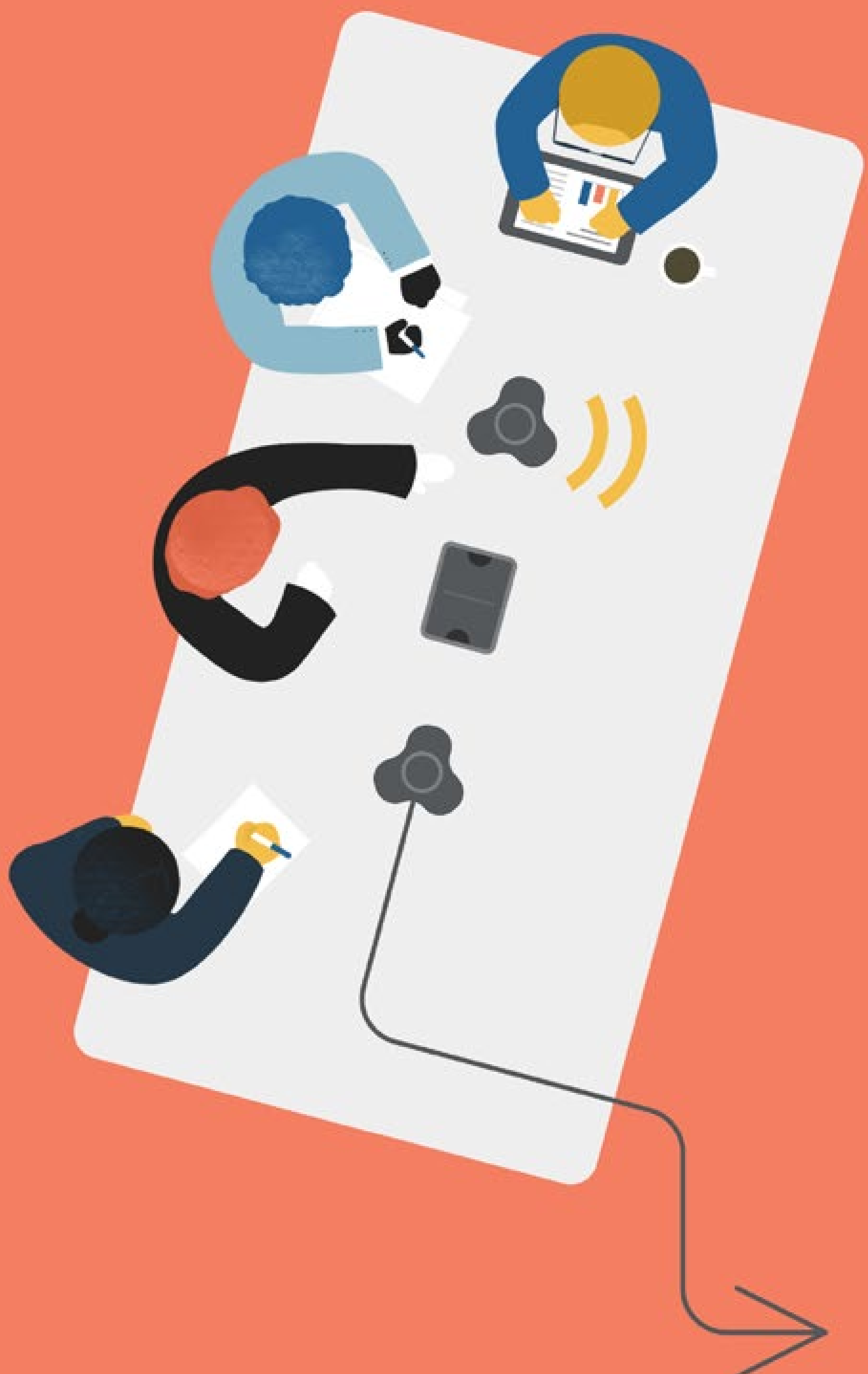
Power Generation, points to a partnership deal struck in 2015 between OPG and the Moose Cree First Nation on a hydroelectric power project—in which the Moose Cree hold a 25% equity stake—as a model of that new imperative in action.

But for many organizations, she notes, the structural change required to see First Nations and other Indigenous peoples as partners remains "painfully" absent.

"I've been invited into boardrooms and retreats to talk about this issue, so there is a growing interest," she says. "But we're not there yet. Sometimes [company leadership] will mandate their employees to all undertake cultural awareness training, or cultural competency training. But they don't do it themselves. It is critical for any board; you've got to walk your talk or it's not going to be credible and it's not going to be reflected in action."

Companies working in other countries also need to recognize that these issues are increasingly relevant abroad as well as within Canada. Boards have had to pay attention to efforts by activists and socially responsible investment funds to hold companies accountable for offshore conduct for years. But more recently, members of Indigenous communities in several countries have won the right to take legal action in Canadian courts against Canadian companies for their deeds abroad, and those of their subsidiaries or agents, which has upped the ante considerably.

3 Internal Response



Section 3

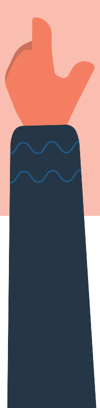
Internal Response

Q: **To determine the hallmarks of high-performance boards, we needed our chairs to open their playbooks and describe how they are evolving to maintain and elevate board effectiveness in this environment. In our final series of questions, we asked:**

What steps are you taking to evolve your board's agenda to give the emerging priorities adequate attention?

Has your thinking changed with regards to board-management interaction, knowledge sharing and talent oversight?

What new approaches are required?



This section contains the richest feedback gathered over the span of this project.

It was obtained when we asked the chairs to describe their current practices and to tell us how they've adapted their thinking and approach (see adjacent box) to respond to the challenges and emerging issues just described.

Figuratively, at least, their responses often take us right into the boardroom, as well as into their thoughts and concerns. What they describe is a constellation of actions, methods and areas to address—everything from new approaches to strategic planning and oversight to shaking up board composition and committee structures. Their overall aim is to create adequate space and time for deliberation, and to ensure the right talent, culture and other necessary elements are at hand for their boards to make the best possible decisions.

The measures interconnect, lending to a process approach. And as you might expect, it all starts with having the right people in the room.

Talent at the table: CEO

There is one constant amid this talk of change—the board's No. 1 job is still to hire and fire the CEO. Related to that is the essential nature of the relationship between the chair and the CEO. We'll focus more on the latter than the former in the balance of this report, as the factors underlying CEO selection are rarely unique to the emerging issues at hand. But there are exceptions.

One given, for example, is that organizations need a CEO who is right for the times. So, if the times are changing, boards need to be asking if the CEO needs to change as well. As one of the chairs we spoke with says: "Just as it's impossible to lock into a five-year plan when things are fluid, in situations where you aren't sure where you're headed, boards need to keep it in mind that they might need a different CEO."

In such circumstances, says Bill Hatanaka, it's essential to hire a CEO who is philosophically aligned with the overall thinking of the board. "It doesn't mean you will naturally agree on everything, but generally speaking you want to be in the same ballpark directionally, so you don't have to waste two years getting things onside."

The catalyst for making a CEO change might be indirect. Another chair outlined a scenario where the organization's senior management team was poorly suited to execute on a new strategy for the changing market. But since talent development was not a strength of the incumbent CEO, the board decided to make the first move to put the rest of the plan in play.

Another chair spoke of a situation where a major shareholder pushed for a CEO change for reasons unrelated to issues in the market. But that led to an opportunity for the board to bring in a new CEO with a fresh perspective on the emerging business challenges. As a result, that organization was able to adapt and respond more quickly than might have otherwise been the case.

This last example reinforces a point made by several chairs. A CEO change is an opportunity for the chair and the board to do a bigger reset—taking a new approach with meetings or creating a new tone with management, for example. It may not be a reason to replace a current CEO, but don't waste the opportunity if it is presented.

> For more specific insights on the chair-CEO relationship, see Deeper Dive: "Working with the CEO"

Talent at the table: Directors

As important as the CEO is, of course, he or she is just one person among another half dozen or more directors at the board table. The latter group are the main concern, say the chairs we consulted, when you're talking talent in the boardroom.

Their emphasis, as noted, starts with director knowledge and board composition. But it also takes in education, the merits of specialty knowledge versus general expertise, the overdue need for greater diversity, equity and inclusion, increasing time commitments, board renewal mechanisms, potentially even different kinds of appointments and tenure, until the question ultimately becomes: what does it mean to be a director today?

This is one area where our chairs agree on the question but not necessarily the answer. It's a divergence that stems in part from their unique experiences and personal styles, but it also reflects the competing—even conflicting—demands on boards today. It takes a new kind of alchemy to achieve the right mix.

"Composition is extremely important," says Eileen Mercier, chair of the board of the Canadian Payments Association and former chair of the Ontario Teachers' Pension Plan board. "That's not new" in and of itself, she adds. But as the business climate evolves in both complexity and rate of change, it is coming under more and more scrutiny—along with pretty much every traditional staple of board construction and development.

Whither the skills matrix?

Case in point: One of the most common tools used by boards and proxy and shareholder advisors alike to recruit new directors and to assess the quality of board composition is the skills matrix. However, a number of chairs in our study openly question its primacy and value.

"Nothing in the board's job has changed," says Hydro One's Hodgson. "But the reality of what skills you need in the boardroom may have changed. So, the board really has to ask itself if it has the right skill sets to deal with those change curves and does it have the right skill sets to coach, mentor, encourage and hold management accountable. And does a traditional skills matrix capture that?"

Adds Stevenson: "Over the last five to 10 years, boards have been very focused on the skills matrix and in building a skills-based board based on that matrix. But the trend today is to look more for lateral business thinkers, well-rounded business leaders who bring deep experience to the table across many skill sets. **The skills matrix still informs composition in important ways, but it's less of a unilateral driver."**

Industry expertise is necessary in "about 20%" of directors on the Cenovus and ARC Resources boards, according to Kvisle. The rest? "If I find a director that really understands the decision-making process and really understands the leadership and human resource and organizational process, they could come to us from almost any industry," says Kvisle.

"Nothing in the board's job has changed, but the reality of what skills you need in the boardroom may have changed"

Tim Hodgson

"The trend today is to look more for lateral business thinkers, well-rounded business leaders who bring deep experience to the table across many skill sets"

Kate Stevenson

"If I find a director that really understands the decision-making process and really understands the leadership and human resource and organizational process, they could come to us from almost any industry."

Hal Kvisle

To Don Lowry, part of the answer boils down to what kind of director adds the most value in working with the executive team. "We want directors that understand the capital cycle, who have some really good insight as to what destroys capital and how you create value," he says. "There's a much better complement with management when you've got that.

"The problem today, there are so many what I'd call professional directors that haven't a clue as to how you make these decisions and what it's like to put together a budget, a plan, go to capital markets, trade off these various alternatives. They are very singularly looking at it through a subject-matter expertise. They can get much more adversarial, picking over points of technical differences as opposed to material or subjective differences."

RBC's Taylor says she derived her framework for what makes a good director from a template called the "Three Cs," first prescribed by legendary Canadian investment manager Stephen Jarislowsky. The three Cs stand for competence, curiosity and courage.

"Competence means a person has to bring a level of expertise and depth and breadth of experience to the role that is a fundamentally good match for the needs of the board at that time," Taylor explains. Curiosity ensures that the board is "always composed of people who actually love learning and love the exploration and the work of learning, so that they have the ability to continuously adapt to the organization's changing landscape." Courage "speaks to a director's willingness to speak up, particularly in challenging circumstances."

Events in 2020 have emphatically validated the importance of these traits, Taylor adds. "You want to be on a board with people who have had deep and challenging experiences." Directors with appropriate backgrounds can provide good crisis management advice while also having "the steady hand to not overreact to the situation." The fact that the pandemic has also brought new ways of working, thinking and connecting also makes curiosity and an appetite for continuous learning essential, she says.

Diversity of thought

Yet even as all these chairs attest to the value of well-rounded experience, they also make a case for the importance of greater gender, age, racial and cultural diversity—further contributing to diversity of thought in the boardroom. The two are not wholly incompatible, but there's an obvious tension, in that experience tends to favour the status quo and it also comes with a shelf life.

"Boards put a huge value on experience, which tends to drive a certain demographic profile in terms of the age and the tenure of your board members—but it's worth pausing on that model," says Colleen Johnston. "I think your currency and what you know from your corporate life, it erodes more quickly these days."

"There are a lot of Boomers on boards," says Pekeles. "Are they really reflecting what's needed in the multigenerational aspects of organizations?"

"**This is a journey**," says Maureen Jensen, who as OSC chair argued for firmer targets and policies to compel companies and boards to boost action on diversity. She's concerned that boards that were slow to respond on gender diversity will now resort to token measures to tick the BIPOC box while continuing to resist fundamental change. There's also a risk that gender diversity efforts could get shunted aside in a rush to select directors of colour.

MAUREEN JENSEN

As Goldy Hyder, president and CEO of the Business Council of Canada, sees it, corporations have been slow to understand the transfer of power from traditional institutions to "individuals forming their own networks." To address this, he says, boards need greater diversity—including members who are younger and culturally aware.

"A 16-year-old girl [Greta Thunberg] can put five million people on the street on the weekend with one tweet," Hyder says. Companies and boards that fail to grasp this are "playing the new game with the old set of rules."

Bryan Davies is blunter: "You can't get away with old, white men in the boardroom anymore." He says he's seen the difference firsthand sitting alongside newer, younger directors who are also members of minority groups "raising questions I never would have thought of raising."

Jamieson links diversity, and Indigenous representation in particular, to a board's duty to ensure management has a fix on society's demands for greater corporate responsibility. "The public is demanding much more of all of our institutions. And that is not going to diminish," she says. "So, boards need to be acutely aware of how their company is best positioned to respond to that appetite and that demand."

She points to climate change, as an example.

"If we had more people on boards who understood the environment, stewardship, [and had an Indigenous perspective] on how to live with the environment, you would not have near the problems we have in the natural resources sector.

"Make sure you have people at the table who can bring that perspective, that sensitivity, that awareness of the broader landscape, so you can have that balanced conversation, and if you don't have it, get out there and recruit it."

Substance over form (again)

There is a right way and a wrong way to add diversity, of course. In response to this year's groundswell of demands for action on structural racism and inequity, many companies pledged immediate action to address gaps in multi-racial representation and influence, including on their boards. While recognition that achieving real change in this area requires greater intentionality and accountability is long overdue, some of the chairs in our study warn that quick fixes are not the answer.

"This is a journey," says Maureen Jensen, who as OSC chair argued for firmer targets and policies to compel companies and boards to boost action on diversity. She's concerned that boards that were slow to respond on gender diversity will now resort to token measures to tick the BIPOC box while continuing to resist fundamental change. There's also a risk that gender diversity efforts could get shunted aside in a rush to select directors of colour.

"I'm already seeing that. The shortlists are completely changing," she says. "Generally, boards address the risk that's right in front of them today and very few have a purposeful journey planned."

Specialty expertise, commitment and fit

David Lever, chair of the board of partners at law firm McCarthy Tétrault, says determining the need for specialty expertise comes down to the nature of the enterprise. A technology-based business with a board that isn't well-stocked with directors who understand technology applications, risks and development is at high risk. "But as a law firm, we don't all need to know cybersecurity, say. We need to be mindful it's an issue and we need to ensure the firm is getting the right experts to review it and provide reports to the firm and to the board," he says.

In the world of health care, where disruption is widespread, information technology is an essential skill set, according to Bob Bell, former deputy minister of health in Ontario and, for nine years prior, CEO of University Health Network. "Understanding of technology at some level is crucial, especially understanding how incremental approaches to IT can be valuable in avoiding big disasters."

IT skills and experience were at the top of Mercier's list when she became chair of the Payments Canada board in 2015. She was tasked with building a new board, in conjunction with the introduction of a new governance model. To her, the skills the new board needed to effectively oversee an organization with the federally mandated task of modernizing Canada's national payments infrastructure were clear. "I said I want all kinds of people; the only common denominator is they have to have had their ticket punched in IT somewhere in their career."

Hodgson sees the choice between specialists and generalists as a balancing act. "For us, an Indigenous profile would be huge, AI would be huge, consumerization of business would be huge," he says. "But I'm not sure the right way for a board to get each of those skills, even if they're core to the business, is through using up one of the 10 board seats. Do you want a board of Balkanized specialists?"

He says his preference is for directors who have "integrative skill-set thinking"—typically, but not exclusively, found in former CEOs.

"There are very few tough issues that get to a board that are black and white. They're all shades of grey. So, the best board member is one who can think about an issue from multiple perspectives," says Hodgson. "If everyone just brings a singular perspective, the chair is going to have a hell of a job integrating those views and the board's not going to function very well."

Cherry recommends a two-step approach when assessing potential directors, first for essential competencies, such as accounting or legal or sector-specific expertise, and then for the breadth of their capabilities.

"It's easy to say we need an accountant," he explains, "but then the judgment becomes, 'Which accountant do you want? Someone who's spent their entire life in public practice, or somebody who's been a CFO in an organization and understands business from that perspective?'

"I would look at the competence first. 'We know we need somebody to head up the audit committee in two years. So, they've got to have that qualification. But now of the people we're going to see, let's make sure the person we select is not uni-dimensional.'"

Another trait that's no less critical, particularly in the non-profit sector, but even harder to pin down on a skills matrix is a director's passion and commitment, says Paul Tsaparis.

"We have our beautifully outlined matrices, how everyone fits, but people have to have a passion for the cause, especially in the volunteer aspect of it. If they don't then they would likely not be a good fit for our board."

Passion and commitment are related to one final element that most people understand intuitively, but few boards address formally—the fit between different personalities on the board. One exception is Gay Lea Foods, where the board puts great stock in formal personality profiling. "It allows you to understand where your other directors are coming from," says Goodwill, noting that personality determines things like what kind of information people need to make decisions or how they answer questions.

"On our board, out of 11 of us, we had seven very detail-oriented people. They need information ahead of time," he says, adding that it helps him as chair to know his board and what they need. "[These types of people] love silence. So, it might just mean sitting at the board table and giving people time to think and to answer instead of needing someone to speak all the time."

Director education

Clearly, youth and culture can't be taught. Neither can CEO experience. So, injecting more of those elements into a board means adding new directors. Diversity mandates and targets address some of these concerns. But at the same time, it's clear that approaching the challenge of building a better board purely in these terms would be extreme and impractical. Gaps in director knowledge, experience and cultural sensitivity and awareness can, and should, be addressed in other ways as well.

The first step? More and better director education.

"There's such a need for directors to be educated," says Sun Life's Anderson. "This fine line between the board overseeing versus managing is getting less clear because you need to have in-depth understanding in certain areas. That's not managing, but it does drive you [as a director] into a level of detail that you may not have seen in the past."

With respect to race and diversity, Anderson says that as companies look internally at what they're doing in terms of educating their executives on unconscious bias, the board should receive the same training. "Boards, potentially more than even the senior management, are in need of this kind of education. There are still many directors who are part of a generation that is less attuned, and perhaps even a bit tone deaf in these areas."

At Meridian Credit Union, director education is being expanded and completely rethought to ensure the board is capable of providing "transformational leadership that can respond to change," says chair Karen Farbridge.

"Because of the pace of change, and to be able to respond to management who are on the front lines of managing that change, we've realized that we need to be more agile," she explains. "We're starting to build our capacity through education sessions, ensuring that we will have people on the board able to support us if we move into a different area, new lines of business, that type of thing. Focusing forward, so that we can be agile in responding to management while not feeling that we have to compromise our oversight role."

Farbridge says this recognition is linked right through to how the board looks at risk—in particular, the risk of missing out on new opportunities.

"Management is always pulling, they really are embracing innovation and strong strategies," she explains. "This [educational effort] is about being able to evolve our governance approach to step up to where management is going."

Hodgson offers a more macro view. "The public capital markets are penalizing subscale public companies with low valuations and that world is being hollowed out. You need to be of a size and scale if you're going to be a successful public company today and you need a different type of board member to run that sort of complex organization," he says.

"Shareholders and investors expect more from boards than they did in the past," adds Altus Group's Mikulich. "The investor community has raised the bar."

In part, says Mikulich, this can stem from internal evolution as companies migrate from private structures into larger public entities. "You could probably map it by the age and maturity of the industry."

But external, disruptive shocks also play a role. "Plodding industries will continue to plod until they have a wake-up call that usually comes in the form of a financial crisis," he says, "Then the shareholders make a demand upon leadership to act differently."

Whether the onus lies more on the organization to provide the education or on the individual director to seek it out, depends on the board and the situation.

Unity Health Toronto chair Johnston believes it's wise for companies to take the lead on curating and then supplying material to their directors. But in Anderson's view, individual directors also have a responsibility. **"Companies can provide educational sessions and memberships—such as the ICD in Canada or the NACD in the U.S.—but I also think it's up to the individual director to then invest his or her own time."**

He says the Sun Life board keeps track of all the internal and external education that directors do over the course of a year. The information goes into the company's public disclosures, but Anderson also uses it as part of his review of director performance.

"If I felt there was someone [on the board] who wasn't doing any external education, I would speak to them," he says. "Because

I don't think you can do the job anymore without focussing on some aspect of personal development."

The process that the Magna board undertook to first ensure that it was focusing sufficiently on technology and technology risk and opportunity, and then to subsequently provide technology education for the rest of the board, is highly instructive.

Briefly, it began with the recognition in 2014-15 that Magna needed to set its strategic focus squarely on "the car of the future," says William Young. The board then conducted a lengthy risk oversight assessment process, identified certain technology gaps as important strategic risks, and created a technology committee of the board comprised of four directors with strong technology backgrounds whom Young had previously helped recruit (two from the auto sector, one from a Fortune 50 multinational, the other from Silicon Valley).

"They're very technology-minded people, and the tech-minded members of the management team interface with that group," says Young. "It's been in existence [since early 2018] and I would guess that if you talked randomly to any of our directors, they'd say this is good, it's doing its job. They're doing deep dives on stuff that we don't have time to do at the board meeting."

The committee's contribution to the education of the rest of the board is particularly innovative.

"We've set up the committee schedule so that all directors can attend the technology committee. And I encourage that because the big issue for us in the boardroom is education and it's a really good way to keep board members up to speed on the technology."

Ultimately, says Young, significant decisions about technology are taken at the board table and not on the committee. "So, if the rest of the directors are taking the time to be in those meetings, that's really helping us."

Beyond formal director education and board renewal, several of the directors and chairs we interviewed stress that there are other ways to build knowledge, add expertise and improve the board's decision-making capabilities.

The Capital Power board, for example, has "a handful" of blue chip advisors with political or financial backgrounds that it meets with in various venues—board meetings, special dinners, strategy sessions—"to educate and offer us perspectives we could not otherwise develop on our own," says Lowry.

Kvisle says the ARC Resources board does something similar during its annual retreat. "Increasingly, we use those sessions to hear from outside experts that have different views of the world than we might."

Stevenson tabled the idea that boards may benefit from a more targeted strategy, suggesting that they consider, on an opportunistic basis, creating tactical appointments for shorter-term directors "to capture a certain skillset for a certain period of time." That period of time doesn't have to be 10, 12 or 15 years. It could be three to five, potentially, depending on the need of the corporation.

"None of my board companies has taken this up as of yet, but I really feel that we have to be more adaptive, and part of that might be reconsidering board composition and tenure."

Evolving the agenda

Even if a board has the right member make-up (or is working towards it) and its emerging priorities are clear, those are just the preconditions for the main event: evolving the meeting agenda to ensure the board actually gives these issues appropriate consideration and focus.

While there have been widespread adjustments from the heavy compliance era that emerged after the shocks of the early 2000s and then again in 2008, many boards are still challenged to fit anything new into an agenda or to give important issues enough time and thought.

We explicitly asked all of the chairs we interviewed how they tackle this problem.

Their solutions span simple tips on process and time management to foundational practices essential to high performance. The latter include the use and role of board committees, articulating boards' core purposes, and the importance of putting strategy front and centre—the last of which we'll touch on both here and in the section that follows.

Fundamentally, the objective is to create space and time.

“Board cycles are time-limited,” says Taylor. “Leadership needs to show so much agility in making sure that yesterday's agenda doesn't become today's agenda.

“In some elements of this, it's about making better information available to board members in a timelier fashion. But some of it is also about changing the information that the board needs to receive.”

“Board cycles are time-limited. Leadership needs to show so much agility in making sure that yesterday's agenda doesn't become today's agenda.”

Katie Taylor

Consent agendas

Tsaparis is one of several chairs who note the value in expanded use of consent agendas to help gain back some of that time. The idea is that multiple items that don't warrant discussion can be grouped into one action, considered read and passed quickly.

There are caveats. While Tsaparis says “most judicious board members” do read the items, Johnston says there's a risk they'll get short shrift. “In my experience I don't see a lot of follow-up questions. The counterpoint would be you pick the right items for a consent agenda,” she says.

At Magna, Young says the board has put as much in the consent agenda as possible. “We were having board meetings where I could tell there was some frustration around the table that we just weren't spending enough time [on important topics] for everyone to get their head wrapped around what we were talking about," he says. "I think the balancing act is to make sure we're doing our fiduciary duty and not sweeping everything into the consent agenda."

The board at McCarthy Tétrault had a similar goal in mind when it came up with the idea of creating a dashboard to track the performance of a wide range of board-level items relative to strategic plan. For each board meeting, items are flagged either as green, yellow or red.

"It took a little fine-tuning, but I'm pleased with it," says Lever. "The things that are green, we don't even discuss. We talk about the yellows, why they are yellow and what needs to be done to get them green, and so forth. With that, we've been able to drive more time to matters that need the attention."

> "I think the balancing act is to make sure we're doing our fiduciary duty and not sweeping everything into the consent agenda."
>
> **Bill Young**

Tamping down time-wasters

We heard of an array of other rules and limits to tamp down known time-wasters, too.

Many boards, for example, set page limits on presentation materials and time limits on monologues to eliminate lengthy, one-sided presentations from board committee members or senior management. At Manulife, when John Cassaday became chair, he set a rule that no management presentation should fill more than half the time allotted to that topic on the agenda. "The rest of the time," he tells presenters, "should be when you're listening. Also, you've got to think: 'What's the ask? Why am I bringing this to the board and what do we want from the board in return?'"

To help, he adds, "we developed a one-page template that goes in front of each section of the [agenda] which frames the issue, the alternatives and the ask, so people can then move into the material knowing what it is they're going to be exposed to. And management is better prepared because they've had to think about what it is that they're asking by putting this in one page."

It's a shared responsibility to make this kind of approach work, notes Mark Hughes. "If you say to the presenter, 'You've got 10 minutes to make your pitch. And then I want 20 minutes of discussion around it,' then you obviously want your board members to be prepared to engage in conversation for 20 minutes and not just sit there."

Respectful "dialogue and discussion" is the goal, says MEC's Pekeles. "The board not being prescriptive but asking questions that help management think of things they didn't think of before."

Rely on committees

This last point signals a shift from simply freeing up time on the agenda to improving board performance by making good use of it. It's here where a number of the chairs say they rely on board committees.

For boards in highly regulated sectors, Isabelle Courville says boards can delegate certain requirements to committees in order to preserve more board time to discuss operations and strategy. When she was chair of Laurentian Bank, Courville says she considered a meeting successful if the board spent at least 60% of its time on the business.

Committees also provide a forum for deeper discussion of important new issues that can then be brought back to the full board in a more concentrated, considered fashion for further deliberation and decision making.

"We work to keep our board conversations at the strategic level and let our committees do the heavy lifting on our oversight responsibilities," says Farbridge.

Cassaday agrees: "Drive those deeper discussions into committees. That's where the work is done. Putting it at the board level, it's not going to get the focus that it needs. And it's probably going to displace something else that's of importance. By driving it into the committee, we're holding the committee and that committee chair responsible for developing the framework under which we're going to review it later at the board level."

Tsaparis provides a detailed example of how the York University board uses a variation of this approach to manage both the downsides and upsides of enterprise risk.

"My belief, first of all, is that enterprise risk is a board-level responsibility," he explains. "This is one of the things that does come to the top of the agenda."

However, the way it gets there is different at York than at many organizations where risk is often assigned to the finance and audit committee. "That is not sufficient in this day and age," Tsaparis says.

Instead, each board committee is assigned responsibility for the enterprise risk elements that are relevant to its area.

"Management that supports those respective committees has a duty and obligation to make sure that those elements are reported, exercised and discussed at committee. And then there is a summary that would come out. Different boards are structured in different ways. In the case of ours, our executive committee is the ultimate overseer of the enterprise risk for the entire organization—with report-outs to the broader board."

"So, there's the monologue part of the report-outs. But then we also create time and space on our agenda for board input on enterprise risk. Obviously, there is only a subset of board members that are on specific committees, so you do need to be able to bring it up to an enterprise level so all board members can participate and contribute to that discussion."

Focus on strategy

But what of the agenda and the meeting itself?

It's here, at least, that experience is a better teacher. Both Kvisle and Lowry, for example, use almost identical language to describe their overall goal of their meetings and objective in setting an agenda.

Kvisle: "Good boards today have elevated their analysis and discussion from just second-looking at things that management has already looked at, to trying to get above that and think about what are the real strategic risks and opportunities and what's the world really going to look like five years from now."

Lowry: "We learned that to add value as a board, it's the things that might happen in the future where the majority of the board's time should be spent, as opposed to looking backwards."

For Davies, it boils down to one main aim. "Strategy should be built into everything," he says. The idea of designating a specific meeting as a "strategy session," or hearing a board chair say, "That's strategy, we'll deal with that later," is misplaced.

Much as Manulife uses summary templates for presentations to clarify a presenter's issue and their ask, Davies proposes something similar here. "If you're using templates for management reports, they usually have a heading and section for resource implications, does it fit in the budget? There should also be an overt section that says: how does this fit with our strategic priorities? How does this advance them or impact on them? Very few boards do that."

> "You do have to maintain the business-as-usual agenda items, that's just how you run the place, but you should always look to discussion topics that can raise the awareness of your board, that allow them to challenge management and how they're thinking about these issues."
>
> **Mark Hughes**

In looking at the entire agenda and the meeting overall, Davies says: "To the extent that you can figure out a way to have the knee bone connect to the neck bone, it's so important. And one of the ways of doing that is the mechanical one of just saying, 'How does this fit into our strategy?'"

In a similar vein, Global Risk Institute's Hughes says chairs should always be thinking about emerging issues and construct their agendas accordingly. "You do have to maintain the business-as-usual agenda items, that's just how you run the place," he says. "But you should always look to discussion topics that can raise the awareness of your board, that allow them to challenge management and how they're thinking about these issues."

Client in the room

If there's a common thread connecting Kvisle, Lowry, Davies and Hughes, it's the idea of not only keeping the big picture in mind but actually anchoring it to specific items in the agenda. Johnston uses slightly different language in describing her approach as chair of a large hospital board—linking it to "purpose"—but one of the mechanisms she champions to keep the board oriented applies in any setting.

"In my hospital world, we run very tight agendas. But how do you not have meaningful discussions about patients? That's what you're there to do," she says. "So, at every meeting, we always bring a patient story into the boardroom. Some of these are great stories, some of them are things we could have done a lot better.

"What I want to focus on is more advocacy around these stories and does that actually arm us as directors to be spokespeople. It's a different requirement on a hospital board, there's an element of advocacy for the organization, but it's the same thing in a banking environment. There, the customer has to be in the room. How does the customer feel?"

Framing the discussion

Interestingly, while the chair runs the meeting and determines its course, it's usually the CEO who drafts the actual agenda. Given that all of the chairs we interviewed say they meet or speak with the CEO weekly, often more frequently, there's usually a pretty clear mutual understanding of what needs to be on it.

"I want him or her to tell me what the agenda should be so that I have something to react to," says Tom Woods.

Lowry says he edits it and offers comments. "Generally, we're fine on the topics. I'll rearrange some things, generally to move to the front strategy, investments and risk analysis—information that is more germane to the forward-looking than the reporting of the current quarter."

It's a process that most chairs embrace in some form. So that no matter how the agenda is written, they put their stamp on the proceedings either at the meeting's outset or before it begins.

"After the agenda is set, I'll contextualize it," says Woods. "Every board I've been chair of, I'll write a one- or two-page letter on the top of the package that goes to the board."

Cassaday does something similar in collaboration with the board's committee chairs. "I use the committee chairs as essentially an executive committee. We meet in advance of the board meeting. We review the agendas in detail."

As chair at the OSC, Maureen Jensen opened each meeting with an in-camera session which she started by outlining the agenda issues she felt they needed to spend enough time on. "So even if we couldn't get to an answer at the end of the agenda time, we'd spend more time because that's most important and we'd move the other items, we'd telescope time there," she says. "It's really important to do that, otherwise it can get out of hand quickly."

Lowry uses an in-camera session at the formal start of Capital Power's meetings in the same way.

"If there are particular messages or themes in the meeting that I want to get across, I can do that then," he explains. "If there are topics that the directors want to raise specifically with the CEO or there's items on the agenda they want moved around or focused, we can do that then. It helps us get our act together.

"I also generally have a theme at each meeting, where I say to the board, 'We're going to focus on this area or a little bit more time on that, and here's how we're going to wrap the session up.' That's so all the directors have a sense of the rhythm of that meeting and how it's going to go, as opposed to just here's the agenda."

When Westport Innovations changed CEOs a little while back, chair Brenda Eprile says she used the opportunity to revise the way they open their meetings to improve their focus on priorities. "I asked [the new CEO], and he was willing. So now the first hour of our board meetings, it's him and the board and nobody else and it's not scripted," she says. "People can ask whatever they want, we can talk about people, we can talk a strategy. It lets us be quite fluid.

"The rest of the meeting is more structured. And we have an in-camera at the end. But that's been quite helpful to get a really good dialogue and then also to focus the rest of our discussion to the things that people are more concerned about or sensitive to."

Making strategy a constant

Many, many volumes have been written about the mechanics of board oversight of strategy. After hiring and firing the CEO, it's generally seen as the board's next most important job. We're not taking on that entire topic here, however. Instead, the goal of this section is specifically to link that duty and process to the way high-performing boards are handling it—and the related subjects of risk and opportunity—in the current period of accelerating change.

In the previous section on resetting the agenda, we heard Bryan Davies say that boards need to dispense with the idea of strategy sessions and, instead, build strategy "into everything." He's not alone. **Many of the chairs we interviewed had a similar message: oversight of strategy, discussion of strategy, revisions to strategy...it's now much more of a constant, and justifiably demands more of the board's time.**

"Strategy is much more of an ongoing thing for us because there's so much change," says Eprile. "In the past it was once a year, here's a big document, you go through it and the strategy gets set. But now we've started to put it on the agenda at every meeting. You still have to do the plan for the next year, but as data comes in, we have to be updated to determine whether there needs to be a course correction."

"It also means consistently holding management accountable, both for reporting on and implementing the strategic decisions that are made," says Altus Group chair Mikulich.

Bill Anderson takes the point a step further. Addressing strategy at every board meeting is now common for most companies in his circle, he says. Sun Life's approach, one echoed by several other chairs, is to address a different strategy item at each meeting. "Sometimes it will be a bit more conceptual around certain areas and, therefore, you want to see how management's thinking evolves as you go through the year. In other situations, the strategy is more about execution and you monitor that through regular operational performance."

What's especially interesting is how he sees the accelerating pace of change influencing this process.

"It's more around the issues that you're talking about than anything else," says Anderson. "All of a sudden the issues are more about disruption and competitors that you never thought about before. And also, we may be competing in spaces that we may not have contemplated before."

"To me that's how the pace has affected strategy. There is just so much going on, it's not just rolling forward and having the next iteration of the strategy presentation from a year ago. Because now we're dealing with different markets, different competitors, new technology-driven capabilities and changing clients' demands."

Eprile describes it as "doing strategy a little bit on the fly," adding that some can find this stressful. "You've got to be flexible. Not everybody is comfortable with that or thinks that's appropriate."

Former Ballard Power chair Ian Bourne cautions that better strategic oversight isn't simply a matter of boards investing more time on strategy—unless they also think about the quality of that commitment and are conscious of the need to always be discussing issues in strategic terms.

"The more a board thinks about issues in a strategic sense, on a meeting-by-meeting, conversation-by-conversation basis, the more likely that entity is going to come up with a good strategy," he says.

He looks back on Ballard's evolution in the fuel cell sector as a case in point. In its earlier stages, the company sold an equity position to Ford and Daimler, based on the thinking that its future lay in automotive applications. In time, however, that relationship proved to be such a cash drain, with no pending payoff, that management and the board decided the company's survival called for a change in strategy. They sold the automotive portion of their business to those partners and shifted Ballard's focus to mass transit, material handling and back-up power at a time when those were ready to take off. Today the company's portfolio also includes trucking, shipping and engineering services.

Says Bourne: "Having thought about the business strategically, and having gotten into a bit of a liquidity squeeze a couple of times, allowed the board and the management team to come up with an entirely different plan for the company."

Kate Stevenson describes a deliberate approach to sharpen strategic discussions taken on one of her boards that achieves the same effect Bourne is after.

In this case, Stevenson explains, there are no presentations for strategic discussions.

"We start right in with the questioning from the director that's been asked to take the lead," she says. "That director has often spent time with the management team in that business area in advance, so it leads to a much more insightful, engaged discussion by the board than if you have a long presentation with a few questions at the end. It really is a complete change in the way boards discuss strategy."

While the consensus is that strategy needs to be a part of every board meeting, several of those interviewed still see value in having dedicated off-site strategy sessions or retreats. Those are no longer the only times strategy is discussed, but they do allow for deeper dives on specific topics in a way that regular board meetings do not.

Young, for example, says Magna recently added a second strategy retreat to its annual agenda. Several chairs also stress the importance of using these sessions to bring in outside parties—subject matter experts, analysts, customers, investors, even activists that oppose your company's activities.

"It's more around the issues that you're talking about than anything else. All of a sudden the issues are more about disruption and competitors that you never thought about before. **And also, we may be competing in spaces that we may not have contemplated before.**"

BILL ANDERSON

The board's role is evolving

This deepening of board involvement in strategy raises another question: are boards now crossing a line with the CEO and management in terms of taking a more active role in setting the strategy? Most of our chairs we interviewed say no. But it's also clear that something in that dynamic has changed.

"I think the board is getting much more involved in the strategy and setting it and tuning it each year than we have in the past," says Lever. "I think that's becoming more and more an expectation on boards. It used to be you got delivered a strategy, you asked questions, you tweaked around the edges. I think boards today are more and more involved in the actual creation of the strategy."

ICD chair Linda Hohol, who is also a director with Canadian Western Bank and NAV Canada, says this issue is nuanced.

"The traditional concept of 'noses in, fingers out' is no longer the fine line, there's no longer a solid wall between the CEO and the board, it's becoming more and more blurry," says Hohol. "Directors have to be prepared to get their fingers in. Sometimes not even fingers, you've got to dive in with both feet."

Where and when depends on which aspects of strategy you're considering, she says. "I'm not saying it's fingers in every instance. A lot of the oversight role isn't going to change. But some will change."

"Take culture. How can you understand the culture of your organization if you're not walking the hallways yourself, if you're not talking to clients, if you're not out there asking questions?" she asks. "Or climate change, and why the board needs to get very involved in this and the disclosure of it. It's going to cost us."

On core strategic planning, Lever believes "the line" still exists.

"It's still management's responsibility to come to the board with a strategy. It's the board's responsibility to challenge the strategy and to discuss it. What we have been finding is that in order to be able to do that, board members have to have a better understanding of the environment, the business, to be able to fulfil that duty of challenge. I don't think the board is setting the strategic plan, but the board is massaging and ensuring the validity and the completeness of the plan."

Eileen Mercier agrees: "The people with the ideas are the people who are in the business every day. Directors are amateurs in every business on which they sit on the board—because they only come in six or seven times a year." The board's job, she says, is still to critique management's ideas, to say: "Did you think about this? What about that? The company I was running had an issue with that."

Tsaparis advocates for "an inclusive strategic planning process" in which senior management engages both the board and external stakeholders.

"It's there that the framework for the opportunities and the risk to the business or the institution or the organization actually start," he says, adding that he encourages chairs to insist upon this higher degree of involvement.

"The strategic plan is obviously the responsibility of the senior leaders, so this isn't about operating the business. This is about an inclusive process that provides oversight and insight to that strategic plan. In this day and age, with all the disruption that's taking place, the more inclusive that process is, then the more supportive the board ultimately can be of the strategic and operational plans that drop out of that."

Tsaparis says this approach also creates the best forum for the board to evaluate enterprise risk, both from the perspective of threats as well as opportunities.

"Management should be pushing the board, saying: 'Here's what a growth agenda looks like for our business, what is the board's appetite for the risk profile of potential acquisitions that we will be dealing with in this space? Do we want to be a steady-Eddie kind of organization or do we want to look at a step function within growth?' Step functions of growth have implications of risk to the business. This is the most effective place to address that."

Linking risk and strategy

Along with Tsaparis, many of the chairs in our study had insights to share on the tight linkages between risk and strategy.

Davies, for example, sees a positive, general trend in greater strategic use of risk management than a few years ago, when risk management reporting was highly compliance oriented. Today, he says, "it's shifted to what are the real risk items and how does that mean we should run our business, where should we allocate resources, and where should we maybe exit some sectors because they're just too dangerous?"

He says a good risk management system feeds strategic decision making. "Your strategy should deal with opportunities, but it should also deal with risk mitigation. It should be a continuous loop."

Stevenson believes "a very deep enterprise risk management evaluation and board discussion in conjunction with strategic planning is important—at least once a year." It also needs to be revisited regularly throughout the year. "But that deep dive is going to be very informative of strategic planning and making sure that the strategic planning exercise is much more than simply a short-term operational budget, that it really is a longer-term plan that includes disruption and innovation."

Bourne, whose experience as a director, interim CEO and later chairman of the board of SNC Lavalin from 2012 to 2015, steering the company after its fraud and corruption scandal erupted, taught him a lot about risk, has a similar view.

"It's sort of fashionable to talk about risk management, but my definition of risk management is the flip side of the strategy point—that if you don't have an ability to deal with things that come at you in a negative sense, then your strategy is not really viable. And then you extrapolate that into what is your financial strategy or your capital structure strategy, for example," he says.

Woods wonders if there's too much "mystique" about risk management techniques and metrics. "I was a chief risk officer for five and a half years," he says. "When you actually get down to it, good risk management starts with really understanding the business. Heat maps are helpful, but sometimes can be false comfort if you haven't done deep dives on the key parts of the business."

Hughes, whose experience is weighted to the financial sector, says that it's essential to remember the business of banking is to take risk. "If you go on a bank board and you think your job is to try to mitigate every risk, then you're actually missing the point of what the business of a bank is.

"The role of the board of a bank is to make sure they understand what the strategy of the bank is, link it to the risk appetite of the bank and make sure that the ongoing operation of the bank stays within strategy and within risk appetite. But the risk appetite should be to take risk."

Purpose is essential

Stevenson, whose directorships include a seat on the CIBC board, says that equation also needs to consider the purpose of the corporation. **"Purpose needs to be part of the whole strategic discussion. It is really about: 'Why are we in business, and then what is the strategy to achieve that purpose?'" she says.**

In her mind, the strategic discussion also needs to include addressing climate change.

"The big question for me is how the financial sector can take on more leadership, to leverage an ability to influence climate change. An example would be investing in its customers that are accelerating into the renewable space. It's a complicated subject because Canada is a very resource-laden country and we need to support our resource-based companies as they evolve and reduce their carbon footprint."

Here, the risk appetite factor that Hughes mentions is particularly germane. As the trend towards sustainability grows and the pressure to act more aggressively on climate change increases—and many major investors leave the traditional oil and gas sector—the risk to those who remain grows too. Getting the strategy right is critical.

Reworking committees and board structure

Committees, we know, are a mainstay of board structure and board operation. Their effective use was already discussed in relation to evolving the board agenda. But Cassaday's framing of committees as the place where "the work is done" not only underscores their value in coping with rapid change, but it also raises an important question: if that "work" today includes a different, disruptive set of issues and challenges, does the traditional board structure and committee roster need some disrupting as well?

This same question can be also be framed a bit more broadly to ask if there are other ways boards can approach decision making and the sharing of information? New topics and issues are one thing. But there's also the need to be more responsive to the speed of change, to deliver more rapid, nimble responses as highlighted by many of our participants at the outset—and in the end, of course, to make the right call.

When we asked the chairs in our study how much they've been rethinking or reinventing committees and board structures, the responses varied widely. More have probably stuck with their current committees than not—with good arguments for those decisions. But in cases where they have made changes, several of those are innovative enough to pose a challenge to the others who are staying the course.

An important point to stress first, however, is that even those who are sticking with the same committees aren't necessarily standing pat. Instead, they're deliberating which is the best approach to ensure the full board adequately considers critical emerging issues. Some worry that when those issues are delegated to a committee they can get lost in the shuffle. Others worry that if they stay with the full board, they won't be given enough thought.

Evolving mandates

Johnston's response to the question about the need for new committee structures captures the divide perfectly. "I would say yes, and no," she says. "You could argue there's a need for special committees on strategy or disruption or technology. But I think these are really important topics for the whole board, as opposed to saying, 'Well, we've got these four committee members that are dealing with it.'"

In Stevenson's view, the critical starting point is that boards need to proactively revisit committee and board mandates on a regular basis. "There's no prescription," she says. "But it does matter that we revisit our mandates to make sure that they're relevant, to make sure that the biggest issues are getting exposure at the full board and that we are adaptive, that our committee mandates evolve to make sure that we're addressing these emerging issues and opportunities one way or another."

James Cherry points to audit as an area where current committee mandates might evolve to incorporate new issues.

"Audit committees' responsibilities are extending into the culture of the organization. They're extending into behaviours, what are acceptable and not acceptable," says Cherry. "The boards that I'm on, the audit committee is responsible for things like the whistleblower line.

"[Likewise,] from an ESG reporting perspective, if claims are being made, the audit committee is going to want to understand what the sources of those are and if the board is comfortable with what's being said."

Data governance is another emerging area where some suggested that the audit committee mandate could be extended to incorporate its oversight. As noted, more companies are learning to view and use data as an asset, commercialize it, apply AI and other technologies to analyze and deploy it. As such, there's an argument to be made that the function traditionally tasked with being custodian of the "truth" when it comes to financial information should also have responsibility for ensuring data integrity.

New committees

Nevertheless, on some boards the process of revisiting and reviewing the role and value of existing committees reveals gaps and strategic opportunities that require wholesale change.

A case in point is ARC Resources. As chair Kvisle explains: "On all the boards I'm involved in today, we're asking ourselves: 'Is this committee needed to go through the motions and repeat what management's already done and enable us to check the box? Or is this a value-added committee?'"

In ARC's case, he says they "stole" an idea from the banking industry.

"Every bank has a risk review committee," says Kvisle, a former director on the Bank of Montreal board. "Serving on the bank board, I learned that the risks of the banking business are much more sophisticated than I ever thought and that the role of that committee is essential to the success and well-being of the bank.

"At the same time, in a much riskier business, oil and gas, nobody has any risk committees. They don't actually focus on it or look at it. So, at ARC we created a risk committee. That committee focuses on the risk register, what are all the major risks faced by our company?"

ARC also revamped another industry stalwart, the health, safety and environment committee, to reflect the fact that for companies in this sector, safety "is a really big deal," says Kvisle. "At both ARC and Finning [where he's also the chair] we've migrated the safety committee to be the safety, reserves and operational excellence committee."

Risk committees were recently added on two other boards whose chairs we interviewed. At the OSC, Jensen says concern about identifying emerging risks and tracking "systemic" risk prompted its creation there. Courville, meanwhile, spearheaded the creation of a risk and sustainability committee at CP when she became chair in 2019.

"We had a finance committee that I merged with audit, with the agreement of the two committee chairs there," says Courville. "It gave me a bit of space to create a risk and sustainability committee. The chair of that committee has a ton of experience in the industry." One of the first things she had him lead was "a deep dive on IT" to help address a concern mentioned briefly earlier in this report—disruptive risks posed by the way others in the industry are deploying technology.

Interestingly, Courville, like Kvisle, has bank board expertise. And so even as she's introduced a risk-oriented committee at CP, she says it's challenging to apply what banks do in other industries. **"Banks have very sophisticated risk management systems, but it's in so much detail that it's hard to replicate. However, there's a philosophy behind it that is important."**

Her comments here tie back to the links between oversight of risk management and strategy discussed in the previous section. "It's job No. 1 for the board," says Courville. "But I'm not sure I've seen a best practice yet. We're continuing to work on it."

Other committees under consideration

Perhaps the most far-reaching new committee concept, a response specifically geared for the new challenges of the day, is something called either a transformation committee, or an innovation and transformation committee.

Tsaparis says the idea for the latter first surfaced in his work as a director on the board of the Humber River Hospital. He brought the concept to Ontario Health when he became a director on its newly created board in 2019 and it's been replicated there.

"Technology is one of the enablers, but it's not limited to just technology," Tsaparis explains. "It's the broadest definition of innovation and transformation that this committee needs to be thinking about.

"The whole point of having this committee is to understand, first of all, what are the opportunities for us. But also, what are the risks to our business in terms of either technologies or new businesses that could potentially disrupt what we're doing? And do we have a good understanding of that?

"I put a double asterisk beside this, because I think it's an opportunity for boards to think in a different way," he says.

The concept's genesis was a suggestion by other members of the Humber River Hospital board that they needed a technology committee to oversee IT projects. Tsaparis' advice was to say they didn't need that, but how about trying something more ambitious that would support changes envisioned in the hospital's strategic plan?

"To the credit of the chair at the time, and the CEO, they said 'You're absolutely right, that makes sense.' And off it went."

The story is very similar for Linda Hohol, who says one of her boards recently created a transformation committee after first considering a technology committee before deciding the issues of concern were too wide-ranging.

"To just have a silo called technology, it really doesn't cover the areas of oversight that will need to be covered by the board—the employee impact, capital spending, the communications plan, political and social licence."

At Alectra, the board created a new development committee to support a strategic mandate to pursue growth opportunities, via either M&A or through new technology, beyond the utility's core business. "We're concerned about being able to be responsive and timely," says chair Norman Loberg. "The board has given that committee power of the board to approve expenditures. That committee is working directly with management to ultimately approve the projects that management wants to move on."

Several other chairs we interviewed pointed to examples of unique committees created to address specific situations. Earlier in this report, for example, Magna chair William Young references the risk-assessment process that led to the creation of its current technology committee. That process was conducted by a committee called the enterprise risk operating committee, a revamped version of Magna's former environmental, health and safety committee.

"We kept that committee running for a couple of years, to really take an independent look at the risk categories of the company to satisfy ourselves that, to the extent there was a board oversight that was justified for some of those risk categories, that we had allocated that appropriately within the committees of the board, and that the management team was addressing those risks in a manner that we were comfortable with," he says. When the new technology committee was created, this one was dropped.

At Sun Life, Anderson says he doesn't foresee any need to change the board's main committee structure. "If we're talking about putting in place a new committee, then it has to be something that's very fundamental to the business and something that is changing fairly dramatically," he says.

Better decision making

As a tool to help boards make better decisions, committees work by equipping directors with a more complete picture of a topic or an issue or a subject area. Even so, the pace at which decisions sometimes need to be made means doing so without incomplete information.

"Sometimes you've got to be comfortable with making decisions with, you know, probably 60% of the available information," says Ellen Pekeles.

A long-standing factor that falls largely beyond the scope of newly emerging priorities—but still warrants a mention here because it can exacerbate the problem of incomplete information—is dysfunctional board culture. Brenda Eprile says she's had experiences on at least a couple of boards where directors create factions and cliques, sometimes involving the CEO, leading to uneven sharing of info. It's a situation with potentially negative consequences. "If everyone's not treated the same way in terms of getting the information and in the discussions at the board table, that's when bad decisions can be made," says Eprile.

Conversely, Mikulich credits a healthy board culture—"There's a lot of mutual respect around the table"—with the high degree of consensus achieved on the Altus Group board. As chair, he sees his role as respecting those who offer up their "best" thoughts. "Sometimes their best thoughts don't survive the way they expect them to, but it's important that you pick up every rock to see whether it's gold or iron. You have to look at it closely enough to have the group make that determination."

The science of decision quality

Some chairs go a step further in formalizing the decision-making process. Since his time as CEO of TransCanada, for example, Kvisle says he has been a believer in the "science" of decision quality.

"When the rubber really hits the road, the test of a board is how well it does at making good decisions in uncertain circumstances," says Kvisle. "Board members would all be aware that they need to make good decisions, but the science of decision quality is something most of them are not familiar with."

The process usually involves hiring a decision-quality expert, so it's most applicable to larger-scale decisions. Kvisle says he first worked with a decision-quality expert when TransCanada, as a 45% shareholder in Bruce Nuclear, an Ontario nuclear power plant, was wrestling with a multi-billion-dollar decision about rebuilding the facility. "Management had a very well-defined way that we were going to go about that project. And I was simply not comfortable that we knew enough about what we were doing to be proceeding the way they planned."

> "The whole issue of decision quality is something that I think is going to be a big priority for boards in the time ahead."
>
> **Hal Kvisle**

The expert led them through a rigorous exercise of reviewing and reframing their objectives and alternatives. "Rather than the objective being to build the plant, you kind of rethink/redefine that," says Kvisle. "A lot of it is getting past your initial biases."

More than a decade of board service later, Kvisle believes even more strongly in this approach—and its applicability. "The whole issue of decision quality is something that I think is going to be a big priority for boards in the time ahead. You could ask the question of Boeing, how rigorous was the board of Boeing in making the decisions to commence commercial production sales of the Max 8. Did they make the right decision? They might have. Its problems might have been entirely unforeseeable. Or did they miss some things as they went along?

"So that's decision quality."

Capital Power is another board that has developed a rigorous decision-making process for working with management. The first step, says chair Lowry, is to ask if they need to make the decision at all. If the answer is yes, they then move to what Lowry calls a "bounce process." With this methodology, the board first hears management's presentation of its idea or potential deal with the understanding that the board is not making any decision at the point, just offering opinions and asking questions. Management takes that feedback and does more work on the proposal. That's the first "bounce."

"If at that point they still like it, they go for bounce two," says Lowry. There, management makes a second, more rigorous presentation and can either ask for a decision or more feedback and a potential bounce three.

Lowry stresses that the principle is to instill a process of "continuous discussion, thinking unthinkable thoughts," and to avoid creating an environment "where the board has a gun to its head" feeling like it's got to make a quick decision. "Because in our experience," he says, "quick decisions are generally dreadful decisions."

Scenario planning

Another option that more boards are turning to make better quality decisions, according to Barb Stymiest, is formalized scenario planning.

"Strategy is becoming more difficult as the world becomes more uncertain and complex," she says. Scenario planning counters that uncertainty by enabling directors to gauge potential consequences of their decisions in different environments.

Stymiest says scenario planning has a strong track record in the financial sector, particularly the payments industry. It's not surprising, then, that it is also an anchor component in the toolkit companies are required to use when reporting climate-related risks in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosure.

Scenario planning doesn't mean boards can predict the future, Stymiest adds, but it does help them see what It could look like and better the probability that the decisions they do make will have the desired outcomes. It also enables boards to plan response strategies that can be deployed nimbly when reality unfolds.

Talent oversight and engaging with management

Earlier, we talked about talent around the boardroom table. But few, if any, of the chairs in our study believe their oversight of talent should stop there. Where, for boards, the talent file once started and stopped with hiring the right CEO, our participants say today they're looking well beyond. Longer-horizon CEO succession planning is part of that story, but now it also includes leadership succession more generally.

Strategically, too, the premium on having the right personnel at all levels of organizations—addressing what Maureen Jensen calls "people risk"—and a talent plan to serve these needs has never been higher. Couple that with technology's deep penetration, other trends challenging companies to build expertise in non-traditional areas, and the essential role workplace culture plays in retention and advancement, and even the talent for developing talent is a key differentiator.

"Looking broadly at the whole of talent management—culture, diversity, compensation, pensions, workforce disruption—it's such a vitally important issue," says Johnston. So much so, that despite her profile as a former finance executive who has chaired two audit committees on her corporate boards, Johnston says there's a case to be made that the HR committee is emerging as the most challenging committee, a place traditionally held by audit.

Based on our discussions for this report, effective board oversight of this complicated talent picture hinges on several things: working with the CEO and senior management on strategies to attract, identify and retain essential talent; feedback and monitoring systems that provide a good read on HR performance and culture throughout the organization; and finding appropriate levels of direct engagement between directors, senior management and the company as a whole.

The latter also comes into play when trying to implement the changes discussed previously around agenda and strategy, to help ensure buy-in and execution from management beyond the CEO.

Boards having more say?

As with the discussion about strategy above, concerns about boards crossing the line, encroaching on CEO responsibilities, are important to consider here, too. How deep does the board go?

"I think the board should be involved far beyond the CEO," says CP chair Courville. "It's clearly for the CEO to select his own team. I'm not saying we should do that. But you do need as a board member, as a chair in particular, a chair of HR, to find ways to get involved."

"Looking broadly at the whole of talent management—**culture, diversity, compensation, pensions, workforce disruption**—it's such a vitally important issue."

COLLEEN JOHNSTON

Courville says, for example, that as chair she wants the right of decline on top-level hires. "As chair of [Laurentian Bank], I said I want to see the last candidate before an offer is made. Only the last candidate. And I want to have an opportunity to say, 'I want to see another one if this one is not OK.' But I didn't involve myself in the process."

Davies thinks boards should be looking "right down to the bowels" of their organization. As a chair, he expects CEOs to bring their hiring proposals for other C-suite positions to the board for a discussion.

"Not for a decision, but for a discussion," says Davies. "Because I think that forces the CEO to think through very carefully what she or he is doing and for what reasons. I don't like the idea of the board overruling the CEO. But I think the extra eyes help a CEO and any wise CEO always wants help of that nature."

"In our HR committee, we have some really wholesome discussions around those matters, to satisfy ourselves that the processes are in place," says Alectra's Loberg. "Not telling management what to do but making sure they've got the key points considered when they go through the process."

Getting to know top talent

The board's involvement with management can't be limited purely to discussions about the team with the CEO, however.

"In order to get into senior management succession, you've really got to go three or four layers below to see what the pipeline looks like," says Bourne. "You want to understand the culture of an organization, how a business actually functions, how you do what you think you're trying to do. If you don't interact with the people throughout the organization, you'll never figure it out. You've got to talk to people. That's all part of evaluating the talent and the succession plans and being exposed more than just on paper as to who is who in the organization."

Probably the most common approach to achieving this is ensuring that members of the senior management team make presentations to the board or to the human resources committee.

"You want to make sure your best and brightest are getting an opportunity to do presentations to get the exposure to the board—as a development and growth opportunity for them, and also for the board to get insight on the broader talent levels in the organization," says Paul Tsaparis.

Both he and Bourne also note that the CEO should see these as positive opportunities. If they resist or seem threatened by it, "you need to start thinking about whether you have the right leader in place," says Tsaparis.

Such interactions needn't only take place in formal board and committee meeting settings. Bourne points to his time as a director on the Canada Pension Plan Investment Board for examples involving both senior management and other staff deeper in the ranks.

"We started doing offsite meetings, for a couple of days, in different cities every couple of years. That gave everybody an outstanding

"I think the board should be involved [in talent decisions] far beyond the CEO."

Isabelle Courville

"Not for a decision, but for a discussion. Because I think that forces the CEO to think through very carefully what she or he is doing and for what reasons."

Bryan Davies

"In our HR committee, we have some really wholesome discussions around those matters, to satisfy ourselves that the processes are in place."

Norm Loberg

opportunity to interact with the management team in their environment," says Bourne. "In other cases, it's bringing into the boardroom a team of people from top to bottom, as opposed to just the most senior person—and then kind of watching the dynamics.

"I'm also a big believer in just kind of getting out there and wandering around. You pick up a bit of a sense of some of the people, who's who and what the vibe's like."

At the OSC, Jensen oversaw the introduction of a new onboarding process for incoming directors in which management leaders in different areas taught modules for the new directors. The directors not only learn about the organization, but the format helps each group get to know the other.

Other boards have mentoring programs in which individual directors are assigned to support specific executives. "I think that can be very good," says Eprile, who has had experience with this on boards in the past. "That director, first of all, helps that executive develop and then that director can share insights about that executive with the rest of the board."

CEO perspective

Handled appropriately, boards shouldn't have difficulty finding common ground with the executives in this area. As head of an association that works primarily with CEOs of leading Canadian companies, Goldy Hyder says he constantly hears that attracting and retaining talent is their biggest issue.

However, Hyder's advice to boards includes ensuring that management factors increasing societal and regulatory expectations for diversity, equity and inclusion into its talent scans.

To achieve this, he says they should consider the following questions: "Are boards confident that the company actually has a plan to attract and keep the best senior executives while also ensuring that they're representing the diversity of their workforce? Are they reflecting back the community in which they are operating? And is the company culture one of inclusiveness that allows employees of different backgrounds to thrive and want to stick around?"

Engaging with management

Interplay between the board and management is also central to ensuring management is aligned with the board on emerging priorities—and to ensure that the board is able to stay up to speed with everything that might be happening on the business side.

While the CEO is expected to lead the way with his or her team, several of the chairs in our study maintain a relaxed "open door" policy on exchanges between directors and senior management outside the boundaries of official meetings.

Anderson says he and the CEO at Sun Life share the same view that "we can let that be a pretty open and free-flowing dialogue."

There are risks and limits to this, Anderson admits. "You do have to be careful that it doesn't lead to discussions that are not appropriate," he says, warning of potential issues with individual directors trying to push their particular views outside of board meetings to unduly influence management. But those incidents are rare, and the benefits of open dialogue outweigh the concerns.

"If you go back to the amount of time you spend on complex issues in a board meeting, there may not be time for all your questions," he says. "If you feel there's something important that you didn't understand, and we didn't get it into the meeting, then I don't see that you shouldn't get an answer to those things."

According to Loberg, Alectra's management is specifically instructed to "use the board as a resource." The utility has grown significantly of late through amalgamation and acquisitions and has a large board (14 members) as a result, with many skills and talents represented. "We have set up channels of communication that don't involve the formal channels, for management to work with the board," he says.

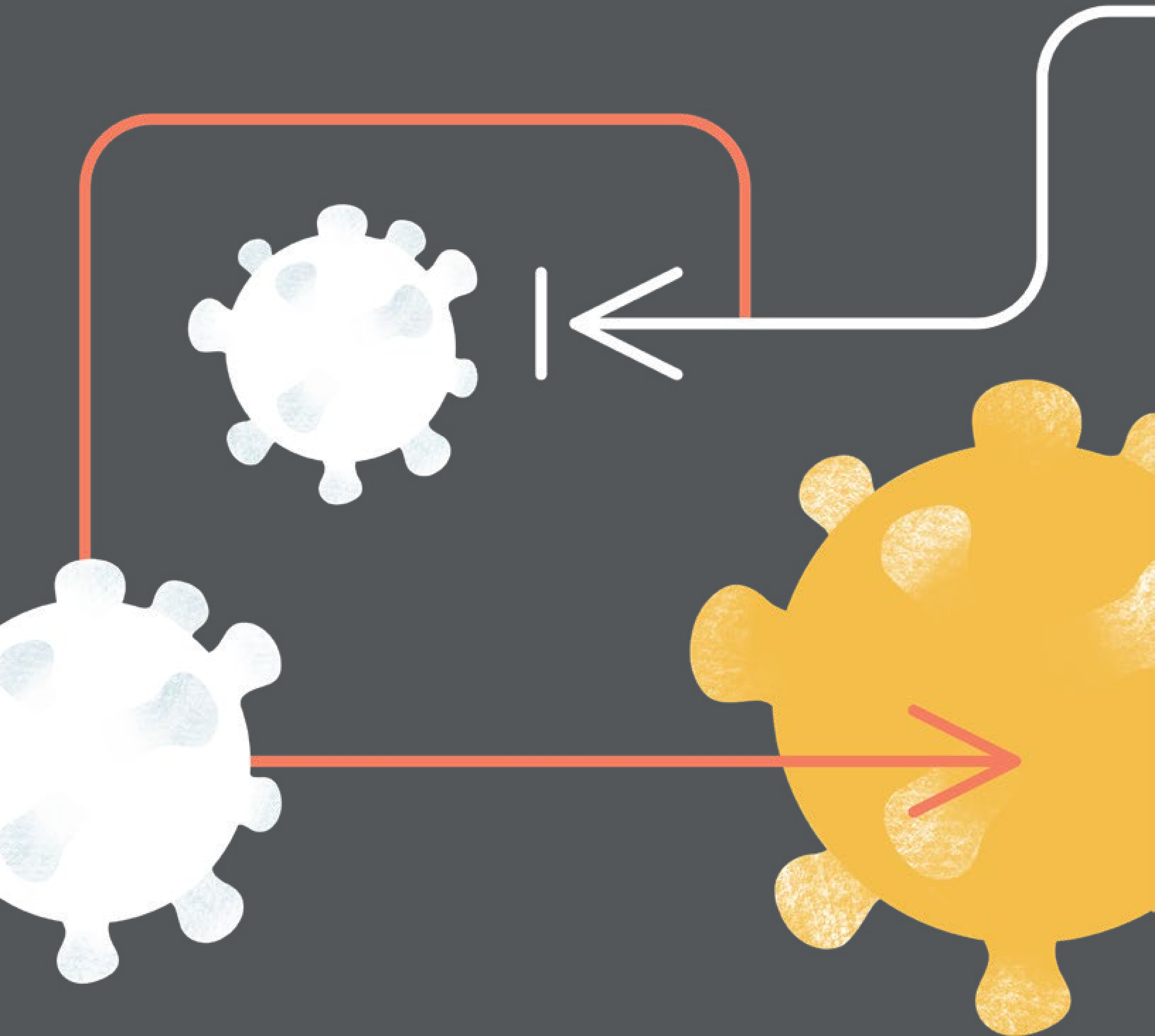
Boards can also support the talent agenda in the way they engage with the CEO and management on strategy. At Magna, in an automotive sector that is undergoing dramatic technological and market upheaval, Young says the board, through its technology committee, is maintaining a strong focus on trends in electric and autonomous vehicles and artificial intelligence.

"The software engineering talent you need to succeed in that domain is different from anything that Magna has done before," says Young. Recognizing how challenging it is to innovate and to attract and develop new talent in such high-demand areas, Magna recently began venture capital investing. A primary goal is to support new companies developing new technologies and find ways to incorporate that innovation into Magna's own offerings as a parts supplier to major car makers. What it also means is that rather than having to fill all of its talent needs in-house, the company can "outsource" it through their portfolio companies.

Workforce disruption

Kate Stevenson believes that workforce disruption now underway is a profound challenge for all boards as they grapple with radically new and innovative strategies for working in a world that is being utterly transformed. Technology is a key enabler of a collaborative, agile, and productive workforce, she says, but none of this will have the right impact without a strong sense of culture and corporate purpose. "The world is looking for trusted leadership, and this needs to be a guiding light for every board today."

4 COVID-19: An Affirming Use Case



Section 4

COVID-19: An Affirming Use Case

At the time of our interview with Don Lowry, when he noted that things “will never again be as slow” as they are today, the COVID-19 outbreak was a regional story with potentially ominous overtones yet still seemingly remote. As events unfolded, his words could not have been more prophetic.

Weeks later, Kathleen Taylor found herself working with her committee chairs, the corporate secretary and RBC CEO Dave MacKay to reorder the agenda for an upcoming board meeting on very short notice. The issue: create time and space to focus on what quickly emerged as the most important issue facing not just RBC, but every company in the country.

“What seemed to be a fast-moving world through all of 2018 and 2019 and the first two months of 2020 now appears to have been in slow motion by comparison to today,” Taylor said when we spoke in late March.

In the context of our study, the most revealing takeaway from Taylor's anecdote is the degree to which she and her board handled the pandemic's upending of priorities in a "completely orderly" fashion. What that reflected, in essence, was a high-performance board in action, and it serves as a testament to the foundational nature of the priorities and practices highlighted in this report.

"I had the pre-call with my audit chair, we both agreed a change was right," Taylor explains. "I spoke to our CEO to make sure he was aligned with our priorities and then went to the corporate secretary and reissued an agenda. It's not a five-minute thing, it takes a number of steps to get you there."

Making it work is about "being available to put in the time and focus on the need to reallocate resources when the need arises. And to be able to do it in a seamless way, so that the board members [who'd previously received a different agenda] don't feel like, 'Well, what happened?'"

Months later, few chairs or directors anywhere can say they've had a single day or even a single meeting that isn't in some way different than in the days prior to the pandemic's arrival. In the wake of previous cataclysmic events like the credit crisis that triggered the Great Recession of 2008-09, boards' risk oversight and scenario planning processes are designed, in theory at least, to anticipate the possibility of such massive disruption. But there can be no downplaying the challenge that boards, like everyone and everything else, are going through.

And yet high-functioning boards, defined by the traits outlined throughout this document—sense of purpose, awareness, collaborative approach, agility, foresight, trust and respect, high-quality decision making, courage—will continue to perform.

Roberta Jamieson, speaking after the COVID-19 onset, says her board at Deloitte was very conscious of resisting the natural human urge to want to jump in to help management deal with the crisis.

"You've got to be sensitive as a board member to the stress on senior executives through this period," she says. "To be there not just as a cheerleader, but also as a sensitive voice asking tough questions so that the executive management can focus on the core business and address the crisis.

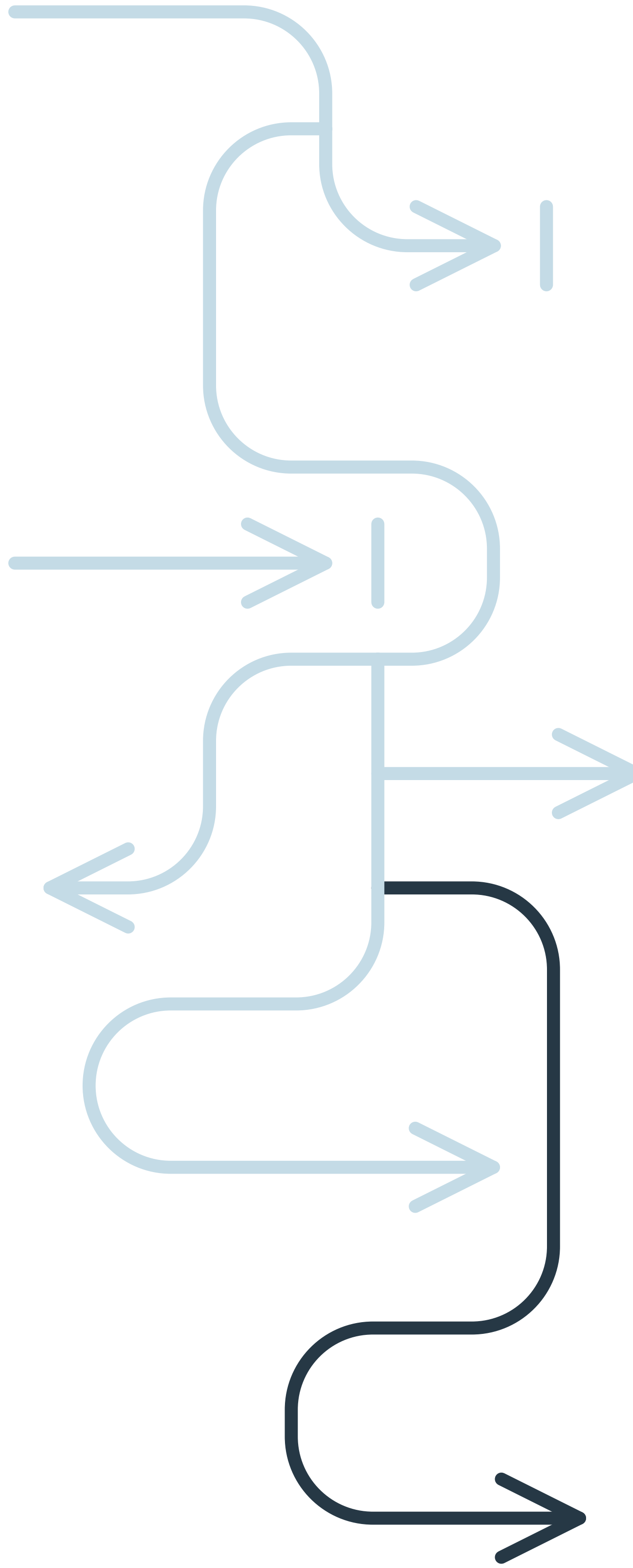
"Another thing we've done through this period, is we went through a board recruitment process for new members to be appointed to the board. It could have gotten derailed, but it didn't. We made a commitment that this is what was going to happen and to ensure ongoing confidence in the governance of the business we needed to continue, and we did."

Looking more broadly at the dominant themes of the pandemic period, it's evident that whatever the scale of its impact and toll of the compounding losses—personal, professional, social, financial—it has also proven to be a use case of every emerging external issue identified by our chairs. Technology, geopolitical turmoil and environmental and social concerns dominate the agenda—be it reinventing the remote workplace, managing multiple regulatory regimes, addressing job losses, inequity and discrimination, or helping to lay the foundations for a more sustainable model of post-pandemic rebuilding. And while uncertainty prevails—and is being amplified by the chorus of demands for systemic change to alleviate racial exclusion—companies' command of those issues will determine to a large extent how they'll navigate the crisis and where they emerge on the other side.

"Boards need to be agile in these moments," says Taylor. But they must also focus on their core roles.

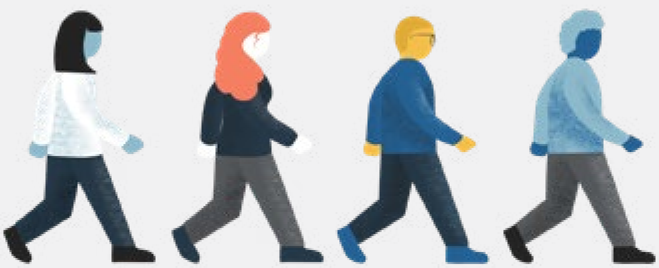
"You really need to have a lot of confidence that your management team can be making the right decisions every morning and is going to bed at night thinking about the right things. That means making sure that they're continuing to pressure test those elements. Do I have the right team? Do I have the right people?"

"This is management's problem to solve. And it's a great opportunity? For us to be watching our teams in peak performance," says Taylor. "This is the Olympic Games of crisis management. It doesn't get any more difficult."



Closing Remarks

We hope that you have enjoyed sitting in on this discussion and debate as much as we have enjoyed bringing it to you. Our goal was to provide inspiration, spark new ideas and provide readers with a catalyst for further reflection, transformation and improvement. With that journey in mind, and by way of closing remarks, we invite you to revisit RBC chair Taylor's analogy that "we are in the Olympic Games of crisis management".



While she describes watching an executive team in action, the rich details and candour from the chairs in our report reveal parallels between high-performance boards and high-achieving sports teams that are unmistakable and instructive. Consider:

- **Team is everything.** In sport, the right combination of players, the right culture, and the right purpose and spirit are essential to success. Likewise, one of the most revealing sections in our study is the chairs' discussion of the critical importance of director talent, board composition, board culture and organizational purpose in enabling boards to effectively respond to and help navigate the emerging challenges of the day. While boards and the director community are often criticized, sometimes rightfully, for moving too slowly and entrenching the status quo, our discussion reveals a growing propensity towards self-assessment and awareness of the need for and value in continuous improvement and board renewal.
- **Commitment underpins achievement.** Elite teams are made up of athletes who understand that the commitment of energy, attention and time is essential to both delivering on all facets and responsibilities of their position as well as learning, training and perfecting their skills. Great board members bring the same values and commitment to their roles as directors. As we've learned, the accelerating pace of change and all that comes with it demands that directors invest more time, pull harder together and focus both on improving their own skills and performance as well as that of the board as a whole.
- **Agility is a life force.** Game play, by definition, is dynamic. Winning teams prevail by being able to adapt and adjust in real time. They have their heads up, read the field and their opponents, and react spontaneously, drawing equally on innate skills and advance planning and practice. If there's one lesson above all to be drawn from this report, it's that in today's environment, high-performing boards need similar vision and the same ability to pivot and react in ways that are spontaneous yet rooted in preparation. The chairs we interviewed describe this on many fronts: responding to new competitors, new technologies and other drivers of market disruption; meeting the needs and

demands of shareholders as well as an expanding and increasingly influential set of stakeholders; and rethinking their own processes and approaches and making quality decisions.

- **Courage wins out.** Great teams excel on both offence and defence. But they are never passive or indecisive. Having the courage to make decisions and carry the play is how they achieve their goals. And we heard the very same refrain from a number of chairs in this report. Setting a path to high performance, for individual directors and boards as a whole, takes courage—whether that means voicing opinions at the board table, pushing executives hard on strategy and talent development, making tough decisions on the CEO, countering political risk and polarization, protecting shareholder value, addressing stakeholder expectations, or defining and delivering on an organization's purpose.
- **Leadership is a must.** No matter how good their individual parts, teams need a strong captain to provide direction and inspiration and set the right tone. What comes through loud and clear in our report—though it's sometimes conveyed implicitly—is that no board can reach a pinnacle of performance without a high-performing chair. To some extent, this has always been true. But as the board's role evolves and grows more complex, and the external pace of change accelerates, it is even more critical.

In planning this initiative, our thinking started with the idea that we'd best be able to glean what high-performing boards are doing differently by asking leading chairs to take us inside their thinking and share their viewpoint with readers. While we think that has been achieved, reflecting now on this last point above, it seems that in the process of conducting and compiling these interviews, we have come away with as many insights into the makings of a high-performing chair. Perhaps they are two sides of the same coin. Perhaps, too, we have sown the seeds for a future project.

As readers, you'll be the ones to judge. And we leave it to you to draw the insights most relevant to your situation. We also recognize, of course, that this report is neither the first nor the last word on its subject. However, coming into the slipstream of a longstanding dialogue on achieving better governance in Canada—at such a unique moment, with what we believe is a unique perspective—we hope you'll agree that it has advanced the discussion and is itself an example of the kind of continuous improvement that the best practitioners espouse.

Collaborators

Tony Gaffney

Author

Tony is a corporate director, experienced CEO and a former member of the Global Executive Committee of Aon Hewitt, responsible for the performance of the company worldwide. He has had the privilege of working at the Board or CEO levels within some of Canada's most respected organizations, including BCE, Loblaws, Aon, Altus Group, Toronto Regional Board of Trade and the United Way Cabinet. Tony has also served internationally, in executive leadership roles at Accenture, MCI Telecommunications and SHL Systemhouse.

I launched the Board Insights initiative driven by a passion to contribute to the corporate director community and a personal sense of obligation to engage in continuous improvement.

Kathleen (Katie) Taylor

Lead Advisor

Kathleen Taylor is Chair of RBC and the former President and CEO of Four Seasons Hotels and Resorts. In addition to her corporate and not-for-profit directorships, Ms. Taylor is a Member of the Order of Canada and has been inducted into the WXN Hall of Fame. She is the recipient of the Governance Professionals of Canada Peter Dey Governance Achievement Award.

"It is not often that you have the chance to work with a group of extraordinary board chairs who have come together to generously share their wide and varied experiences. I enthusiastically provided my support to this initiative given its focus on ensuring continuous improvement in the boardroom, particularly in a period of accelerating change and disruption."

Rahul Bhardwaj

Advisor

As President and CEO of the Institute of Corporate Directors, Rahul Bhardwaj leads a Canadian not-for-profit association of more than 15,000 members committed to improving national outcomes by growing the board leadership and governance capacities within Canadian businesses, agencies and not-for-profits.

His corporate governance vision has made him a sought-after presenter, speaker and media commentator at the national level and internationally.

"I am keenly aware that there is an appetite for continuous improvement within Canada's director community. Initiatives such as Board Insights will augment the ICD's efforts to provide Canadian directors with tools and resources to help them enhance their effectiveness in the boardroom."

Brian Banks

Journalist & Writer

Brian is an editor and writer with extensive experience in governance and business journalism, environmental issues and technology, and is an advocate for nature and sustainability. He is a former editor of Financial Post Magazine and was a cofounder of Listed, the magazine for Canadian listed companies. He's been a non-profit board member and is a Fellow of the Royal Canadian Geographical Society.

"In my career, I've tracked the evolution of board practices, board-CEO dynamics and the rise of stakeholder capitalism. I knew the opportunity to capture and present the insights of more than 30 leading chairs and directors as they navigate today's challenges would be invaluable."

Our group of extraordinary board chairs who generously shared their leadership experiences and candid insights on how they navigate change.

Bill Anderson

Chair of Sun Life Financial;
Director of Gilden Activewear

Bob Bell

Former Deputy Minister of Health Ontario;
Prior CEO of University Health Network

Rahul Bhardwaj

President and Chief Executive Officer of Institute of Corporate Directors
Former Chair, Community Foundations of Canada and the 2012 Ontario Games
Director of Rideau Hall Foundation and previously Metrolinx

Ian Bourne

Former Chair of Ballard Power and SNC Lavalin;
Director of Canadian Public Accountability Board (CPAB)

John Cassaday

Chair of Manulife Financial and St Michael's Hospital Foundation;
Director of Irving Oil Ltd., Sleep Country Canada Holdings Inc. and Sysco Corporation

James Cherry

Director of Logistec Corporation, Cogeco Inc., Conference Board of Canada
Former CEO of Aéroports de Montréal

Isabelle Courville

Chair of Canadian Pacific and former Chair of Laurentian Bank
Director of SNC Lavalin and Veolia Environnement S.A.

Bryan Davies

Chair of the Financial Services Regulatory Authority of Ontario (FSRA) and former Chair of the Canada Deposit Insurance Corporation
Director of MetroLinx

Brenda Eprile

Former Chair of Westport Fuel Systems and Home Capital Corporation
Director of Atlantica Sustainable Infrastructure plc., Olympia Financial Group Inc., Olympia Trust Company and Canvas GFX

Karen Farbridge

Chair of Meridian Credit Union and Motusbank
Director of QUEST and Silence

Rob Goodwill

Chair of Gay Lea Foods Co-Operative

Bill Hatanaka

Chair of Ontario Health
Director of Invesco Canada and ICE NGx

Linda Hohol

Chair of the Institute of Corporate Directors (ICD)
Director of Canadian Western Bank and NAV Canada
Former President, TSX Venture Exchange

Tim Hodgson

Chair of Hydro One and Sagicor Financial Corporation Limited
Director of the Public Sector Pension Investment Board (PSP Investments)

Mark Hughes

Chair of the Global Risk Institute (GRI)
Director of UBS Global

Goldy Hyder

President and CEO of the Business Council of Canada

Roberta Jamieson

President and CEO of Indspire
Director of Deloitte Canada Board

Tom Jenkins

Chair of OpenText

Maureen Jensen

Former Chair and CEO of the Ontario Securities Commission (OSC)
Director of Franco-Nevada Corp.

Colleen Johnston

Chair of Unity Health Toronto
Director on the Boards of Shopify, McCain Foods, Private Debt Partners Inc. and Q4

Hal Kvisle

Chair of ARC Resources and Finning
Director of Cenovus Energy
Former CEO of TransCanada and Talisman Energy

David Lever

Chair of McCarthy Tétrault, Canada (Board of Partners)

Norm Loberg

Chair of Alectra Inc.

Don Lowry

Chair of Capital Power and former Chair of Canadian Electricity Association
Director of Stantec Inc., Melcore Real Estate Investment Trust (REIT) and Canada Water Networks

Hon. John Manley

Chair of CIBC and CAE
Director of Telus
Senior Member of Prime Minister Jean Chrétien's cabinet from 1993 to 2003

Eileen Mercier

Chair of the Canadian Payments Association
Former Chair of the Ontario Teachers' Pension Plan
Director of Intact Financial Corporation and the Royal Conservatory of Music

Raymond Mikulich

Chair of the Altus Group and Ridgeline Capital Group
Director of Colony Capital Inc

Ellen Pekeles

Former Chair of Mountain Equipment Co-Op (MEC)
Director of Canuck Place Children's Hospice

Katharine (Kate) Stevenson

Former Chair, Bishop Strachan School
Director of CIBC, OpenText and Capital Power

Barbara (Barb) Stymiest

Chair of the Canadian Institute for Advanced Research
Former Chair of Blackberry
Director of Sun Life, Blackberry and Weston

Kathleen (Katie) Taylor

Chair of Royal Bank of Canada, Atlas Partners LLP and SickKids Foundation
Director of the Canada Pension Plan Investment Board (CPPIB)

Paul Tsaparis

Chair of the Board of Governors at York University
Director of Ontario Health, Metrolinx, Teranet and Indspire

Tom Woods

Former Chair of Unity Health Toronto and Hydro One
Director of Bank of America and Alberta Investment Management Corporation

Bill Young

Chair of Magna International and SNC Lavalin
Director of Intact Financial and the Canadian Institute for Advanced Research (CIFAR)