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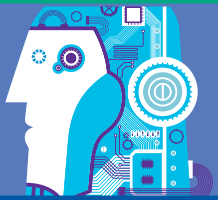

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ACROSS THE BOARD

Professor Richard Leblanc shares new directions in corporate governance.

Victoria Barclay, CFA

Among the business titles this year, a surprise bestseller originated in our very own city. Who would have suspected a text on corporate governance would sell more than 2,500 copies within months of its release in May 2016? And who would have predicted dozens of speaking engagements for its editor-author, Richard Leblanc, a York University professor and international expert on corporate governance and accountability?

"We've had more changes affecting governance in the last four years than in the entire previous generation," Leblanc says, "so I organized 50 leading authors to write on their respective areas of expertise." The result was the *Handbook of Board Governance: A Comprehensive Guide for Public, Private & Not-for-Profit Board Members*.

Leblanc intended the handbook to be "by directors for directors," including authors from industry, not just academia. "I instructed the authors to write critically and prospectively. What should we be looking at over the next two to four years? Every director wants to know what's coming," he says, adding that financial analysts, who assess boards, also want to know.

"Activism is certainly one of the top trends in governance [right now]," he says. "You just need one director who will "move the room. Boards are vulnerable. Activists can be aggressive. The number one job of the board is to select the management team. Activists don't target the managers; they target the boards of underperforming companies."

Boards are becoming more strategic. "Half of their meeting time will be on performance and strategy and responding to shareholders. [The book discusses] proxy access, which is giving shareholders a say on who the director should be," he explains.

Risk, Cyber, and Climate

Risk has become a central issue, too. Boards have particular interest in non-financial risks, including safety, terrorism, an "active shooter," and disaster recovery—in short, non-financial operational risk that could be catastrophic. For example, in August 2016, the C.D. Howe Institute reported Canada was vulnerable to systemic financial risk due to earthquakes.

> ***"Good boards insist on enterprise risk management and a proper identification of internal controls to mitigate the risks."***
>
> ***– Richard Leblanc***

Cyber issues also merit board attention. Whether it's hacktivism, corporate espionage, or malicious release of customer data, cyber attacks affect brand and reputation. "The board wants to know how to upskill their own cyber competency and bring that expertise onto the board," he says. The handbook will provide that advice.

And climate change governance will mature over the next couple of years because of the ambitious goals of the 2015 Paris Agreement, which aims to limit the increase in the global average temperature to 2°C above pre-industrial levels. Prime Minister Justin Trudeau announced Canada will "strive to achieve 50 percent clean power generation by 2025." Governments in Alberta and B.C. are also bringing forth major climate change initiatives.

"We're an energy-producing country, so it's important for boards to begin the conversation about overseeing sustainability and climate change," says Leblanc. Climate change experts wrote individual chapters on what the best boards do. Alice Korngold, author of *A Better World, Inc.: How Companies Profit by Solving Global Problems* and CEO of Korngold Consulting, goes into depth on actual companies and how they oversee climate.

Behavioural Issues

Leblanc himself authored the chapter on director behaviours. He looked at traits such as integrity, leadership, communication style, orientation towards consensus, teamwork, influence, impact, and preparation for meetings. He asked leading director institutes in major countries how they define these behaviours and how they recruit for them.

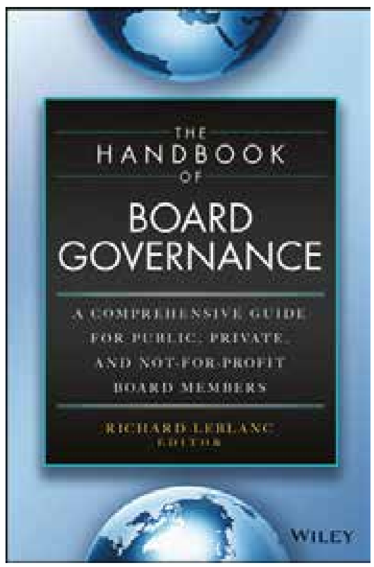
"Bad directors can take the discussion far off-topic," he says. They can't be trusted, and they can be disruptive, unproductive, manipulative, and sneaky. He emphasized this was very different from "a director who is constructively critical and independent-minded and will not necessarily vote with the majority.

"I say to the audiences I speak to, 'Put up your hand if there's an asshole on your board,' and 90 percent will raise their hands. And to the 10 percent whose hands are not going up, I say, 'If you don't know who the asshole is, then, guess what, you're the asshole.'"

To ensure they bring on good directors, boards are delving into prospective directors' backgrounds using behavioural checks, due diligence, personality checks, and criminal background checks. The checks are more intrusive and the data have become more available, thanks to social media and colleagues who are willing to talk (if anonymity is preserved).

Social Media

Social media has entered the boardroom beyond recruitment. There are programs that will give directors the analytics on social media, such as what's being said about the company on Twitter, Facebook, and LinkedIn. Companies also conduct reputational and social media checks on current directors and managers.



The general counsel, the corporate secretary, or other senior company officer should be appointed to use social media for the company's brand reputation. "You don't relegate the use of the company's Twitter account to the use of a junior sales manager," Leblanc says. "There needs to be that degree of oversight and control."

Embracing Diversity

In September 2016, Osler, Hoskins & Harcourt LLP reported that 46 percent of Toronto Stock Exchange companies don't have a single woman on the board. "Men tend to be over-boarded, whereas women might be sitting on only one or two boards," he says. Women change the boardroom dynamic, but not if they're unicorns. "Three. That's the magic number," he says.

"There are studies suggesting that women are more likely to fire an underperforming CEO earlier," Leblanc says, adding that pay committees still tend to be male-dominated. "I don't think I know a woman who is chair of a pay committee on a major Canadian board," he notes.

How will boards make way for diversity? "Regulators are also looking at imposing term limits, as a means of getting people off the board," he says. The U.K., Australia, India, Hong Kong, Singapore, and Malaysia are all looking at nine- and 10-year limits.

Pay It Forward

And then there are outsized pay packets. Theresa May, the new Prime Minister of Great Britain, in her first major speech on the economy, said boards should include customers and employees, as a means to rein in executive pay.

"CEOs have told me, 'I will outgun any pay committee.' Three or four part-time directors [on the pay committee], meeting five times a year, are expected to be the counterpoint to a hard-charging, full-time type-A CEO," Leblanc says. "It's hardly surprising why pay committees have not gotten this right."

In his chapter, Charles Elson, a professor at University of Delaware, shows that the quantum of pay is going up because of peer benchmarking. The pay consultants sell data—of larger, more complex companies—back to the pay committee. The result? Inflationary pressure.

The Handbook of Board Governance explores corporate boards according to composition, skill set, diversity, audit, sustainability, risk, pay, strategy, and activism. When it comes to the book's panel of authors, Leblanc points to the diversity of coverage, with authors spanning a range of gender, ethnic, and professional backgrounds. The authors are drawn from eight countries: Australia, Belgium, Canada, France, New Zealand, Turkey, the U.S., and the U.K. As the latest research on corporate boards shows, well-considered diversity is a formula for success.

Victoria Barclay, CFA, is a Toronto-based risk manager and has been a charterholder since 2006.