Institute of Corporate Directors

Podcast Transcript: Be it resolved that Canadian boards are too risk-averse to drive economic growth.

Rahul Bhardwaj (00:03): Welcome to Be It Resolved, the podcast where bold ideas meet courageous leadership. I'm your host, Rahul Bhardwaj, President and CEO of the Institute of Corporate Directors in Canada. In each episode, I speak with experts to delve into pressing issues, impacting directors and decision making in the boardroom.

My guest today is Nik Nanos, chief data scientist and founder of the Nanos Research Group of Companies. Nik also leads the team behind the Nanos Bloomberg Canadian Confidence Index, which monitors consumer confidence in the Canadian economy and streams data to Bloomberg terminals each week. He holds various board appointments, including past chair of the board of Governors of Carlton University. Nik's gonna share some insights on how boards can better navigate risk, engage in policy discussions, and help drive innovation for economic competitiveness. Now, **today's resolution is:** Be it resolved that Canadian boards are too risk averse to drive economic growth. To our listeners, which way would you vote? Now, welcome, Nik. I'm gonna ask you where your vote is, but that's gonna come a little later. But welcome to today.

Nik Nanos (01:15): It's great to join you and all the other folks at the ICD.

Rahul Bhardwaj (01:19): Super. So Nik, we're gonna be talking about risk, but in all fairness, given all the headlines in the news these days and some of the lax corporate governance practices that people are seeing, I think some people are be inclined to say that we're already bringing up too much risk on the boards. But I got a feeling you've got a different starting point on your approach to risk.

Nik Nanos (01:38): No, absolutely. I think it's a bit ironic that you invite a statistician and someone who's in the business of calculating probabilities of different outcomes to talk about risk. And you know, the thing is, is that many times when boards think of risks, I've served on a number of boards and I'm on boards, they think of in terms of kind of governance, they think of procedures and stuff like that. I think what's really critical is that we broaden our conception of risk and how the board engages on this issue to include things like the risk of innovating or not innovating; the risks of being competitive or not being competitive; the risks of not being productive, and to engage in broader discussions actually, which are fundamentally more strategic discussions that directly connect to the overall performance of the organization beyond some of the traditional things that a lot of boards deal with. And you know, the world is changing every day and our risk calculations and our risk tolerances also as a result are changing. So I put this at the top of the list, but I think we have to be a little more ecumenical and broad in terms of the types of risks of action and inaction that boards should be asking questions about.

Rahul Bhardwaj (02:55): Great. So let's unpack some of that. So your starting point, if I put words in your mouth for a moment, is more around the opportunity inherent risk, important to mitigate, we'll talk a little bit about that, but it also speaks to the competitiveness of the company then writ large, the competitiveness of a nation too. So can you tell us a little bit about that connecting risk and competitiveness and what does your polling in your data tell us about what people are thinking about that?

Nik Nanos (03:22): What's interesting is that there's, I'll call it articulated risk or risk that you definitely know is gonna happen and then what I'll say possible risk. And why don't we use an example that's in the news right now. So Donald Trump and the tariffs, the 25% tariff that he's threatened, not just on Canada, Mexico, but now Europe, and he'll be talking about tariffs at large. So there's obviously the explicit risk of him actually doing it. The implicit risk is that just by talking about this, that it puts a particular chill effect on, for example, investment in Canada. It creates a chill effect or has a direct impact on decisions where jobs might be or where factories or production facilities might be for different enterprises that are based in Canada and also based in the United States.

So you have to think of these exogenous or external events that are completely outside of the control of the organization, completely outside of the control of the board and how they react to that and how they calculate the risks of action and inaction on these things. And you know, if we look at the big picture, because my team does polling and I lead polling in countries around the world and in different types of markets and stuff like that. When we think of the big picture, we're going through a phase right now, where the rules-based international system is under strain, which means everything that we've learned since 1945 after the second world war, free trade, trade resolution, a rules-based order is being put to the test right now.

I think boards have to realize that the procedures that they used in the past might not actually be or meet the stress test of the things that they're gonna have to deal with because there will be new ways and new responses to a lot of these things. Many times, it's kinda like in the past you'd say, let's lawyer up, let's bring in the lawyers, we'll get the lawyers to sort this through. Well, the thing is, is that as things are emerging in the United States, Canada, and Europe and stuff like that, especially with populist politics, the courts won't be the same kind of recourse as they have been in the past.

Rahul Bhardwaj (05:32): And is your data telling you anything about how corporate leadership is feeling about this environment in terms of confidence and perhaps even more so about how they deal with risk?

Nik Nanos (05:43): Yeah, well, you know, the thing is that I remember for one of the boards that I've served on, I remember telling the CEO, I go, you know, you have a very accomplished management team that's supporting you. And he say, yeah, you know, this was just pretty great. And I remember the CEO in that particular case, it was a woman, she said, I've got a fantastic team. They're all experts at what they do. They know all the risks that we're dealing with. They can run the day-to-day. They know today exactly what's happening because they are professionals. They're exceptional at what they do. And I'm very confident in the job that I do. However, as the CEO and leader, I need to know what should I be worried about in the future? What are the risks that I'm going to be facing? What are the opportunities that I have not anticipated?

As the leader, I have to be thinking about the 5, 10, 15, 20-year risk and the 20-year opportunity horizon. And I remember she said to me, that's where the board comes in. The board has external voices and experts that come and bring an extra voice to the table to help add to that expertise. And I think that's how we have to be looking at the role of boards; not just from an oversight perspective, but also from the perspective of stress testing those long-term plans, stress testing those risk assumptions and doing that in a positive way in order to contribute to better outcomes for the organization at large.

Rahul Bhardwaj (07:06): Right. I'm glad to hear you focus on the strategic lens and staying out of the tactical day-to-day, that's management work. I'm gonna ask you to put your board chair hat on for a moment there. And when you are a board chair and you're looking at the potential horizons and risks, mitigate the bad ones, you wanna get into the opportunities and the good ones, I'm sure you looked around the board table and had to ask yourself, do we have the right people around the board to be dealing with these risks that could be known unknowns and unknown unknowns or you've heard that before? How did you go about thinking about that when you looked at your compliment of directors when you served as a chair?

Nik Nanos (07:44): Well, you know, when I served as a chair, we did what all good organizations do. We did a skills assessment, we kind of did the profiling of the skills that are already at the table and also the skills that were not at the table. And if I could distill it, I'd always think of it in terms of diversity, but diversity in a number of dimensions. Diversity of opinion, diversity of skills. But you know, the thing is, is that what I've seen, at least, think of it this way, big data cybersecurity, a lot of these factors 10, 20 years ago were kind of, I don't know, I don't wanna use the word table stakes, but they weren't kind of core factors that could impact the performance of an organization. And you know, I think because there's no unicorn that has all of these skills in place, you know, you need someone who's obviously very, especially depending on the type of organization that you lead, that understands the regulatory environment that you're operating in. You need someone that understands the business environment. You need someone that understands whatever the core mission of your organization is, to be an expert, like a content expert in that area.

Nik Nanos (08:50): You need someone who understands data because a lot of these organizations now are built based and are making decisions on data, which means, you know, it's kind of like having an accountant. You wanna have an accountant heading your audit committee because you need someone who understands accounting to be able to ask the right questions in the same way that if you're presented with data or if you're presented with a regulatory issue, whatever, you wanna have board of directors that are knowledgeable enough to ask the right questions.

So I think when we're looking at the board and the boards that I've tried to build and participate on, I've always encouraged a broader diversity of skill beyond the usual suspects. And we still need the usual suspects - lawyers, accountants, technologists and stuff like that. But we have to be thinking if we're thinking in terms of managing risks and the board being able to perform its function to kind of ask the right questions. You gotta make sure that you have experts around the table who are smart enough to know what the right questions are to ask in order to make sure that there's a positive path forward.

Rahul Bhardwaj (09:53): Right, right. So let's dive back into the resolution itself. And I'm gonna come back and ask you about are Canadian boards two risk-averse? But let's start with the premise that, broadly speaking, we've got some very well-run organizations and corporations in Canada. We've got some really good competent management teams, we've got some competent chairs and boards writ large. And let's say that they are sensitive to the geopolitical environment. The fact that the rules based order is changing, the digital disruption is everywhere but still on the table the question is, are boards still too risk-averse, even given they might have the right people and the right lens around there? Is there something in the Canadian corporate culture that sort of suggests to you that maybe we still have a bias towards risk aversion?

Nik Nanos (10:41): Well, I think there are some that might say that our risk aversion has served us well compared to things that have happened in the United States. We haven't had major banks fail, we haven't had major industries fail. We haven't had the same scope of governance issues that many American enterprises have had because they have a different culture of risk. So I think there's a very good argument to be made that we are not too risk-averse. But what I wanna put on the table as part of the discussion is it's not just about aversion to risk, it's about risk tolerance and a discussion about what can we tolerate in terms of risk when we go back to the things that I talked about before. What kind of risk can organizations tolerate when it comes to investing in innovation? Because if you need to innovate, that means that you might not succeed? Because you're not always gonna bat a thousand every time that you look to try to innovate. And the same way that you, when you're looking to potentially risk or invest in improving productivity or improving competitiveness, those might not always succeed.

So, the thing is, I think, when we're talking about risk aversion and risk, we also have to be talking about the flip side of the coin, which is actually just as important - risk tolerance. I think there's something to be said that smart, focused, evidence-based risk tolerance should be part of a high performing organization. And also those are the questions that board members should be asking when it comes on the risk front. Not just about, you know, having an aversion to risk, but to say what are the potential outcomes? What are the probabilities of different outcomes and what is it prudent to accept and what do we need to reject when it comes to some of these potentially risky decisions?

Rahul Bhardwaj (12:32): We touched on a couple of these, but I do wanna come back to what do you think a board could do to set itself up for success in that environment you just described?

Nik Nanos (12:40): I know on the boards that I've served on at least one of the best things, you know, let's face it, you're serving on a board, boards are busy, there's a board agenda, there's lots of business that you need to go through. For the boards that I've served on or the boards that I've chaired, I've always been a big believer that boards need an opportunity to reflect less formally than they usually do but to reflect on the big picture, things that we need to deal with in the next five years. Are we prepared for those things? And to have more of those conversations as opposed to business items about risks that we perceive or even potential opportunities that we perceive and how the organization is potentially preparing for that.

My view has always been that at whenever I've served on the board, it's never your job to direct, it's your job to ask questions. Ask questions like, have you thought of this? How is this going to work? What are the different options? And for the board to engage in those conversations where they ask questions that relate to the long-term risk and the long-term opportunities related to the organization. And is there anything that we need to discuss and that's relevant to discuss as a board within the responsibilities of a board member. So you're not getting into running the place or being tactical or giving direction, but being partners, advisors, and stress testing and doing the due diligence that boards need to do.

Rahul Bhardwaj (14:07): I've spoken like a true chair. I've heard consistently, please don't do more, but we gotta do better. And it's a really important conversation for a board to say, what does it mean to be better in our context? And it always ends up being a conversation around strategy and risk so it's an important topic. I wanna delve a little bit into an adjacent area and that's public policy. You've got a foot in the boardroom, you've got, at times, both feet, more of you in the public policy world as well. But I believe you've got a point of view that in managing risk boards and corporations generally and their leadership would be benefited by a better understanding or connection with public policy. Do you wanna delve into that a little bit?

Nik Nanos (14:50): Yeah, and actually, it cuts both ways. Governments would benefit also and public policy outcomes would benefit by corporate Canada being engaged and you know, basically doing their job to say, you know, if there's a public policy initiative that the governor of the day wants to do for Corporate Canada, stress test it and say, okay, this is what you want to do. We're not here to govern because that's your job, it's not our job. But if you're gonna proceed on a particular path, here's some things or potential unintended consequences that government should think about. And I think what boards need to do is to make sure that when it comes to the public policy space, that when there are public policies that are directly material to how they function and the regulatory environment, that they are engaged in the conversation and that they're also making sure or trying to minimize any negative outcomes or unintended outcomes from stuff.

But the kicker, and this is the most important thing, and this is where I see many boards not do as well to delineate between politics and public policy. And I'll tell you, and this is just my personal view, just based on my experience and you know what, I'm doing polling for large organizations, I'm on the news talking about what governments do. I sit on the boards of companies. I'd always kind of say, hold on, we don't wanna go into this space because this is the space of politics. And many times there are pressures on organizations to make public statements about political issues. And when that pressure happens, the first thing that they should be asking themselves is, is this related to our mission? Is this related to what we do or is this just something else that someone has asked us to engage on?

And I think you have to have that sensitivity at the management level, but also at the board level so that when you do engage in public policy, I find the most effective engagement on public policy, you will never ever hear about in the news, ever. It'll be like in a meeting where corporate leaders have looked at a government policy and they've said, you know what, if you're gonna go down this particular path, here's some things that you have to make sure or you should consider including in the implementation so that your policy can be a success. So there's a benefit for the corporate Canada to be involved in the public policy process, there's also Canadians benefit, but also governments benefit by having better public policy outcomes and policies that make more sense.

And just as a little aside, I remember I was doing a project for a major industrial interest and I remember sitting with the CEO and they were talking about government policy in a particular province. And I remember the CEO said, you know, we can deal with bad public policy because if it's consistent, we could try to figure out a way to make money. But inconsistency, uncertainty, we cannot deal with. And this goes back to risk. And you know what the CEO told me is that there's less risk in a consistently bad public policy as long as they know. Because he would say, listen, I'm making decisions on building production facilities that have 10, 20, 30 year horizons. And I can't be thinking every year is government policy gonna change? He would say, it's just too risky. But if I know that governments are consistent, then organizations can navigate.

And you know, I'll finish off on one point, Canadians are very similar to CEOs, you might be surprised. If I was to summarize like 35 years of listening to Canadians and what they'd say to politicians, don't mess things up. It would be just something as simple as that. We wanna work hard, we wanna pay our bills, we wanna build for the future. Don't do things that messes things up. And you know what, CEOs, boards are very similar when they think about governments. Yeah, you're gonna do stuff, just don't mess things up because we want to continue to create wealth and prosperity and jobs.

Rahul Bhardwaj (18:50): Right. Uncertainty is such a headache for so many, especially for boards when you think about oversight of culture, strategy, and risk. But you know, I just wanna underscore a couple points you've made. When you're talking about public policy, we're clear, we're talking, this is well beyond GR, the governance relations function, that's a management piece. And there's the side of minimizing regulatory risks. So you'd be wise to engage in public policy just to take that off the table. And that, I think from what I've heard from you and today and in the past, that engaging with public policy is a driver of strategy as well. It's not just minimizing risk, but it's key to successful strategies. Which brings me kind of to the last point. This is a little bit about the difference between Canada and the US when it comes to, let's say, the connection between corporations and public policy.

And where I'm gonna ask you in a second is what can we do more in Canada to get that balance a bit better? And it starts with the premise that let's say in Canada, the private sector doesn't really know the public sector all that well and the public sector, they don't always get the private sector. But when we look south to the border, we see far more integration with both some really good outcomes and some really bad outcomes as well, and you really wanna minimize those. But you know the Canadian context just about as better than that as well as anybody in this, what would you suggest we could do to increase the odds of success of getting that balance right in Canada?

Nik Nanos (20:16): Well, I'll just speak in terms of observations that many elected officials have. So whenever one organization comes in to talk about something, it's a very different dynamic than when there's more of a united front on a particular issue. Because when one organization comes in, regardless of whether the politician is articulated or not, they're thinking, am I doing something that is just benefiting one player within an industry compared to another? And this is where, you know, organizations like the, the Business Council of Canada led by Goldy Hyder and the Canadian Chamber of Commerce, all those organizations and what I'll say formal and informal because there are informal groups of CEOs and organizations that engage the government on a public policy issue. And from a a Canadian perspective, I think that's the way to go on that front.

You know, one of the things that doesn't happen in Canada that does happen in the United States is that there's a lot more interchange between the private sector and government, as in civil servants; where you have senior civil servants can be individuals that have served in the private sector, bank executives that are head up like the Federal Reserve and other key portfolios within the US administration. We don't have that because we have a separate and independent and professional public service. But I would say that the key thing that we could do very differently from the United States is to have corporate Canada work on what I'll say, a common sense of purpose. Because you know, the thing is, is that we have to think of in terms of Canadian competitiveness with the United States and other countries, we asked to think of it in terms of productivity. Because right now, the movement of capital is so fluid that your advantage is basically whatever your advantage is today. And if you miss the boat in terms of competitiveness and productivity, it could take decades in order to catch up.

So I think we need to make sure that we encourage a common sense of purpose between corporate leaders within Canada, the importance of them to be part of the public policy conversation, but then to also think about how are they making Canada a better place? How are we creating an environment for jobs? How are we setting the foundation for prosperity and for a positive, better, stronger country? And to kind of broaden our horizons beyond the next quarterly result,

Rahul Bhardwaj (22:45): Moving from just basic lobbying to a shared purpose and shared understanding, I think is a really good goal, aspirational, but I think quite doable as well. And I know that those that are doing this successfully really spend some time on thinking deeply about it. So Nik, we're talking about risk, and you can't talk about risk responsibly these days without at least putting climate risk on the table. So in the context of what we're talking about, risk aversion, what are your thoughts as it relates to climate risk?

Nik Nanos (23:12): Well, the challenge related to discussions related to climate risk is that in like a New York minute, it becomes politicized because you're talking about climate change and you're talking about renewable energy, you're talking about carbon-based energy and all that stuff. And it's a very difficult issue because people will, and especially with social media, people will project politics onto something that is not intended to be a political position. And I should say the opinions expressed are those of Nik Nanos, not the ICD. Okay. So now that I've said my own legal disclaimer on that front. I think a two-pronged approach related to climate risk is probably the best. Organizations have to ask themselves what are they doing as an organization to be part of a solution related to climate risk? Because everyone has to take responsibility. Businesses and corporations have to take responsibility. And I tell you what, governments have to take responsibility for the waste and you know how they're doing on, as do individuals, individuals have to take responsibility for their carbon footprint.

So I think the first track, and probably the most important one for an organization is to say that they walk the walk and talk the talk to say, here's what we are doing within the things that we control in order to minimize the impact of climate change. And so that would be the individual. And then broadly speaking, they need to support other organizations and like-minded groups that are looking to kind of move forward on dealing with climate action, having climate action. So you have to think of, you wanna be a good team player, but at the same time to be a good team player, you gotta say, okay, here's my contribution to winning the game.

So I think organizations and and boards should be asking the question, okay, so what are we doing as an organization on climate change in terms of how we are smarter on electricity consumption? And you know, the virtuous thing about this discussion is that when you look at the numbers, the best way to reduce your carbon footprint is to just be more energy efficient. If you're more energy efficient, you're gonna save money. We need to reconnect kind of being energy efficient with the virtue of the positive impact on your bottom line. And I think this is where environmental interests, financial interests, public policy interests, and broader societal interests all intersect because there is a world, and you know what, when I grew up, we all talked about turn off the lights. That's what my dad would say, turn off the lights, you don't need the lights going on all the time.

I think organizations need to think about the positive impact of being greener internally in order for them to demonstrate that this is what they're doing, and then to also understand the financial benefit from that, but then to be part of a broader team to make sure that they're part of those public policy conversations on the future when it comes to climate change.

Rahul Bhardwaj (26:15): Right. Thanks for that. You know, it's really consistent with what I'm hearing from a lot of boards and in a couple of respects. First of all, boards are discussing and they're struggling with this issue, but they're discussing it. And I say it that way because I think there's one thread through the vast majority directors, I've been speaking that and that is avoiding the discussion around risk and climate is creating its own risk for the company. And that's what your responsible boards are really wrestling risks.

And we'll come back to this another time in another podcast, but this has been really an interesting conversation with you today, Nik. But now it is at that point where I'm gonna come back to you and say some resolution is Canadian boards are too risk-averse to drive economic growth. What's your vote today?

Nik Nanos (26:58): Well, I'd like to add a friendly amendment to the resolution.

Rahul Bhardwaj (27:03): Please do.

Nik Nanos (27:04): I don't believe that boards are too risk-adverse; however, they must be smarter when it comes to risk tolerance because that's the only way that they're gonna succeed and it's the only way that they're gonna be more competitive. That's the only way that they're gonna be more productive, the only way that they're gonna be more innovative. So I don't think there's such a thing as being too risk-averse; however, you gotta be smart about it. And you have to think of what are the risks that we're willing to tolerate in order to be more successful and more innovative and productive? And I think boards that strike that balance will be rewarded with dividends, not just in terms of the team, but also on the bottom line, because they'll be able to succeed and navigate in this really complex world.

Rahul Bhardwaj (27:48): Well, who can argue with smarter is better. Great place to end. Nik, really appreciate your comments today and to our listeners, I hope you enjoyed today's episode of Be It Resolved, then you've deepened your boardroom insights to stay ahead of these emerging trends. Now, if you enjoyed the episode, please subscribe, rate and leave a review on your favorite streaming platform. Now from the Institute of Corporate Directors in Canada, I'm Rahul Bhardwaj. Until next time.