

Institute of Corporate Directors

Podcast Transcript: Be It Resolved It's the Board's Job to Be Fluent in Geopolitics

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

My guest today is Drew Fagan. He's a professor at the Monk School of Global Affairs and Public Policy at the University of Toronto. He'll spend the 25-26 academic year at Yale University on a Fulbright Fellowship as a visiting professor who is also a senior advisor at McMillan Vantage, a public affairs firm affiliated with the national business law firm, McMillan, who was also for many years in leadership positions with the government of Canada and the province of Ontario.

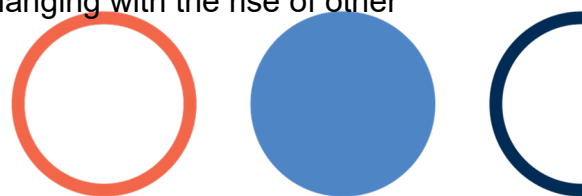
In a moment, we'll get to Drew, but today's resolution: be it resolved, it is the board's job to be fluent in geopolitics. Now, which way would you vote in the audience? Drew, you'll get to vote on this a little later. It's good to have you here today.

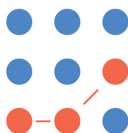
Drew Fagan (01:13): Thank you, Rahul.

Rahul Bhardwaj (01:14): So when people hear about fluency in geopolitics, I can already hear board members saying, please not another thing on the agenda, and please don't turn board meetings into political debates. Everybody thinks they're an expert. But why do boards need to be fluent in geopolitics?

Drew Fagan (01:34): Because the world is changing and geopolitics is changing more and more. We're now in a period of extraordinary change after say, 40 years in which markets were dominant. Now, governments increasingly are dominant. So we're not talking about political conversations, political debates around the boardroom table. What we're really talking about is hard corporate interest in a global context, continental context, and a national context that's changing quickly.

Think of it this way. We've had 80 years after the second World War in which America was either predominant during the Cold War or dominant in the period after the Cold War. We now have a United States that is withdrawing from the world, becoming more nativist, becoming more protectionist, becoming more politically or economically interventionist as we're seeing right now. And those trends have huge impact on Canada, above all, probably no developed country impacted more than that. It's not just the United States, it's the rise of the others. And the fact that the structure of global politics or geopolitics is changing with the rise of other countries like China.





Rahul Bhardwaj (03:04): That's great. And if I'm a director, I'm saying I believe all of that but isn't that management's role? They're the ones that have to figure out the supply chain implications, the regulatory implications, assess competitive landscapes and markets, my role is in oversight. Why should I be so concerned about this? And on top of that, we're talking about fluency, not just informed about this.

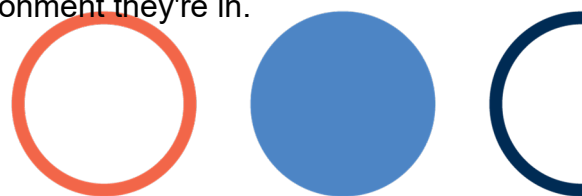
Drew Fagan (03:29): Because it matters that much now. So to ask the right questions, depending on the sector, depending on the company, depending on where you export, if you export, where you invest, if you invest globally, you need to understand the turf under which all those decisions are made. Because so much of what's going on now has changed again from that period of market dominance.

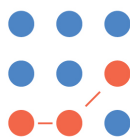
So the directors who are in those roles now grew up and operated in a world of globalization and the decline of the importance of the state. And there's all sorts of metrics to examine that. In particular, the rise of the free trade era, and as I say globalization, that's changing. What's dominant now, and we're seeing these in Canada, US negotiations in fact with the Trump administration is the national security state.

And so, you're seeing instances in which investments are being declined, government is intervening in ways that they wouldn't have previously because it's so important to national sovereignty, which is something we didn't really think about as much a generation ago. So those directors who've spent their careers in a period of market dominance need to rethink that balance. Fluency means the same thing for the board as risk or strategy or anything else. It's the ability to ask smart questions.

Rahul Bhardwaj (05:12): So this is really important here because we do need to frame this within director's duties. So directors will be very familiar with their fiduciary duty, acting in the best interest of the corporation and having oversight of culture, strategy, and risk. And if I parse away what you've been talking about here, understanding or being fluent in geopolitics and in policy, and I wanna pull that thread a bit more, is going to be key to really having proper oversight of strategy, and the flip side risk. And it's fundamentally different today than it was let's say even a year ago.

Drew Fagan (05:47): The responsibility of the board is changing to the extent that the balance of the environment they're in is changing but the role of the board is not changing hugely. In an economy like ours in which two thirds of GDP is exports and imports in which, you know, something like 70% of that is part and parcel with the United States, how can you not be fluent in the state of the negotiations with the Trump administration and ensuring that your company is well represented around the tables in Ottawa and in Washington they are deciding strategy, and deciding priorities for whatever agreement or lack of an agreement comes out of that. That's just the bilateral relationship. Canada has many other interests as well globally, but it's fundamental that corporations understand the changed environment they're in.





Rahul Bhardwaj (06:51): So this gets interesting. It reminds me of that line that's been out there quite a bit the last while. You know, if you're not at the table, you're likely on the menu. And for a board director in particular, you want to be mindful. Management's job is to do a lot of this. Did you wanna be able to be informed, is what I'm hearing. And when we talk about directors becoming informed, there's the question of where do I get the right information? And we all know that there's an extraordinary amount of asymmetry of information between boards and management. Management works thousands of hours a year. Directors work hundreds of hours a year and they rely on management to provide them this information. There's this asymmetry. But given how important this is that you're saying, how do directors make sure they're getting accurate information?

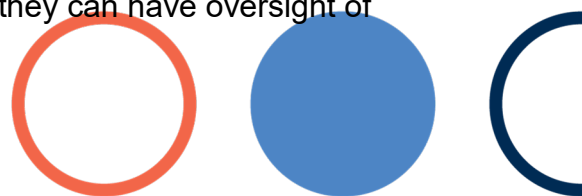
Drew Fagan (07:42): So it's interesting because the asymmetry in this instance, and the reason we're talking about this is 'cause we recognize the world's changing and that this needs to be if you like, on the menu. It's the world you're swimming in increasingly, directors who are well-informed about what's going on around them, will have recognized just from the morning papers, and they do still exist, even online. In fact, it's easier to get access to these things than it was 20 years ago when it was in on paper, obviously it's all often instantaneous so that as well.

Many corporations have a tradition of bringing onto their boards, perhaps one high profile political leader. And we're not talking about politics, again, why did they do that? Because they recognize even in the past that era of market dominance, the government was fundamental. In Canada, 40% of GDP is public sector and that doesn't even take into account regulated industries like banking or telecommunications or transportation airlines. So there was a tradition of doing that.

I think the fundamental focus of that tradition was on Ottawa in terms of domestic politics primarily. Now, it's probably necessary to have a broader ambit for those individuals brought on boards. And the importance of public policy broadly is only increasing, whether it's one person or two people. And then of course, like any director, again, it's the sea you're swimming in. What are you reading, The Economist. What else are you reading? Well, everybody can pick and choose what matters with regard to that. And then of course, advisors as well.

And most corporations, major corporations, have advisors who work on government relations and government affairs and advisory services on public policy. Not just who you know, although that's important, but what you know. And that context beyond our borders broadly is more and more fundamental as well. So as you think about those advisors in this context, you ask the right questions of those individuals as well, including looking forward at trends that are changing quickly such as AI.

Rahul Bhardwaj (10:17): So we're moving away from the director who's got a good GR lens. We don't want a board playing armchair quarterbacks and government relations. We want directors who are attuned to the geopolitical environment so they can have oversight of





strategy and they can help tease risk and they can push management to bring information forward to help them evaluate that. What sort of questions should they be asking?

Drew Fagan (10:45): They should be asking questions about the environment that the company is operating in and looking forward to what the challenges might be in terms of public policy domestically and internationally, and how that environment might change. It's gonna be different for natural resources companies than it might be for banking. This is a big country, it's very diverse, the interests are very diverse. But there's gonna be a big difference as well between medium-sized companies who may not be as focused on global markets as big companies. This is not an extraordinary step. This is a natural step in the environment.

You know, you look at economic numbers; every month we get GDP numbers, every quarter we get other numbers. That's the environment in which you're operating. Are we moving towards a recession? Are we not? Are we accelerating? Are we decelerating? We want to be asking the same kind of questions with regard to the global environment that we're operating in.

I mentioned AI, for example. Now AI is going to be predominant. We can all see that it's going to impact everybody. AI has largely been left to the private sector. There are questions about that in terms of efficacy and morality in fact with regard to what the impacts of these might be. But there's something else, of course. AI is gonna be an extraordinarily important issue with regard to global trade and protectionism. Because we think about trade wars, they are going to spread into sectors that we don't necessarily think of as ones that are on the menu in bilateral or multilateral negotiations. There, AI is as important as a security issue and a national sovereignty issue as so many other sectors that have traditionally been viewed that way.

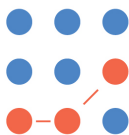
Rahul Bhardwaj (12:51): So this reminds me of a conversation I was having with a public company director after the first round of tariffs were announced. And he was remarking how surprised he was to have to become such an expert in supply chain management. The board he was on, he said, we just never had to dive in that deeply obviously now is a huge issue. And it raised a very interesting conversation amongst their board, around their board composition in this new space, suddenly in the trade and tariffs space, call it what we are now. They had to figure out, do we have the right people around the table?

Now we're not saying that every director needs to become no an expert in this. There's some sense of composition around a board that you want, that shows that you've got a board that has proper oversight as the competency and capability of dealing with this. How do you do that?

Drew Fagan (13:47): Most boards have a chair of finance and audit who's a CPA. It's written into the mandate, it's written into the governance documents. We don't often go to that extent defining competencies, but this is an area in which you need some capacity. And I would ask the individual who you were talking to, why was he surprised?

Now, fair enough. In politics, we've seen a lot of surprises out of Washington; not just in terms of you know, results of elections, but you see surprises every day. But you are seeing also a





medium-term trend emerging, being able to see that clearly and to be able to analyze the impacts and for your company and to make your voice heard. So supply chain's fundamental.

The interesting thing about Canadian exports to the United States as opposed to exports from most other countries is the vast majority of it is intra-corporate and intermediate goods and services; services is growing extraordinarily and there aren't the same tariff problems with regard to services goods, and that's very much an untold story.

So don't be surprised or at least have had the advanced knowledge that something like what was happening was a potential. It wasn't hidden. People were working and writing for Donald Trump last fall talking about this kind of trade agenda. Some of it took place in the first term. There's no surprises here. But the other point is to make your voice heard. That can be at a sectoral council. You may want to do that as a corporate voice on your own, depending on your own interests. But as we move to as one example, the review, which will probably really be a renegotiation of the free trade agreement with the United States and Mexico, the government will be setting up all sorts of counsel for advice.

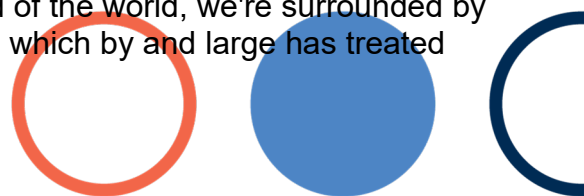
They want advice, but they also want to understand for themselves where they think their priorities should land in terms of national interest, regional interest, sectoral interest, and to be perfectly frank for them, politics, which isn't your job. Your job is not politics. Your job is defining for them your interest in the context of the national interest. So understanding and speaking up as appropriate.

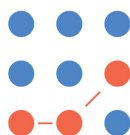
Rahul Bhardwaj (16:38): Right. And I'm guessing in this environment, you're not suggesting the boards or directors be active in those conversations, but they need to be well-informed. And they need to know that there's a line between management and the board.

Drew Fagan (16:51): That's management's job. And you will see over the next little while, all sorts, and it's already started, of people stepping up and the prime minister himself and ministers getting around the country and trying to get their best understanding of where the national interest lies. So no, it's not the director's job, but it is management's job. And in some cases, as I say, that may be referred to a sectoral council. And that's always a lot of pushing and pulling among corporations on those councils because they all want to have their interests well-represented or doing it on your own.

Rahul Bhardwaj (17:29): So the word fluency is in this resolution, we'll come back to that. So we're saying a fleeting or a passive interest is not enough. And if you don't pay attention to these, you're in your own peril.

Drew Fagan (17:42): This is the air we breathe now and it's changing faster than anything else around us. It's changing faster than market issues, geopolitics, and the way countries are relating to each other are changing extraordinarily quickly. And for a country like Canada, which is kind of in certain ways, you know, kind of on the edge of the world, we're surrounded by oceans, the world's most dominant power, who by and large, which by and large has treated





us, you know, like a younger sibling, it impacts us in a huge way. And you can see the government in Ottawa grappling with that.

It's fundamental now. It doesn't mean that every board director needs to have an advanced level of fluency, but you certainly would hope that a couple of them would look to that. On the checklist of capacities that we all do, you'll want a couple maybe with fives and everybody to be able to say with some degree of confidence, I got a three.

Rahul Bhardwaj (18:56): So we're back to the board matrix. An important place to start when you're building a board. So let's look ahead just a little bit. Things are changing so fast, but you've got a unique perspective on this and an insight. What sort of things should boards be thinking about as some of these policy trends to keep an eye out the next couple of years if you could crystal ball it for just a moment?

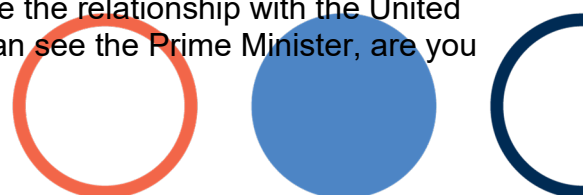
Drew Fagan (19:18): For Canadian corporations, the negotiation with the United States is going to be fundamental. What happens if the President decides that he's gonna cast aside the free trade agreement that we have? Which is his right, as was the president's right under NAFTA with six months notice. What's the impact of that?

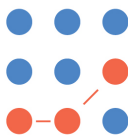
It's likely that Ottawa is gonna move to a negotiation in which they recognize, I think they've said so, that some tariffs are going to remain and then they're gonna negotiate sectoral agreements, looking first to those sectors most in the bilateral binational interest. The corporations we're talking about, are those boards conscious of where they fit within those sectors? What are Ottawa's priorities with regard to these? What are the ones that they feel they absolutely need in a changing environment with the United States? Are you part and parcel of that? And those kind of questions.

And then you've got the broader questions of how society is changing and how markets are changing and how technology is changing. We talked about AI recently, not just the technological advancement of AI and how that's gonna affect so much in government and the private sector and have huge changes on society but also to the extent that this is also a fundamental issue of national security.

We've seen letters going from prominent Canadians to the government saying national sovereignty is fundamental in AI, we need to build our own platforms. And this is kind of plucky mid-size Canada. You're seeing that everywhere the United States has a national security exemption with regard to AI and high tech. Are we going to do the same thing or are we going to be doing that part and parcel with the United States? 20 years ago, I would've said the latter, I'm not so sure anymore. So where does that leave us?

So you know, there's so many questions that you can look at depending on where your circumstances are, where are your markets, to what degree do we need to be talking about diversification. After we manage in however we do to stabilize the relationship with the United States, or maybe not after, maybe in the midst of, and you can see the Prime Minister, are you





well set up for investment and particularly exports to begin with Europe and with Asia, with the big push on? Are you well set up with regard to the big investments that are being planned with regard to major projects and infrastructure investments? East west primarily, but not exclusively so, and to the north with regard to critical minerals.

Now so much of this for a country like Canada, and this is our tradition, is the natural economy. It's actually rocks and you know, things that grow out of the ground, right? But so much of it as well is the economy of intellectual property now. And we see that in so many ways,

Rahul Bhardwaj (22:41): So many questions, so much uncertainty. So we're gonna come back and revisit this again because I know this topic is going to continue to evolve. So Drew, thank you so much for joining us today. Now you know that we've got a resolution, I'm gonna ask you to vote on. I've got a feeling to know which way you're gonna go on this one but just a reminder: be it resolved, it is the board's job to be fluent in geopolitics. Two thumbs up?

Drew Fagan (23:07): Two thumbs up. Defining it the way we've defined it, it's the board's job to ask smart questions about fundamental things that impact the corporation. And this now does

Rahul Bhardwaj (23:21): A great place to end this conversation. Drew, thanks for joining us today.

Drew Fagan: Thanks for having me.

Rahul Bhardwaj: And to our audience, I hope you enjoyed today's episode of Be It Resolved, that you've deepened your boardroom insights to stay ahead of emerging trends. With this episode, we conclude season one of the series. It's been a privilege to share these conversations.

If you found today's discussion thought-provoking, we encourage you to subscribe and leave a review on your preferred podcast platform. From the Institute of Corporate Directors in Canada, I'm Rahul Bhardwaj. Until next time.

