Be It Resolved - Jonathan Goodman_Mix 3

Rahul Bhardwaj (00:00): 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 experts to delve into pressing issues, impacting directors and decision making in the boardroom.

My guest today is Jonathan Goodman. Jonathan is a vice chair and member of the board of Deloitte Canada, where he leads the firm's CEO and board programs, including Deloitte's Podium Club. He's also the global chair and former global managing partner of Monitor Deloitte. Jonathan brings a wealth of experience related to strategy, uncertainty, governance, and CEO leadership.

And for our listeners, today's resolution: be it resolved, a strict focus on compliance limits, board effectiveness. Which way would you vote? Should be an interesting conversation. I think a lot of stakeholders would have an interest in compliance and finding out how it serves their needs and perhaps what can serve their needs a little bit better.

So Jonathan, let's kick it off a little bit. I know you've got some comments on the resolution itself.

Jonathan Goodman (01:14): Well, it would come as no surprise given our conversations and the relationships we have into the boardrooms in the country, that we both believe that good governance matters to the health and prosperity of Canadian organizations, and that it's hard to produce good governance if you don't have an effective board. And to the resolution, then strong compliance is a necessary but not sufficient condition for board effectiveness. So differently if you were only to focus on compliance, a strict focus on compliance, that in of itself would over time limit board effectiveness.

Rahul Bhardwaj (01:56): So we're gonna come back and ask our listeners how they're gonna vote at the end to themselves. And I'm gonna come back and ask you as well, which way are you going to actually vote? But let's start off with talking about compliance and good compliance. First of all, what are we talking about when we're talking about compliance?

Jonathan Goodman (02:12): When I think about compliance, I think about a few different dimensions. One is adherence to the obligations, rules reporting and disclosure requirements of the relevant governing bodies and statutes. And of course, there are differences depending upon whether you're a public company subject to listing requirements or a private company. Second body is that many corporations have industry or sector-specific regulations to which they must adhere, that's certainly the case in financial services and telecommunications and transport and in energy.

There's a third category for me, which I find even as I think about it or describe it, which is the boards striving to adhere/adopt some form of best practices. So you could think about, oh, we're compliant with a version of best practice out in the world, and the report on business puts out heads board games report. There are, you would know this intimately 38 criteria across a variety of different dimensions with a view of, depending upon how you meet different of those criteria, the board is more or less effective. So I think about compliance in those different dimensions. They're not necessarily mutually exclusive.

Rahul Bhardwaj (03:32): So if I'm a regulator, I'm gonna feel happier knowing that boards are focused on compliance. If I'm a shareholder, I wanna know they're focused on compliance in the big picture, but also on the more administrative side. But your point is it's necessary but not sufficient. So it's not good enough. So what is the issue about being too much of a focus on compliance? Especially when you hear from boards these days that they're feeling overwhelmed.

Jonathan Goodman (04:02): Yeah. So again, just from where you started with the question, strong compliance is important and it takes a combination of people, process, technology. We can have a a long conversation about culture to ensure adherence to the compliance, whether they're requirements, standards, guidelines. And it would certainly be the case if we were in the business of giving examples, they'd certainly be the case for not meeting compliance standards can be devastating to corporations. But I think, again, we both believe, I certainly believe that meeting compliance standards, meeting the guidelines is not enough to set the corporation up for success in the future. And that it takes intention that we're gonna talk about to move the time and attention of boards to the future.

Rahul Bhardwaj (05:01): So let's talk a little bit about that, because some people could get a little nervous thinking that boards are being asked to take their eye off of compliance and you're saying it's really important. Boards are saying we think it's important too, but it's taking too much of our time. So the thesis I think you've got is we've gotta create more space for different type of conversation.

Jonathan Goodman (05:21): Yes. So a complication with that as well. So you and I would both be familiar with a framework from our good friend, our mutual good friend, David Beattie, which talks about the job of a board. And the job of a board is to incorporate three lines of sight that that three lines of sight include hindsight, oversight, and foresight. And he would say, his research would suggest that full board, like when the boards are together as a full group, they're investing 25% of the time on foresight. And we should talk about what I mean and what we might mean by foresight. And if you were to ask those board members how much time would they like to invest in foresight, it's 50% or more.

Now, what we're not saying, neither you or I are saying the time on a board or in the boardroom should or can materially increase. You know, it's 250 to 300 hours and those hours are massively precious. So what needs to happen to create the space is both ensuring the appropriate amount of time on what we call compliance and oversight matters, ensuring that there's the right culture is in the organizations, which we can talk more about doing more in committee and through consent to create the space and breaking the inertia of the existing agendas as well.

Rahul Bhardwaj (06:46): Great. So we've got hindsight where we learn that boards once a year, at least, you've gotta get in front of your shareholders and tell them what actually happened financially, really important; oversight on an ongoing basis. And that creates a lot of trust in your stakeholders when they know you're minding the shop. Really important. But from what I gather you're saying is the value-add for directors, particularly in today's VUCA world, is that they're looking ahead.

Jonathan Goodman (07:13): Yeah. And you went to this place, I could jump all the way to foresight. I'll just say a little bit more about oversight too here, especially as it relates to culture, ethical behavior, safety, especially in many different, you think about transportation, energy, infrastructure and the like, ensuring appropriate oversight of the standards and expectations in those areas. Setting the tone around culture, which is a important responsibility of a board. That's the bridge to the future. And so if you're not doing that well, you're not gonna get to the future with the level of trust that you need. But if all you were to do was to establish the bridge and not walk over it, you're not gonna get to the level of value added that is necessary expected given the dynamics of the world today.

Rahul Bhardwaj (08:06): We both heard of that phrase, tick box compliance or tick the box governance. Is that what you're talking about?

Jonathan Goodman (08:13): Well, look, none of the listeners on this podcast or the chairs that we know are ticking boxes. That's not happening. But you can be very busy as a board with hindsight and oversight matters. Aggregate those into policing matters, ensuring good compliance. Being busy doesn't necessarily mean that you are value added. And I'll describe in a sec the dimensions of value added that are required to move toward in the future.

Rahul Bhardwaj (08:42): So this is one of those 'boards shouldn't do more, they've gotta do better?

Jonathan Goodman (08:47): Go back to what we said before. I'm not suggesting you are not suggesting we go from 250 to 300 hours for a regular board member, not necessarily the chair, and that's suddenly 500, that's not what we're talking about or is possible. But we are saying, what's done in the boardroom, what's done to prepare for the boardroom can be done better. What does better look like?

So on the dimensions of foresight, I'll describe some, you can decide whether or not we go through any more of them in detail. I think of the following, it's attention to, do we have a winning strategy? So not simply do we have a strategic planning process or have we said, yeah, we're comfortable with the plan, but does the corporation have a winning strategy? Is it well positioned for the future given the dynamics which are faced in the markets, in the businesses in which it competes?

Two, it's understanding and weighing risk and navigating uncertainty. And so this is not, don't take any risk, that's not the case. Organizations must take risk in order to produce better futures. You and I would've talked about, and Roger Martin would've written about this a number of years ago, boards and their executive teams tend to underestimate the risk of the status quo and overestimate the risk of doing something different.

And so really understanding weighing risk, determining which you're accepting versus those that you're trying to mitigate, manage, are an important part of projecting into the future. And then it's navigating uncertainty. It's recognizing that we're an environment where it's foolhardy to think you as an individual, the board management, know the future. So having the clarity about know what you know, know what you can't or don't know, have the wisdom to know difference and build that into your decision making. So navigating the uncertainty.

For me, there's a full aspect around talent. Do you have the right leaders for the future? Do you have the right CEO? For the moment, we've got some intellectual property that we call fit for circumstance in hiring CEOs and determining their continued fitness for the future. Lots of conversations in both of our worlds about the implications of AI on workforce and skills are gonna be required for the future. So I can be talking about the talent that I've had in the past, but we need to be spending time on the talent, the skills, the capabilities we're gonna need in the future.

I think an underappreciated category is resource allocation. So of course that relates to talent and skills, but the question of does the application of our resources match our aspirations and intentions with respect to our strategy? Do we have sufficient resources? And that falls through on capital allocation, OPEX, human talent and skills. And it's hard, you know, it's hard to ensure that the way in which you're applying resources matches your intentions for the future.

And then the last part for me is an important theme of the ICD charting the future report is the recognition that it's necessary to navigate the expectations of different and divergent stakeholders. Notice I didn't say balance, so it's not balance the needs of different stakeholders. Balance is a loaded word as opposed to, but as we project into the future, how are we thinking about the expectations of different stakeholders? Understand and weigh the tensions that are associated within and across different groups in order to ultimately produce the direction to which we want to go.

Rahul Bhardwaj (12:26): So that's a lot more than hindsight and a lot more than just oversight.

Jonathan Goodman (12:31): That's foresight. That's the dimensions of foresight.

Rahul Bhardwaj (12:33): So let's start unpacking a little bit of that. Let's start off with the opening comments you made around, it's not just any strategy, it's a winning strategy. And there's a lot that goes in there, but Jonathan, you hear it from board members that they're still struggling to figure out exactly where do they fit into the strategic planning process, much less even once you've got a plan, how do you come back and evaluate the success of that periodically? So some commentary about sort of best practices on where our boards in the strategic planning process.

Jonathan Goodman (13:04): I'll start with just a way of thinking about respective role and responsibility. I get asked this question, all the time. It is management's responsibility to set strategy to kind of think through the choices that make up the strategy to weigh different alternatives, to make recommendations and ultimately management is responsible for the execution.

Board's responsibilities are to contribute to the strategy, to vet the strategy, to ultimately confirm and ratify confidently and then along with management, to review and encourage refinement as necessary over time. If the board sets the strategy, then there's a disconnect between those who've set the strategy and those who need to undertake the execution. And if a board is just simply a receiver of a strategy, which by the way, one could read the guidelines of history and say, oh, you know, you are doing what you need to do as a board as long as there is an existence, a strategic planning process, and you've had a conversation about strategy - that's not good enough.

And the best CEOs, and this is also from Roger, the best CEOs seek advice from their boards, not simply a grade. What I think all of that means is management teams, CEOs, management teams, and their boards, they're collaborators in strategy. And as we've talked about, sure, you might have an offsight once a year, but to say that strategy thinking in the agenda should only happen once a year is kind of foolhearty given the pace and nature of change that are faced by most businesses irrespective of sector today.

And so an ongoing dialogue about the nature of the choices, whether the assumptions have underpinned the choices, still hold new threats and opportunities that might be presented is necessary.

Rahul Bhardwaj (15:02): And am I guessing that a smart CEO and management team would be wise to bring back throughout the year some of the choices they're making in deliberations, contextualize within the strategy to make that constant connection and that the board should be asking the management team to constantly connect it to the strategy?

Jonathan Goodman (15:22): Yeah, so let's go to one of the spectrum. What I do think frustrates board is either management coming to the board with a fully baked cake. It's kind of, hey, we developed the strategy, here it is, give us your feedback in this session. We've spent hours, days, weeks, months doing it. We've done our own, we've gotten some help, doesn't matter. And now you evaluate. And so bringing a board along on, oh, what are the important choices that we need to make? Whether those choices relate to the businesses that we're in today and might be and in the future, the veracity of our expectations and ambition for the future. Or what's the way in which we distinguish ourselves today versus the future? Do we have the right capabilities for today versus the capabilities we need in the future? And having the requisite conversations about different alternatives and how they relate to each other and getting input from a board along the way makes sense.

Now, what we're not saying, I'm not saying, oh, you should reset your strategy every month or every year. I mean, the strategy resets at a pace that is required based on what's happening in the marketplace and which you compete or the marketplaces in which you compete. And you know you need to evolve your strategy when the assumptions that underpin the choices you've made don't hold or fully hold anymore. That's a good way of knowing. So having continual conversations with the assumptions hold, are there new choices? Are the choices within the context of the strategy, so we're just improving and making better the existing strategy or is there something about the fundamental basis by which we're competing such that we should review, refine, renovate the strategy at this point in time? And that should be a conversation amongst both CEO management and the board and ultimately a shared agenda between the CEO and the chair.

Rahul Bhardwaj (17:16): And you say winning strategy, that's an important qualifier here. So let's talk a little bit about how does a management and board get aligned on what it means to have a winning strategy? What does winning mean? Are you confident the boards and management are aligned in having that conversation?

Jonathan Goodman (17:33): I'm not confident that boards and management are aligned in all the situations that leader and I might be aware of and involved in. I am confident that alignment can be produced. Alignment is simply do we see the ambition, the purpose of the organization, the corporation similarly? Do we see how that might play out and flow through the different choices? Do we see the choices similarly or differently? Do we see the ultimate outcomes and the decisions we make in a similar or different way? And it takes some time and therefore creating space for consideration, creating space for conversation. I want to come back to the difference between time on the agenda for any of these topics and quality time on the agenda. And we're kind of getting at what does quality time look like?

Rahul Bhardwaj (18:23): So why don't we go there? We've been hearing for so long about the crowded agendas, the packed committees of the sort and let's pull on that a little bit. Let's talk about quality time and let's talk about the leadership to create that as well. Because the role of the chair seems to need to evolve to create this space.

Jonathan Goodman (18:44): I'm gonna go to the end of the story. I believe the chair is the fulcrum. The chair is the fulcrum to a good governance. It's almost impossible to have good governance unless you have a great chair and of the unique and distinct responsibilities of the chair, establishing the way and where the board will invest its time in doing so in concert with shared agenda with the chief executive is necessary.

And all too often agendas will be subject to massive inertia. This is the way we've done it before. Like, hey, okay, this is what we do in December and this is what we do in January and this is what we do in April. And this is what we do in July and October is our big strategy discussion; irrespective whether October's relevant or important or just October is when we do that. And then we're back in December for our three to five year plan. Okay, good to go. Maybe that's the best route, but probably not. And it takes real intention to break the inertia to say not just what's the order of what's happening at points in time.

Because you know, financial plans need to be agreed to compensation plans, budgets and compensation plans need to be agreed to. Strategic plans ideally should be agreed to, et cetera. But the recognition of, hmm, there are some tough issues, tough choices that we either need to resolve or deal with today or we need to be in a position to resolve in the future. And then being in the position to resolve in the future says, what do we think we need to be more educated about today in order to resolve some of these issues and choices in the future?

That package of agenda items don't magically find their way into the board calendar. That takes work. And part of it is to ask the basic question, well, how much of our full board calendar is taken up with matters that would relate to hindsight and oversight versus matters that would relate to foresight. You need strong compliance and oversight and encouragement on culture, ethical behavior, safety. Many unfortunate stories where the breakdowns in those areas have been devastating to corporations so you can't relax on any of those dimensions. But how much conversation do you need to have about audit matters if they've been well taken care of in the audit committee? Do you need to repeat that conversation in the full board? We know some folks who say you probably need to do a little bit less of that in the full board. So the way you spend the full board time, absolutely precious, but takes the intention to change.

Rahul Bhardwaj (21:17): So this is interesting is the way you've described it, there's some necessary board administration work plans that keep you on track, but there's a risk that you create a bureaucracy of compliance that you perhaps become slaves to and don't create the space to have these really important conversations. But where I'm going with this as a potential best practice that you may have heard of; the pleasure of having a committee chair or committee I was on, who at the very beginning of the governance year would have a conversation around the outcomes that committee wanted to achieve at a very high level. And we reevaluated at the end of the year to ask ourselves, we set up 60% of our time to actually be focused on strategic issues and we set up a a work plan to do that. And at the end of the year we actually scored ourselves on that. It was a very illuminating exercise.

Jonathan Goodman (22:09): You know, the spirit that you just described, which is an important aspect of making happen what we're talking about is continuous improvement. So you've described in one incident, we had a a sense of the outcomes to which we aspire, part of those outcomes had associated with it the amount of time we would invest in, we know that difference between spending the time and investing the time, how did we do? There'd be folks who'd say we should be doing that thinking, we've both know one former chair who'd say I, I'm doing that effort every meeting. I'm literally going back to the meeting and saying, how did we do in this meeting?

So we've given the space for the conversation, how well did the conversation go? So that's a second aspect of the fulcrum. Even if you create space, the dialogue amongst and between management and board members can be helpful or less helpful. So how do you get to be more helpful? How do you ensure the dialogue is more productive? And that takes an active encouragement of the nature of the interaction that the questions board members ask that they matter. That those questions should be ones that advance the dialogue, not simply a board member's curiosity that they should be intentional, not haphazard.

Well, if the questions are gonna be intentional, not haphazard. If I'm asking haphazard questions, who's telling me? They may say, Jonathan, like, you know, those questions, they didn't help advance. So that requirement for being present, the presence of mind in each conversation to ensure that it's as productive as possible, the chair is the one who has the unique responsibility to either be doing it in the room or coaching and giving the feedback afterward. That's a part of the chair responsibility and why they are a fulcrum for success.

Rahul Bhardwaj (24:08): Is that new?

Jonathan Goodman (24:09): Is it new? So if the thing you're asking is, is it new that the chairs of fulcrum of success? I would say no, I don't think that's the case. What have we not talked about really in this conversation to this point is something you said at the beginning, which is what's the environment like? It's a VUCA environment. So organizations and corporations face complex, complicated, uncertain dynamics at a pace that I do think we think we've talked about this before, it's kind of different for a generation of executives now. There are minority views on this, on this venture. It's like, oh, you know, way back, way back, I shouldn't say way back, but you know, early 1990s, same thing, Jonathan, I'm like, I'm not so sure.

And so because of the degree of change, there's face the nature of uncertainty. What's required to produce a sustainable, prosperous organization, the future and the role of governance in doing so, it means that time in and around the boardroom is even more precious and the consequence of not investing that time wisely, more problematic than it might have been in the past. That might even be a different be it resolved at some point.

Rahul Bhardwaj (25:24): So the conversation started with those compliance of some respects, limit board effectiveness. And now the conversation has evolved into what's an effective board look like, what are the outcomes that it seeks? And we seem to have now focused in on the singular importance of the role of the chair. Let's talk a little bit more about what the chair can be doing to shift this culture from a compliance culture to a more strategic foresight-focused culture.

Jonathan Goodman (25:56): Yeah, so again, let's start with that shift is not intended to make it more likely that there are compliance aberrations. We wanna start with a strong adherence to the nature and degree of compliance. Scope of compliance that's required and expected for an organization given its construct mandate, its industry or industries in which it participates. Expectations and stakeholders, absolutely critical. And the challenge then for the chair is how to do both.

If I'm saying what's the both, the both being that strong adherence to ensure strong hindsight and oversight while ensuring enough time, quality, time is invested in the future. That does start with what's the expectation and agenda; full board, what's the expectation principles by which the committee members are thinking about their agendas, the relationship between the two. Because we would also know in committee it can descend into managed questions of management a a lot about hindsight as opposed to making its way to foresight as well as it relates to what the full board does.

There's an aspect too of what happens in the room is very much dependent upon what happens outside the room from the chair's standpoint. So that relates to what degree are the CEO and chair working on a shared agenda, shared understanding of the big issues that face the organization corporation that require the input, the advice, the governance ultimately to consent from the board over time. Do the CEO and the chair see it similarly and can affect if they see it similarly the way the time is invested in the boardroom.

Rahul Bhardwaj (27:50): And just to poke that just a touch though. So that's the chair and management. How about chair with the other directors in between meetings?

Jonathan Goodman (27:57): Yes. Well there are a few different aspects of this, some of which we've touched upon, which is chairs getting the input from other of the directors about the issues that they see and that they believe are relevant and to the degree which they are similar or different to what the chair and the CEO are seeing. So what's the construct in which you do so and how much of that may be necessary given the circumstance. But it also goes to how different the individual board members are finding the usefulness of the conversations in the boardroom. So not just the chair's perspective about board, but the board's perspective of its work itself, it board's perspective of the CEO of management. And that does take time.

So one thing that should be obvious from what I'm describing, and especially as it relates to the chair, that the time of the chair obviously and importantly, is greater than that of the full board obviously. And you know, if you're gonna be a chair, you should wanna be a great chair. And being a great chair is hard for some of the reasons we just discussed.

Rahul Bhardwaj (29:04): You're saying it's a lot harder today than it used to be.

Jonathan Goodman (29:07): I am suggesting that on balance, on average, it's harder. And let's add a few other of the dimensions beyond the ones that we just described. The visibility into the world about the activities and behaviors, not just of a corporation, the morphous corporation, but the individuals associated with the corporation of the director. So this the public scrutiny of companies, their boards, executives, I think that's increasing. So you're operating in a environment of scrutiny along with change.

And then it's not just the existence of an importance of different stakeholders, it's the tensions associated with the different and divergent expectations of the stakeholders. So even within, oh, we are interested in climate, we would know situations where one set of climate-interested stakeholders would say this corporation's doing too much around climate. We think it's actually putting more pressure than it should on its core businesses. But the reverse being different set of climate-interested stakeholders saying you're not doing enough as it relates to climate disclosures or the evolution of your business, we don't like the businesses you're in, you should change. So those are counter pressures from within one stakeholder issue.

Rahul Bhardwaj (30:31): So I'm gonna come back to something that you've started with, which is really the compliance necessary but not sufficient. Now, if you're on a management team, it's unlikely you're going to go to your board chair and say, I think you're focused only on compliance and we're losing out on something. Would that be a mistake on the part of management?

Jonathan Goodman (30:49): If I'm hearing you correctly, it's like, oh, if management thought the board was too focused on compliance, not sufficient in the future, would it have been a mistake not to call it out? There will be circumstances. I know I've talked to chief executives where they'd say I need to help my board understand the limits to growth in our core business. Our board's comfortable with our core business, they like how things work in our core business. It's a good example of underestimating the risk of the status quo precisely because it's familiar. So familiarity doesn't necessarily mean something is less risky, it just means I'm more familiar with it. So the CEO's like, oh, I think I need to help my board understand the limits and what we need to consider as a result.

But I've similarly seen, it's interesting in both I've seen boards chairs are saying, I think we need to help raise the gaze of our CEO and her/his management team. We don't think they're thinking sufficiently far into the future. So I don't think these are issues where it's only about management saying, oh, I don't think the board's doing what it should be. I've seen in both instances, boards trying to help management see into the future; CEO and the management team say, I think we need to help the boards see the future. And in both instances, if all you were doing was ensuring compliance, sure you've done what you need to do, from a policing standpoint. We've improved the odds that bad things don't happen.

And we should improve the odds if bad things don't happen, right? We shouldn't sell products that we shouldn't be selling to customers. We should make it more likely you've got ethical behavior, you know, safety concerns in a transportation or an airline industry. Yeah, you should please. But this whole conversation is very, you need to do more.

Rahul Bhardwaj (32:46): Perfect. So Jonathan, we've got a resolution: be it resolved, a strict focus on compliance limits or effectiveness, which way you're voting to today?

Jonathan Goodman (32:58): Yeah. I agree with the resolution. I am voting for the resolution. If all you do as a board and be busy doing is ensure compliance that will not produce the level of effectiveness and good governance that's required to ensure, improve the odds of a great preacher.

Rahul Bhardwaj (33:22): Well Jonathan, thank you so much for joining me today.

Jonathan Goodman (33:24): Thank you very much.

Rahul Bhardwaj (33:26): Great conversation as I knew it would be. And to our listeners, I hope you enjoyed today's episode of Be It Resolved and that you've deepened your boardroom insights to stay ahead of emerging trends. If you enjoyed the episode, please subscribe, rate and leave a review on your favorite streaming platform. From the Institute of Corporate Directors in Canada, I'm Rahul Bhardwaj. Until next time.