Board's Role in Risk Oversight – audio transcript for CPA Canada Disruptive Governance Series Podcast

GIGI DAWE: Welcome back to the CPA Canada's Disruptive Series podcasts: In Conversation With …

We've had a chance to hear from Tiff Macklem and Andy Chisholm talk about sustainable finance, and today, we will start a series on risk oversight. This podcast will focus on the board's role in overseeing risk. John Caldwell and Tom O'Neill will share their expertise and experiences in risk oversight.

John Caldwell is Chair of the Board of Advanced Microdevices, and a director of FARO Technologies, IAMGOLD, and Samuel, Son & Company, Ltd. John has broad board- and executive-level experience in distress situations with Stelco, Geac Computer Corporation, Mosaic Group, and SMTC Corporation, so provides valuable insight into enterprise risk.

John is author of CPA Canada's *Overseeing Risk: A Framework for Boards of Directors*, and co-author on two other CPA Canada publications: *Overseeing Strategy* and *Overseeing Mergers and Acquisitions.*

Tom O'Neill is former Chief Operating Officer of Pricewaterhouse Coopers LLP Global, and former CEO of Pricewaterhouse Coopers LLP, Canada. His career also includes extensive board involvement as Chair and board members of Scotiabank, Loblaw Companies, and BCE Inc. He is currently on the board of St. Michael's Hospital.

And now, our conversation with …

Okay, continuing with our risk oversight podcast series, I want to look today at simplifying risk oversight and how do you best oversee the risks of the organizations being presented with. First question I wanted to ask you is, how important is board risk oversight? And, in your experience, how well do boards carry out that role?

JOHN CALDWELL: I would say if you were to canvas these public boards, and probably private boards as well, Gigi, you would say that risk oversight would rank in the Top 5 priorities of any board, if not the top one, two or three. And in fact, when you think about what boards actually do, they spend most of their time thinking about exposures and risk.

And so, they're always looking to identify areas where the organization could be exposed. I would say in a more formal sense, very few boards I've been associated with do a great job at risk oversight. They all attempt to do it, they all try and do it well; but regardless of size, I've seen very few who I think do it very effectively.

TOM O'NEILL: I'd agree with John's assessment. The other three or four things that boards should do well is, obviously, talent in the hiring and dealing with the CEO, I think, is a very important part. The strategic planning process, which is almost part of this risk oversight, is another important part. External reporting to the public, and honesty in such dealings, whether it's quarterly reports or press, whatever it is. Those kinds of things.

I would agree also, the worst meetings I've ever been at were the strategic planning meetings. I mean, they just drift, and away. So I'd say that on balance, over my lifetime, it's improving; but it's not well done. And one thing that I would suggest out of the book that John was responsible for is, one of the things that boards should do better is the process.

Like, actually following, not going from the first step to the seventh step and ignoring the in-betweens. And secondly, having it on the agenda when everybody's awake, i.e., the first item, not the last item, as people start fleeing the room for flights and that. It's just not giving it enough attention.

GIGI DAWE: Okay. John, you said a few boards do this well. Why? Why do you think they …

JOHN CALDWELL: I think they're all good-intentioned, I really do. Part of it is, it's a function of the level of sophistication of the management risk systems that exist already, or don't exist, because what you really want is the management system to bubble up the major risks up to the board. If that's not a robust system, you're hampered by that.

I think secondly, typically, boards don't follow a framework, a regimented framework, to really examine risk. And the third comment is that they haven't figured out a very practical approach to how we're going to actually deal with risks. And we'll talk a little bit about that later, perhaps.

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GIGI DAWE: Tom, anything to …

TOM O'NEILL: I think the risks that we probably do best are the ones that are easiest to understand. It's the ones that are over the hill and around the corner that, I think, we struggle with.

I think we can get buried in detail and not be guided by materiality. I can think of example after example where I was on boards where we failed; one, in particular, is the oil and gas company that we were at out in Calgary. We had a big plant in Long Lake, [unintelligible] at Long Lake. I can't recall any discussion whatsoever on the likelihood and damage that would be caused by a fire that took out Fort McMurray.

Fire onsite, no problem; fire around the area, no problem. But that almost destroyed the industry, right?

JOHN CALDWELL: Yeah, it did.

TOM O'NEILL: So that's an example of going down the risk chain and pulling triggers. Well, that will never happen. Well, no, no, let's just pretend it will happen; and then, now, what?

And I think airplane crashes are – you know more from CAE experience – it's usually a series of things that go wrong, it's not just one thing.

JOHN CALDWELL: No, no, it hundred percent is. Tom, I've been involved in several distress situations, and I went back and looked at it and said, Why do these organizations get distressed? It was never one thing. It is never one thing, it's a multitude of things that all converge together. And sometimes there's a single event that tips it over, but those things were already precarious.

So, one of the issues that boards have to think about is this whole interrelationship, interconnectivity, of exposures.

TOM O'NEILL: The dots.

JOHN CALDWELL: One triggering the other. Whereas we tend to look at each of the risks in isolation.

The second thing - I find management more prone to this than, necessarily, boards – is, they're always looking at external risk. What can happen on the outside. If you read MD&As and 10Ks and you list the risks, 90 percent of them say it's an external issue. When is the last time, in an MDA, you said Our biggest risk is hiring the wrong CEO? Try and find that.

Yet, or, We got really bad strategy and we can't execute. Try and find that in any one of those documents. Yet, those are the self-inflicted risks that cause the most damage.

TOM O'NEILL: Fair enough.

GIGI DAWE: And Tom, you gave a good example of a risk that was out there. John, do you have some examples of those types of risks, some of these internal risks or where you've seen it?

JOHN CALDWELL: Let me talk about the convergence of risks, to give you an idea. I was involved in a company that was in the commodity business, and one of the most important things in a commodity business is what? You've got to be the low-cost producer. If you're a high-cost producer in a commodity business, you're guaranteed to have low margins.

And the business was overly financed, was way too much short-term debt. And when the recession hit –

TOM O'NEILL: Price risk on the commodity.

JOHN CALDWELL: Of course. When the recession hit, commodity prices went down, margins got squeezed, and the banks came in, stepped in, and the whole organization went under. It was also poor financial leadership, poor general management, among other things. A lacklustre board … all those things converged into destroying an enormous amount of value.

GIGI DAWE: Okay. Now, you talked about – or, we were talking about simplifying risk oversight. How, in a case like that, do you simplify a situation like that? If all of these things are coming at a board, how – is there a way to simplify the oversight of those risks? What is it that boards can do?

JOHN CALDWELL: Gigi, I’d start by saying boards have got to be very rigorous on what parameters they’re going to set to determine the risks they’re going to look at. Because you can look at – I’ve been in that situation where it’s 150 risks. Frankly, what are the risks? And the way I think about it – what are the risks that’s going to significantly destroy value, or affect its viability? Or, as importantly, cause it to underperform?

Because I think the real measure here is, of course, about viability, but you want an organization to perform. And so the risk is underperformance. If you set that materiality threshold and you’re rigorous to it, I would guess, in most organizations, you should see no more than 20 or 30 exposures that the board has to deal with. So, you start focusing on those.

To Tom’s point, you don’t discard high-impact risks because there’s a low probability, because that could come back and bite you, because things do happen.

And then you’ve got to have, I think, a system that embeds the oversight of each of those right into a board, or a committee agenda. And have each of those groups deal with them. It is not that difficult to divvy up and to address them.

GIGI DAWE: Now, you talked earlier about the need to follow a framework. You both noted the need to follow a framework. Where does this framework come from? Where does a board get a framework if they don’t have one?

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TOM O’NEILL: Well, I think the one that John and his team developed is an excellent one, and I think that’s one that, if you follow it, you wouldn’t get caught – or, at least you’ve done your proper job at risk management.

I learned a lot – I’ll just go back to the thought – I learned a lot, I was on a bank board during the crisis of May of, or September of ’08 when Lehman went down. I wrote a lot about how they managed risks as compared to other companies. They’re more sophisticated for the simple reason they have to, and the thing I come back to, John’s point, is risk appetite. And you’re getting at it through a materiality scope.

But the risk appetite is, you know, how many holes can you put in my ship before I’m done – and how do you get there? And I think we paid inadequate attention, at least I’m personally saying this. Up to ’07, people would say to whomever in the boardroom, what happens if we go down a notch on the credit rating?

And you’d listen, and you’d say, tick. After ’07, what happens when you go down the credit rating until we’re dead? Show us the steps. Particularly what was happening on the collateral calls and those in liquidity.

So the key thing that I say is the risk we should spend a lot of time on is staying alive. You’ve got to breathe and drink water. Liquidity risk and solvency risk, I’m not sure gets adequate attention.

JOHN CALDWELL: Yeah, I agree with you.

TOM O'NEILL: The way the banks do it, at least. So that's where I'd start on any file I'm on. And how long can I stay alive on what I got?

JOHN CALDWELL: You know what's interesting, Tom, when you think about all the boards you've sat on, all the committees you've chaired, right, and all the management teams you've dealt with … how much time is spent on the cash flow statement?

TOM O'NEILL: Not a lot.

JOHN CALDWELL: Not a lot!

TOM O'NEILL: You could make the argument, John, statement of use, changes in cash, is probably more important than the other two.

JOHN CALDWELL: It is.

TOM O'NEILL: But it was always the last one we audited, right? It was the end of the game.

JOHN CALDWELL: Hardest one to understand too, Tom [laughs]. No, but I look at it myself, it's all about P&L. It's all about EBITDA. It's all about this stuff, and yet, how much cash, right? And I think that's one of the biggest issues, is around liquidity. I do.

GIGI DAWE: And how closely do you work with management on these frameworks? Like, how much does management work with you? You've written the framework for CPA Canada on the oversight of risk, but management must be able to support you and work with that, and help establish a framework?

JOHN CALDWELL: Absolutely.

TOM O'NEILL: Well, by and large, in a normal company, I think management does a lot of the work towards creating and the board approving a strategic plan. And they should follow a process. Now, I'm not saying that's the only process I've ever seen, but without a process, then you're not going to get to the endgame that you should.

JOHN CALDWELL: Yeah, I think the framework – look, the reality of it is, management does most of the work, and they should. So I think the board adopts the framework, but the management is really responsible for populating for that framework, and coming back to the board with their thing. The board could challenge it, and the board also has to think independently.

I'll give you an example of that. One of the greatest risks that I think in any enterprise is poor leadership. It's hard to – the management is not going to enforce it, 'Oh, by the way, we've got poor leadership.' So the board has to understand one of their roles is to really assess, not just the CEO, but the management team in total, and do we have exposures because we don't have the quality of team or the team that has the right backgrounds and skills to address where this company is going.

So the board has to take a more proactive role, but we'll talk about strategic risk in a moment. But I also believe that's where the board can step in and say, 'I hear you, but …' There's got to be a much closer scrutiny around strategy and understanding the strategy, and strategic risk.

GIGI DAWE: And actually, maybe now is a great time to talk about some of the different types of risks that boards have to face, or boards face and have to deal with. And if you could give me an idea of the different types of risks that boards face, and some examples that you've seen of that, if there are any?

TOM O'NEILL: Well, I would say that the biggest challenge I had in my life was getting on top of what I call "evolving risks," because they're new risks that you haven't dealt with before. Cyber is one. I think the political scene – like, who would have thought, two years ago, that we'd be in the mess we are on trade? And the impact it would have on companies?

How many people have actually did a scenario planning, well, what happens if China and the U.S. go to war from the point of view of trade? I'm not sure a lot of companies did that. I think the banks are more sophisticated.

Brexit would be another one where you study, Okay, what's the worse case in Brexit, and how is it going to impact us? Not only directly, but our customers, or whatever else. I mean, you have to peel the onion a bit.

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Those are, to me, the most difficult risks, and you tend to want to look backwards, whereas, if the risk has passed, it's passed; it's the ones over there you've got to worry about, right? Over the hill and around the corner.

JOHN CALDWELL: I agree.

GIGI DAWE: Can I ask an add-on question to that, Tom? I think it's a really important area, these evolving risks, and you talked about cyber. Another risk that's definitely out there is climate change. We're certainly seeing changes.

boards, at this stage, are often made up of people who have been CEOs of companies or senior players in organizations that have never faced these types of risks. How do boards, how do boards manage the risks that are an area that they couldn't fathom, or that anyone could fathom?

TOM O'NEILL: Well, if it's completely new to the whole board, there's two ways you can go at it, and they're not separate. One is, you can find expertise that's relevant that would be a good board member and not just a one-note tune; and secondly, one can go out and engage professionals to a) educate the board, but b), maybe even work for the company, particularly on cyberattacks.

What I *have* learned, through my dealings now in the bigger companies, is that the best source of cyber advice comes from these Israeli companies. And the reason is, most of these people are ex-Mossad, but secondly, the country's existence depends on it. It's not some little thing over here in a bank, right?

And so you've got those two options, and if you're – now, it's finding the talent, I think, is pretty rare right now. It's a growing population that have the expertise.

And the second thing the boards get from these people other than learning is, you actually get to relax a little bit, because fear of the unknown can get you all wound up. But when you're dealing in an emergency room and you're the doc, you don't get all wound up every day; and it's great to hear from these people about how our systems did work, how the team worked.

And thirdly, I think every board should go through a case study, live, to see what management would be faced with in such an event.

JOHN CALDWELL: So Gigi, picking up on Tom's comment, if you think more broad – cyber is obviously a very important issue today, but if you just think about technology and how it's changing …

TOM O'NEILL: Overall, yeah.

JOHN CALDWELL: And how it's changing everything that we do. The whole digitalization world, the advent now of artificial intelligence, machine learning, all those things that are out there – how do boards navigate that?

You know, their greatest concern is, your biggest competitor may not even exist today; it could come out of nowhere. So, one of the issues boards wrestle with is, How do we really understand how this landscape unfolds? How do we play, where do we play, where do we not, where are we exposed?

And so, more and more boards are bringing into their boardroom, as Tom said, either advisors to advise them, experts on these areas, or in some cases, they're bringing people on their board with that level of background.

And it's, you know, we've witnessed the obvious: the AirBnBs of the world, the Ubers of the world. But that can happen in almost any industry; it can be transformed overnight by changes of technology. And that's one where the board and the management have to be aligned and looking at, and trying to understand, how this minefield can unfold. And great companies are those who embrace it.

You don't stick your head in the sand and say –

JOHN CALDWELL: It's not happening.

Tom: It's not happening, we don't need to do it. It's the other way around: How can we leverage these things for competitive advantage, opposed to be victimized by someone who does this to us? That's one of the exciting parts of being on a board these days is, all these things are changing so rapidly.

TOM O'NEILL: Yeah. If you think of financial institutions and fintech, as just a side topic, the interesting thing to me was, when you really studied it, is that fintechs definitely have the technology, and they have disruptive technology. They're missing two big things, though: capital and customers.

JOHN CALDWELL: Yeah.

TOM O'NEILL: You'll see more and more – I mean, they publicize it all the time – the banks are now in "partnership" with these people to leverage, as John suggested. So there's always a solution to a problem, you've just got to be imaginative.

JOHN CALDWELL: It is.

GIGI DAWE: And that gets me to another question, continuing on with this: Does size of the company impact the ability to manage and oversee these risks, particularly when you look at evolving risks? Is it easier or harder if you're a small organization? Is it hard to turn that massive steamship, you know, of a bank, or do the resources make it easier for them?

TOM O'NEILL: That's a great question. My background is in larger companies, and John, you can comment on this. But my sense is, the apparatus in larger companies is more resourceful in the sense you've got the talent and the people to help on the problem.

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I'd also say that smaller companies would probably be more agile in getting to the solution of the problem.

JOHN CALDWELL: Exactly right. You're exactly right, 100 percent right.

GIGI DAWE: So that would be the major difference.

I just want to continue on with other types of risks. We've talked about strategic risk a bit; we've talked about some organization risk, with leadership risk, and financial. What are some of the other risks?

JOHN CALDWELL: I want to come back to strategic and organizational risks.

GIGI DAWE: Okay, keep going back to strategic or – okay!

JOHN CALDWELL: Let me make a couple of comments. A strategic risk: I think boards have difficulty in really understanding what that is, and I think it's important, Gigi, they separate what I call strategy formulation from strategy execution.

TOM O'NEILL: Or tactics. Agreed.

JOHN CALDWELL: Yeah. So, boards will spend a lot of time thinking about strategic risks through the eyes of formulation: Are we doing the right things? Do we understand the competitive environment? You know, are we leveraging ourselves? Do we have the right customer value proposition? They do a pretty good job on that.

But in all my experience on boards, I've spent very little time saying, "Can we actually execute on the strategy? Do we have the resources?" And I believe most organizations fail on strategy not because they haven't figured out what to do, is they can't do it. They don't have the resources or the organization to do it.

So my sense of it is, directors need to spend more time on the executional side as they do on the other.

On the organization stuff, we've talked about leadership. But what we're seeing now is a couple of things. We're seeing, in the employment world we're in, we're seeing a real fight for talent now. I've never seen it where people are just demanding more and more talent, and talent retention is important.

And it's interesting now, because talent retention is taking on a whole different, whole different way of thinking because of the emergence of younger people who have different expectations; they have different interests, different motivations. And so, how to retain talent today is completely different than it was 10 or 15 years ago. That's an opportunity, but also a challenge.

GIGI DAWE: Great. And any other types of risks that you think organizations face?

TOM O'NEILL: Well, I heard a term that I'd never heard before, and I went to a presentation by a chairman of a not-for-profit pension plan. But he called it "stealth risk," and when we probed into that, he says it's kind of like, you know when you get carbon monoxide poisoning: You know it's going on, it's out there, but you can't smell it, you can't touch it, you can't get your finger on it.

And his illustrations at the time, to make it live, he said, "Who would have thought, in 1985, that Toyota Motor Company would overtake General Motors in the automotive business?" He was also a director at Rogers, and he put a needle in my hand: he said, "Who would have thought Rogers would have had a bigger market cap than Bell when they were the king of the junk bonds?"

He had one or two other examples. And what was happening – oh, I know: The ranking of the banks was his third example, was when I started with John, Royal and CIBC were knocking around at the top, and BMO was solidly in the middle, and the two little guys were TD and Scotia fighting for last spot. Twenty-five years later, it's completely inverted. TD is banging away at Royal, Scotia is in mid-spot, and the other two are smaller.

And he says, "Well, what was going on the boardrooms?"

JOHN CALDWELL: Yup.

TOM O'NEILL: And it happened over a long period of time, but it happened. And destruction of value.

JOHN CALDWELL: Yeah, absolutely.

GIGI DAWE: And did he have any thoughts about how a board would deal with these stealth risks? I would even wonder if something like BlackBerry, would that have been a stealth risk in terms of sort of seeing things happening around them? I don't know if the situation was completely different, but what can a board do in a case like that? And, you don't have to use Blackberry as the example, because it may be the wrong example.

TOM O'NEILL: Well, no, but I was going to suggest that any time any one of our companies gets to a certain size, we manage to blow it up somehow. And I think the failure of Nortel and BlackBerry - I'm looking at it from the outside – is, they didn't study the competition.

JOHN CALDWELL: Correct.

TOM O'NEILL: Right? Oh, that Apple and Samsung, you know, forget 'em.

JOHN CALDWELL: Yeah, Tom sort of talked about it earlier: You talk about evolving situations. You know, companies that lose a tiny bit of market share every year can always rationalize it, right? Always.

TOM O'NEILL: I know one. [laughter]

JOHN CALDWELL: Yes, we know one! We've been associated with one. We were pretty good at it too, Tom.

But you can always rationalize why you lost a little bit of share. But when you then look back at, say, five years or ten years, my goodness, this company has just inverted. And those slowly-evolving, you know, performance issues … unless a board is very vigilant and says, 'You know what? We've got to stop this. We have to stop this.'

TOM O'NEILL: And it's really hard to roll it off the table. It takes a lot of energy.

JOHN CALDWELL: It is.

TOM O'NEILL: But I agree, you're just drip-drying to eventual death.

JOHN CALDWELL: I was on a board, chairing the audit committee on one of the boards, and I was on the board, and I pulled some data, and I just said, "Let's just look at that debt position for the last six years."

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"You know, we've always looked at our cash flow every year, so let's just look at what's happening." Well, yes, slowly but surely, we've been increasing our debt. We've always rationalized it, but we're taking on more and more debt, and it wasn't because we were making major investments. It's just the business was demanding more capital, and we just kept pouring more capital.

And we finally said, You know what, folks? It's time to just stop. We've got to stop. We've got to turn this thing a different direction.

GIGI DAWE: And is that what it takes – one person recognizing this and saying Okay, let's take a step back, here? Let's think through this?

TOM O'NEILL: Yeah, and I think you'd have to do it for more than one meeting, because you want to make sure your colleagues are aware. And I can think of an instance that took me three meetings to get to what John was talking about, but once we got there it, you know, took off.**So …**

JOHN CALDWELL: I think, Tom, great directors do a heck of a lot more than read a bunch of material.

TOM O’NEILL: Between meetings. Absolutely.

JOHN CALDWELL: They’re thinking about the stuff, they’re looking at information. But one of the great values that a director brings is perspective, right? Sometimes management gets too close to the organization themselves. A board member who brings a different perspective, does their homework and comes with a different point of view, can be enormously helpful for a board.

TOM O’NEILL: And that’s not disruptive, that’s –

JOHN CALDWELL: No, not at all. It’s constructive.

TOM O’NEILL: It’s constructive.

JOHN CALDWELL: Absolutely constructive. Right? Now, they may have a countervailing view than management, and that’s fine; you want to encourage that. But I have always admired directors who say, ‘Well, let me bring you my perspective on this.’ Often or not, it’s usually more experienced directors who’ve seen more that come back and say, Okay, folks, best take a look at this. Best look at this through a different lens: this is where I see this thing going. We need to make some changes.

And I really value that.

TOM O’NEILL: Yeah.

GIGI DAWE: Yeah. And what about – you hinted at a geopolitical risk earlier, Tom, but what about geopolitical risk, particularly in the current environment? Is there anything that boards need to do, or can do, around some of the geopolitical things that are really sort of external and difficult to get your hands around and manage?

TOM O’NEILL: Well to me, it’s the unpredictability. That is, trying to get your hands around. I remember trying to do some scenarios on the U.S. under this administration, and we finally figured out to say, Well, what’s the worst we can think of? Because he’s so unpredictable, you don’t know what he’s going to do tomorrow. So, that’s an issue.

The question that was raised in the ICD journal, where Anne McLellan and her colleagues were talking about this, I think, was an interesting read. And the question then is, How do you get input on those topics – which is usually the people in the highest levels of governments or civil service, maybe elsewhere, maybe think tanks but – and my experience is, it’s very difficult for politicians to jump into the boardroom.

And the ones that do it well are great, but that’s a bet I wouldn’t make too often. I know John’s nodding. And I’ll tell you part of it is because, if you were – let’s pretend I’m a 25-year person either in Parliament or civil service; and there are good people there. But two things don’t really matter to them. One is time, and the other is money. They're using other people's money, and they just run the clock. And it's very hard for them to get out of that mindset, but that's the house they're living in, right? That's what they're used to. So, that's a difficult challenge.

GIGI DAWE: Now, I heard another sort of view of that recently from a civil servant, I guess he would have been; well, he was an ambassador. And his point was, someone on the board that has a background in that, what they *can* do is help you to get in the door when, in fact, you do need to deal with government and you do need to do that.

TOM O'NEILL: That's correct.

JOHN CALDWELL: Yeah.

TOM O'NEILL: I agree with that.

GIGI DAWE: So it's an interesting … and I guess it would depend on the business you're in, and whether or not you bring someone like that on to the board.

We've talked about -

TOM O'NEILL: Sorry, there's other ways to get at it that's more indirect. So for example, the Canadian Council of Chief Executives with Goldy Hyder, that's part of his life, at least from a Canadian point of view. And I guess trade associations have their way to help.

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But at the corporate level, that's where the risk is.

JOHN CALDWELL: It is.

TOM O'NEILL: It's one thing to be an association member, it's the other thing to run a company.

JOHN CALDWELL: The hard part is, you're running a global business, your geopolitical risk just intensifies, right?

GIGI DAWE: Mm-hmm.

JOHN CALDWELL: So I'm on several companies that are international businesses where we've got more businesses outside of North America than in. Now you're dealing with all the vagaries of what's going in Europe and all the complexity of Asia.

So it's compounding. And to Tom's point, you know, you want insight into those things. We all read newspapers, but what you really want to do is really understand where is this thing tracking? How does this play out?

TOM O'NEILL: What's it look like, exactly.

JOHN CALDWELL: How does it play out?

GIGI DAWE: Mm-hmm. And how do you get that insight?

JOHN CALDWELL: Well, you could bring board members on your board from those regions. It's very difficult to do that, by the way; it's hard to do that. They can add a lot of value. But the other way, as Tom talked about earlier, you can bring advisors in who have that knowledge, and keep the board informed.

One of the things that I find really valuable on boards is to bring people in with those perspectives to come to the board meetings, have a dinner and do presentations; bring people in who are really knowledgeable in an environment where you can share ideas, I think, is incredibly helpful.

TOM O'NEILL: And if you have a material operations in country, the country leaders are also helpful to bring to board meetings, because they live there; they're part of the social fabric. So in our case we had directors – I'm talking Scotia – directors from Latin America; and secondly, we looked for directors who are in related businesses. One runs the organization in Latin America thing in New York, and Finning Company out West, if you look at their distribution, they go all the way down to Chile and Argentina. So the president of that company, obviously, has a great line of sight in the same places we're looking for expertise.

GIGI DAWE: Yeah. Interesting. Okay. Can you talk, then, about – describe some of the components of effective board oversight and how to improve risk oversight by your board. Do you feel you've already …

TOM O'NEILL: Quality discussion. Time allotted to it. And the placement on the agenda. And by the way, it should be stewarded on a regular basis. Your point about execution, John: How are we doing against those objectives, whatever they are?

JOHN CALDWELL: Gigi, what I find is that boards look at risk oversight almost like an academic exercise: We've got to tick boxes. Oh yeah, we've seen the red, green yellow charts and what's going up, what's going down. I think the greatest advice I would say is, identify the issues that are risk, and don't use the word 'risk' at all.

TOM O'NEILL: Opportunity.

JOHN CALDWELL: Well, yeah, I would say this: You know, let's take an example where you've got retention, all right? You've got staff retention of key people. That's a risk. Don't put the word 'risk' beside it. What are we doing to retain staff? I mean, what do you want management to do? You want them to manage risk.

So here's the exposure, what are we actually doing about it, and if you can't manage it, if you can't do anything about it, how are you going to react if those things occur? And I think to push that whole concept down right through the management organization, which drives action. What that does, it ends up driving better performance, and that, to me, is the greatest benefit of risk oversight, because it's driven from the top. But what it does is it drives better performance through the whole organization across every one of those dimensions.

Now, if organizations can get there, they've made big, big progress.

GIGI DAWE: Great! Okay. Any final comments about simplifying risk oversight?

TOM O’NEILL: That we haven’t talked about yet, right?

JOHN CALDWELL: I think a lot of management teams will give you all the complexity in the world, and what you want to do is exactly the opposite. Boil it down into something that’s manageable and simple that you can deal with.

TOM O’NEILL: I think risk-ranking the risks and getting a list of maximum – you said ten, I think, or whatever. Because if you ask a teller at a bank what are the major risks facing the bank, you’re going to get a different answer from the CEO, right? So we want to be fishing up on the material [unintelligible].

And one thing that isn’t a bad practice is, when you have a real blow-up in risk – and it could be strategic risks, but these are ones that I’m thinking more in the financial arena, so the Bank of Bangladesh heist would be one; the Whale; SocGen; Barings Bank; I mean, I can go on – is, have management deconstruct what happened, to the best of their ability.

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If they know what happened, that’s even better, and why it wouldn’t happen at our operation. You know, you’ll find, more often than not, that all of these things are caused by human failing or collusion and getting around the existing systems. I mean, they need to deconstruct. So, go back to talent. More often than not, that’s what happened.

GIGI DAWE: Interesting. Well, thank you. These are some great points for simplifying risk management and following through on the oversight of risk. Great. Thanks.

TOM O’NEILL: Thank you, Gigi.

JOHN CALDWELL: Thanks, Gigi.

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