



ICD Fellowship Award Recipient

John M. Thompson

BOARD MEETINGS LASTED HALF A DAY. The CEO was also the chair of the board and usually selected the directors. Directors were mostly fellow CEOs of the company's largest customers. Directors were of high calibre and asked good questions during board meetings, but given the governance practices of the day, most questions were operational in nature and strategy was seldom challenged. CEO succession tended to be planned late in the game and shareholder engagement with the boards was rare. In sum, governance was not a top of mind consideration.

That was John Thompson's description of governance in the 1980s, prior to the 1994 Dey Report (*Where Were The Directors?*). He described Canada's governance today, exhibited by its largest corporations, as being as good as any. Knowledge of corporate governance is much better among directors, executives, investors and regulators, due to early adoption in Canada of evolving best practices as well as formal educational programs. Today's board is typically led by an independent, non-executive chair. There is a good blend of skills around the boardroom table. Directors understand their roles and responsibilities and feel empowered to ask penetrating questions and focus on strategic direction. Institutional shareholders are actively engaging with boards, either directly or through shareholder interest groups.

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Boards are ultimately evaluated on the basis of long-term value creation. In Mr. Thompson's view, there are two key drivers of long-term value: strategy and executive leadership. But the flip side of increased attention to governance is that boards face many pressures from regulators, activist shareholders and

various other stakeholders that can squeeze out time to focus on these key drivers. Citing TD Bank where he is currently the Chair, Mr. Thompson noted that there are over 100 regulators that affect its operations. The challenge today is to ensure there is sufficient board time to deliberate on the most important items while still providing good oversight and compliance.

The TD Board has responded in a number of ways. Many compliance items have been delegated to board committees, which meet the day before the full board meeting. The structure of board meetings has been altered to put strategy as the highest priority. The first two hours are for the CEO and directors only – a free-flowing dialogue on the key strategic issues facing the company and a regular review of executive talent development. This is followed by a session with the business unit leaders on the implementation of strategy in their area and oversight of their business operations. The final section of the meeting is reserved for detailed committee reports to the board and staff subject areas such as risk management, information technology and human resources.

In terms of the second key driver, executive leadership, boards need to pay close attention to the development of future leaders. Although the professional development of senior executives rests with the CEO, the board needs to ensure there is a robust succession plan in place for all senior positions, that directors have exposure to the leading internal candidates and that the board has input into individual development plans. Mr. Thompson's academic and career path both contributed to his success as an executive and as a corporate director. He attended Upper Canada College in Toronto for his secondary school education where he excelled in mathematics and sciences. He initially considered enrolling in architecture at the University of Toronto, but an exploratory visit convinced him that his drawing skills were not strong enough. He opted instead for the School of Engineering Science at the

University of Western Ontario, which also appealed to his interest in “building things”. He was an average university student until he hit a bump in the road in second year – a failure in Advanced Calculus. His father responded by cutting his financial support. To compensate, Mr. Thompson left Western for a full academic year and secured a job in construction ... on a job site at the University of Toronto. He negotiated time off to take Calculus classes at a building across the street – the only student to attend in hard hat and muddy work boots!

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Having obtained the Calculus credit, he returned to Western, where he immediately became a straight A student, a fine example for students today that an academic set-back can be overcome. Indeed, he won the prize for the best thesis among his graduating class. Interestingly, it was this thesis that became a career-altering experience. The thesis, on the stresses in shell-like structures, required solving over 100 complex equations simultaneously. To do this by hand in the 1960s would have been an enormous task. But it was the dawn of the computer era and Mr. Thompson heard about a professor abroad who had developed a program that could do the job. He acquired the program, solved his system of equations and thereby finalized his award-winning thesis. For those interested in the history of computer technology, the computer was the room-sized IBM 7094 with 32k of memory ... and the program was on punched cards!

The thesis experience sparked a keen interest in computers. He also saw himself eventually as a manager in a business enterprise. IBM was the ideal employer on both counts; upon graduation, he secured a job with IBM as a Systems Engineer. He was trained on the next generation of computers, the IBM /360, and then was sent into the field to install computer systems in Sarnia for oil refineries. Two

years later, he was promoted to Engineering Manager in Hamilton, overseeing 20 engineers implementing computer systems for steel mills and auto plants. Another promotion and change of venue followed, as Sales Manager located in Toronto.

After two years in this post, he was told his next management position would be a head office staff job to round out his experience. That did not resonate with him – he saw it as a “kiss of death” and considered leaving the company. In the end, he accepted the head office marketing post. From there, his career took off, with ever more senior positions. By the time he was appointed CEO of IBM Canada in his mid-40s, he had, in his words, “done every type of job in IBM”.

At this time, IBM was fundamentally a hardware company supplying computers and associated software. This traditional business was under severe pressure from new competitors. Under Mr. Thompson’s leadership, IBM Canada pioneered in creating a vibrant computer services business in consulting and systems design. The CEO of IBM in the U.S. was intrigued by the superior performance of its Canadian subsidiary; after his visit to see first-hand, the decision was taken to roll out a services business world-wide. Mr. Thompson transferred to the U.S. to oversee the replication of the Canadian model across the entire company. The target was to create \$10B of sales in three years – a target which IBM exceeded in less than three years. He subsequently was responsible for IBM’s worldwide computer hardware and software businesses before being elected as Vice-Chairman of the Board of IBM.

Mr. Thompson retired from IBM in 2002. It is clear that his career at IBM was the incubator for his current perspective on the value-adding potential of the board in those two key ideas – strategy and executive leadership. It was the strategic shift championed by the team he was part of that helped to turn around IBM’s fortunes and it was IBM’s commitment to executive development that provided him with the many experiences he needed to become a successful corporate leader who was well-positioned to champion a new direction.

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