

# A Canadian view

Rahul Bhardwaj from Canada's Institute of Corporate Directors reviews the governance landscape.



The focus of Canada's governance community has been fairly consistent of the past few years, says Institute of Corporate Directors CEO Rahul Bhardwaj.

"It changes but it doesn't change," Bhardwaj says.

"A lot of the issues that we are seeing play out are ones that will be familiar [to New Zealand directors]," he says, noting issues coming out of the #MeToo movement, board oversight of culture and conduct, mental health in the workplace and retention of talent as front of mind.

Shareholder engagement and social licence to operate are also current topics in Canadian governance circles – alongside technology, with data management, cyber threats and the opportunities afforded by artificial intelligence of great interest.

## UNCERTAINTY AND ANXIETY

But the unifying concern across the Canadian governance community is uncertainty.

"Directors are faced with a degree of uncertainty that I don't think any of us have anticipated," Bhardwaj says. "This has increased the complexity of governance and boards are looking at how they manage risk, and how to manage the complexity of risk."

An approach to managing uncertainty and complex risk that is taking root in Canada is to review the composition of corporate boards.

"The diversity of boards has also become an issue – how that can help boards avoid risk, and perceive opportunities, for the long term?"



For Canada, business uncertainty is exacerbated by short-term political uncertainty with federal elections in October, uncertainty about its relationships with the UK and the EU due to Brexit, and questions about its relationship with its large neighbour to the south.

"The US is in a wobbly time as it relates to trade and tariffs with China, which is a big trading partner of Canada," Bhardwaj says.

The Trump administration's moves to review and replace the North American Free Trade Agreement (NAFTA), which guides trade between Canada, the US and Mexico, puts further pressure on trading companies.

"Everybody in Canada recognises the importance of our relationship with the US – the vast majority of companies that export, export to the US. They say that when the US sneezes, Canada catches a cold."

While the historical relationship with the US remains key, there has been a concerted effort to diversify the range of international business partners as a way to spread risk and ensure long-term business sustainability. In this environment, it is challenging for boards to set a strategy for international growth, he says.

## NEW EXPECTATIONS

Canadian directors are also grappling with new ideas of what governance is, Bhardwaj says. Canadian case law recognises that directors' responsibility is to the corporation, not simply the shareholders, and there are ongoing developments in regards to the rights of first nations people. There is also awareness that it is important to build trust – among the capital markets, their employees and the market in general.

Loss of trust in a business can be "absolutely catastrophic" in the current market, he says.

And questions about the extent of directors' liability, particularly in a world where the impacts of climate change are beginning to be felt, are being asked.

"There is uncertainty as to where these things play out, in terms of liability. It will show up through the common law and the courts."

"There is no doubt the uncertainty directors are dealing with is increasing anxiety for directors. But there are boards that realise there have always been causes for concern – it is the speed or rate of change that is different now." **B**