

# Calgary's Corporate Radical

INSTITUTE OF CORPORATE DIRECTORS

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*The veteran energy executive, investor, director and philanthropist talks to **Gordon Pitts** about keeping corporate ambitions within the boundaries of prudent risk and how the financial crisis changed his purpose.*

Say the word “radical” and Mac Van Wielingen’s profile doesn’t come immediately to mind. He’s a veteran energy executive, private equity investor and director based in Calgary.

But he willingly embraces that radical label, if that means defying the conventional wisdom that has contributed to the demise of so many once-flourishing companies.

The reality is “most businesses eventually underperform, melt down or fail,” he says, a cycle that is woefully apparent today in the Alberta oil patch where Van Wielingen is a significant player.

As founder of both ARC Resources Ltd. and ARC Financial Corp. – and an experienced director – he knows boards hold powerful levers to the life and death of companies. “When you look around and see failed companies it is appropriate to ask: What was the basis by which the board sat up and approved the fiscal position of that company?”

To avoid this trap, he calls for an aggressive board agenda – to ask deeper and more probing questions about strategy, financial risk and performance, and the adequacy of human resources. The real radical part: He advocates a revolution in business purpose. Directors and managers must see themselves as stewards of the public interest, and not defenders of the old mainstream thinking, he says.

A case in point: By simply listing cold facts about its role in job creation and value enhancement, the energy industry has got nowhere with public opinion on issues such as the oil sands and pipelines – and it is paying the price, Van Wielingen argues.

The changes must go beyond rhetoric to include rethinking the very purpose of business, he urges. “The human experience has to be elevated to become part of our purpose, along with profit, risk [management] and sustainability.” Just like financial risk assessment, the human aspect is part of fashioning a more predictable, sustainable world, so that companies, their employees and communities can survive and thrive.

“The challenge is that as you go down this road, people will accuse you of being radical – it is uncomfortable but you are being different,” admits Van Wielingen, who is being inducted this year as a Fellow of the Institute of Corporate Directors and is serving as a co-chair of ICD’s national conference in June.

And yet, he adds, there is really no other choice. “If we are going to do what everybody else is doing, the probability is we are going to end up like everyone else -- under performing and failing. It is just a matter of when

and what it looks like.”

This is a new role for the 62-year-old Van Wielingen – leadership mentor and governance thinker – but it is really the natural evolution of a lifetime student of business, ever since he came out of university in the mid-1970s. In the oil patch, he has been an investment analyst, company operator and now private equity investment leader. In addition, he is chair of Alberta Investment Management Corp., which oversees \$90-billion in public pension and endowment funds.



Indeed, ARC Resources, his operating company, was already alert to the human dimension and the shoals of financial risk, and ARC’s performance has reflected that. “We have an organization that has sustained great results through all kinds of cycles.”

The public part came into sharp focus in 2008-2009, when he saw the ethical breaches on Wall Street and the appalling dereliction of boards’ responsibilities.

Until then, governance was relegated in his mind to that “worthwhile but boring” box. But that all changed when he listened to a Wall Street banker explain how his company, and others, had succumbed to greed. This smart, ambitious man, part of the elite of imaginative financial people with whom

Van Wielingen had long worked, simply shrunk before his eyes.

Until then, Van Wielingen had been a private kind of businessman, going about his job as a leader in the energy industry. The incident propelled him into much more advocacy on teaching ethical leadership – reflected in his backing for the Canadian Centre for Advanced Leadership at the University of Calgary’s Haskayne School of Business – and this new focus on activist boards that can help their companies escape the traps of hubris and underperformance.

Critics might say such activism crosses the line, encroaching on management’s roles. “That line needs to be honoured and CEOs who have worked with me feel comfortable,” he argues. “I am engaged and there are times I say that ‘I cannot support this.’ You can have a board that is much more involved in strategy development, performance monitoring and issues of risk – and that is where we are going.”

He emphasizes the powerful oversight tools the board possesses. Working with the leadership team, it holds responsibility for the management of the corporate balance sheet and the ability to approve or turn down capital spending. Those are tools highly relevant to the current energy collapse.

The role of boards, he says, is to make sure there is “a cushion, a margin of error, a shock absorber, and it is difficult for management and a lot of directors.” During the good times, it is easy to add a bit more leverage to the balance sheet, and as the company runs out its calculations, “your per-share numbers are all better, but you don’t see the intangible aspect of taking on more risk. It is a trap we fall into over and over again.”

This misstep is particularly striking in – but hardly exclusive to – commodity industries, which are fiercely cyclical. It is a common refrain that “we didn’t see it coming” and most people didn’t. They couldn’t see it coming in previous downturns as well – but in hindsight it was all so inevitable.

And, returning to the radical part, adding those shock absorbers means paying attention to industry’s social role. He

feels strongly that “we inadvertently turned a blind eye towards the public and societal sensitivities. We developed a naive view that the way to deal with public concerns about oil and gas and transport infrastructure is simply to present the facts. It is very much an engineering and accounting method, where the way we look at the world is in concrete terms.

“But the concerns of people could not be allayed with just the kind of facts we are presenting. The justification used is we can create jobs and wealth. The public wanted more than that – it wanted to believe we are acting in a way sensitive to social values. They couldn’t get that confidence.

“They needed to know we were truly committed to sustainability and it wasn’t just an add-on to our business strategies, and it was truly fundamental.”

In a crisis of the kind the energy industry has faced, there is danger of hair-trigger responses by boards, and a common prescription is that the CEO must go – indeed, the hiring and firing of a CEO is seen as the board’s ultimate authority, always available to wield as it sees fit.

But Van Wielingen believes that is too narrow a view. “There is some truth in that, but it kind of dodges these other responsibilities – the level of financial risk in an organization, and to take responsibility for whether all capital spending is creating value. There are other fundamentals and to say a board sits back and watches and then fires the CEO – it is reactive and it is narrow,” he says.

“In a failing company with a wrecked balance sheet, is it unreasonable to suggest that it is the directors who failed? What is our responsibility?”

Over the years, his private equity group has raised funds to invest in more than 150 companies. As a leader, he has had an opportunity to observe human nature. “If you are involved in leadership, you are involved in human behaviour and how people look at things. And the kind of biases we all carry have been a real learning for me.”

He has built the reputation as a superb listener, respectful of opinions around the table. But it is a skill he has honed over the years. At one time he was quite deliberate and unequivocal in impressing his views upon investee companies, for example. But he found a more effective method was to ease in gradually, get to know the people, and listen to them – and to learn.

One personality trait he has observed is blindness to risk, even among the most capable executives. The conditions in the market may be threatening but some managers have trouble facing up to that. They are temperamentally oblivious to the signals.

He calls it “the optimism bias or, as my partners say, pathological optimism.” It is particularly evident in entrepreneurs. “Not that you have to be pessimistic, but if you suffer from that optimism, and if you are not flexible, you won’t be managing your balance sheet properly. You will be unhedged.”

At the same time, directors want to see their management teams as visionary, striving entrepreneurs. It is a fine line and often means a natural conflict within the board and between the board and the executive group. “We want the optimism but there has to be a balance in terms of understanding strategic risk.”

Promoting that understanding, he says, is the board’s role. It is the same trap his very smart Wall Street banker fell into – a fine mind, a forceful thinker, but pushing far beyond the boundaries of prudent risk. And the board was not stepping up. This failure was widespread, and the global economy almost went down because of it.

“At the executive level, there is normally an abundance of strong unbridled ambition. That kind of forceful leadership will always be present.” It means “the role of the board is absolutely critical in managing risk for the organization.”

After 40-plus years in the trenches, Van Wielingen is comfortable in his new role – as a leadership mentor, coach and communicator. He finds governance much more exciting than he once did. “In governance and the role of the board, you are really focusing on the highest level of leadership in business.”

The good news is that, at long last, there is an appetite for his pragmatic idealism in the business community – and lots of research to support his new boardroom agenda. He may no longer be radical, as he forges the new mainstream.

“I am deeply motivated and committed to share right now – to advance the quality of leadership in business. At this phase in life, that is my focus.”

Source: Director Journal (March/April 2016)