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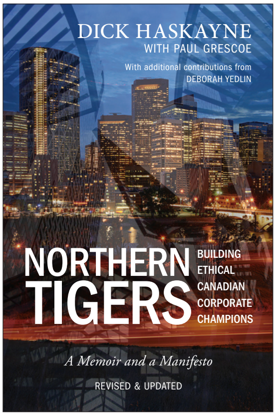

NORTHERN TIGERS: Building Ethical Canadian Corporate Champions

Dick Haskayne with Paul Grescoe

With additional contributions from Deborah Yedlin

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CHAPTER SIX

OUT OF THE SHAMBLES

NOVA Corporation

BOB BLAIR WAS ALWAYS A MAVERICK: a Liberal in a Conservative town, an oilman who never went to the Petroleum or Ranchmen's clubs, and one of the rare Albertans who supported the National Energy Program. But this shy yet aggressive engineer had built the provincial government's former Alberta Gas Trunk Line into NOVA Corp., a petroleum powerhouse that operated around the globe and, in partnership with Hong Kong multibillionaire Li Ka-Shing, had acquired Husky Oil, controlled by the Neilsen family of Wyoming and Calgary. I'd encountered Bob during my brief tenure with the Arctic Gas consortium in the mid-1970s, where he chafed under the bullying by representatives of some big American corporations. At one point, a couple of days before a meeting Bob had booked with me well in advance, Alberta Gas Trunk surprised the industry by announcing it had created a consortium with two other pipeline companies that intended to compete directly with Arctic Gas. At our session, I was surprised when Bob asked me to be a senior manager in this Maple Leaf Project, which I refused to do. After Bob bought Husky in 1978 and I was back with Hudson's Bay Oil and Gas, his assistant Joan Dennis (who'd worked for me at HBOG) called with a cryptic request to meet Bob and his long time associate, Bob Pierce, one mid-afternoon in Fuller's Restaurant downtown. This was the last place you'd want to have a serious meeting, but that's where, sitting over tea, they invited me to become president of Husky—and once more, I refused.

Thinking they might be third-time lucky, the two Bobs blindsided me yet again in 1991 during the partitioning of Interhome Energy into Home and Interprovincial Pipe Line. I was in a slightly more vulnerable position this time because of my opposition to the proposed split. That spring, Joan called and said Bob Blair wanted to get together—in my office, at least, not Fuller's—without revealing the nature of the meeting. Alberta Gas Trunk had since evolved into NOVA, which had both pipeline and chemical divisions. I believed that NOVA was simply one of several suitors hoping to buy the flourishing IPL. In fact, I had our chief financial officer, Allen Hagerman, and our general counsel, Bob Perrin, waiting in the wings to witness the expected offer. When Blair and Pierce arrived, I triggered my office's automatic door lock and told them I wanted to have my colleagues present for the bid.

"Oh, no, we don't want to talk about IPL," Bob Blair said. "We want you to come to NOVA and be president of the pipeline." They were also about to split their divisions—in a project codenamed "Primrose"—and spent the next two hours trying to convince me to take the job.

Bob was an inveterate writer of memos, and in one to his directors that May, he accurately summarized my response and present circumstances:

> He wants a month or two to make the choice of whether to go back to big company executive work after a vacation. If he commits to such full-time work it will definitely be for NOVA—he has crossed that bridge. But he needs time to reflect on whether he should or should not go back to industry full time. He expects he should—what can be so satisfying as work? He regards CEO of NOVA as the best job in Alberta, the company to be a good and proud one to connect with and therefore the opportunity as impressive. But he needs some time.
>
> He does not need money, happens to be getting another $2 million plus settlement now. For 1990, his salary was $525,000 and bonus $110,000. He has options

> for 40,000 shares at $48 to $50 and their options stay in force for 4 years after departure. I gave him some numbers on higher NOVA bonuses of the past and to understand that our share option plan has higher allocations.

Typically, in deciding whether to get involved with NOVA, I sought the advice of friends. One of them was Bartlett Rombough, a former president of the hugely successful PanCanadian Petroleum, born of an amalgamation between Canadian Pacific Oil and Gas and Central Del-Rio Oils, which had its roots in a wildcat operation just after Leduc came in. Bart said, "Be careful of NOVA," and pointed out that I had other alternatives, including TransCanada PipeLines and Alberta Energy Company (AEC). Meanwhile, I had just accepted a directorship with TransAlta, the prominent international power-generation and energy-marketing company and the country's largest investor-owned electric utility.

Another good friend was even more forthright about the NOVA position. Ron Southern heads one of Alberta's First Families of business, which include the Mannixes and the McCaigs. The hard-driving, tough-minded entrepreneur had fashioned he ATCO Group into one of Canada's most prominent family-run conglomerates, with billions of dollars of assets in a boggling array of ventures ranging from natural gas and prefab housing to travel agencies and the highly esteemed Spruce Meadows Equestrian Centre in Calgary. Ron's brother-in-law, John Wood, was running ATCO's Canadian Utilities and had wanted me on his board for a long while.

Ron is a proud man, so I was determined to tell him, before the newspapers announced it, that I'd gone on the board of TransAlta instead of its competitor that also supplied residential natural gas, Canadian Utilities. Getting that off my chest as we sat in his pleasant atrium-like office, I then mentioned the possibility of the NOVA position. The story around town was that Ron had long ago resigned as a NOVA director in what was described as "a huff," but nobody knew exactly the reason why. Alberta Report magazine speculated, "The ATCO chief, as a NOVA director, tried hard to have Mr. Blair deposed for his misadventures in nonpipeline activities."

"Ron, I don't want to ask confidential questions, but I know you left the NOVA board, and now they're offering me a job," I said.

"Well," he replied, "I would be very careful about that. Blair is a difficult man."

"The thing is, I don't want to betray a confidence, but Bob is going to retire—in fact, he's been involved in recruiting me."

"That makes a helluva difference," Ron said, with excitement in his voice. "What are you going to do?" When I explained about my other options, he exclaimed, "Christ almighty, man, it's one of the most important jobs in Calgary and this province and it's in a goddamn mess—and that's why I left. You're the current Wayne Gretzky of the business world, it's the third period of the Stanley Cup finals, and you're saying you won't skate?"

In the end, knowing my time with Interhome was done, I agreed to go on the NOVA board that May of '91 and said if they really did restructure the company, I would head the pipeline side, which had interests in Husky, Pan-Alberta Gas, and a pipeline operation in Italy.

HAVING LEFT INTERHOME and being not yet on full-time with NOVA, I moved into my own office downtown and soon had two special women working with me who remain to this day. Wise and well-organized, pleasant in personality and appearance, they brought some order to my world when it had begun falling apart with the diagnosis of Lee's ALS.

The first was Nancy Matthews, who'd studied fine arts at the University of Calgary and took a year of business college before joining Home Oil as an assistant to the human resources manager a few years before I arrived there. At age twenty-two, while continuing to work in HR, she became secretary to Ross Phillips, who was Home's CEO. She left for a year and a half to be executive assistant to the CEO of Morris Petroleum, a small oil and gas company where she set up the office and even handled its land bids. Returning to Home, she worked for Fred Callaway, VP of corporate development, and that's when I came to know her. Fred was confident enough of her organizational and accounting abilities to give her a lot of latitude. With the birth of Interhome Energy, she also assisted Dave Powell when he was president of the petroleum division. At thirty-five, married to Randy and with one child, she left the company again, and this time she wrote and published a book that showed off her dry wit and powers of observation. (*Golf Your Way: The No-Stress Game* is full of cartoons and funny lines like "Never, ever tell anyone how long you have been golfing. The look on their face will kill you.")

When I first asked her to work part-time for me in the spring of 1991, she declined but then relented and started up the office I took as a director and, later, chair of NOVA. We stayed in that space for a year before moving to a handsome suite on the twentieth of fifty-two storeys at Bankers Hall, the dramatic stone-and-glass twin towers at the heart of the city. Lee decorated the offices, one of which Ken McNeill took to have some digs downtown. Through it all, Nancy was terrifically sensitive to my wife's ever-worsening condition. A year and a half later, I hired a full-time assistant to complement her—by a nice coincidence, Shauna Ryan, who, in one of her several careers, had sold clothing over the years to Lee.

Shauna had come to Canada as a four-year-old with her family from England (her father, an aeronautical engineer, wound up working for Domtar and designing the beer carton as we know it today). She studied advertising, public relations, and human resources at a community college in Edmonton. After graduating, she wrote advertising copy for Woodward's department stores there and in Calgary and Lethbridge, where she'd moved with her new husband, Murray, an air-traffic controller at that time. When his job took them north, she did PR for the federal public works department in Inuvik, Northwest Territories. After they came home to Calgary with their daughter, Shauna spent a decade managing a prominent local boutique, where she met Lee, who became one of her regular clients.

Looking to spread her wings, she took a couple of university courses and did job placements for a friend's personnel firm, which had supplied staff for Home Oil. Ken called the firm on my behalf and interviewed Shauna for the job of general assistant. When she said she knew my wife very well, I went home and told Lee, who wrote on her notepad, "She's wonderful!" And she is. When the personnel firm wanted her back, I said, "No damn way."

Wherever you go, the Irish proverb says, *have a woman friend*. There are women in a man's life who become very good friends, which is the role Shauna and Nancy have played in mine. But they also eventually became the "partners" in my personal company, Haskayne & Partners—and we typically call each other "Partner" rather than by name. Many years later, in the fall of 2004, when we leased a suite on the thirty-eighth floor of Bankers Hall, I gave them carte blanche to supervise the interior design of the empty space to their taste and to outfit it without skimping. Consulting with experts, they finally invited me to see their handiwork for the first time six months later. I was delighted at how they'd put all the pieces together, chose the perfect colours to complement all the art Lee and I had collected, and created a homey yet sophisticated ambience. My two partners would continue to work seamlessly together as a team, with Nancy focused on the financial and corporate concerns and Shauna on my busy calendar and a string of donations. And both of them would host the countless visitors dropping by for a chat and, with their husbands, join me for many of the social and corporate occasions I attended. As Shauna has said, "It's an intimate, loving relationship where we're all considered equals."

AS I CAME ABOARD IN 1991, NOVA had some interesting directors, people such as Willard (Bud) Estey, the retired Supreme Court of Canada judge; Doc Seaman, head of Bow Valley Industries (where Gerry Maier had gone); and Harley Hotchkiss, something of a legend in town. Harley—a farm boy from southwestern Ontario with an honours degree in geology from Michigan State University (where he played college hockey)—worked in Calgary for CIBC in the first petroleum department of any Canadian bank, and that's where I got to know him. Harley later worked with the Seaman brothers, Doc and B.J., before launching his own company, Sabre Petroleums Ltd., and selling it for $24 million in 1976. But most Calgarians knew him as one of the founding partners, with the Seamans and three others, in the NHL's Calgary Flames. This warm, generous guy would become even better known as the league's diplomatic six-term chairman of the board of governors and one of the community's sterling philanthropists.

Until my first board meeting, I didn't appreciate that NOVA was now a shambles, laden with $4.2 billion in debt. It had diversified into a host of activities totally unrelated to its core businesses, manufacturing things like trucks and cellular phones. One director, Bill Howard, whispered to me, "Dick, I bet you're sitting here wondering why you took this job"—which is exactly what I was thinking. That year, the company would lose $937 million. It was bleeding about $15 million a month in the chemicals business alone, and yet the executives and directors were listening to investment bankers pressing them to send the two divisions out on their own as separate entities. They wanted to free the pipeline, with its guaranteed returns, from the chemicals arm that was hurting the collective credit rating. At Interhome, it had taken us years to split Horne and IPL, and here NOVA was about to leap into a similar venture with very little forethought. A third-year commerce student would have known better than to make chemicals a stand-alone, no longer relying on the strength of the pipeline's balance sheet.

The board even offered me a contract based on the supposition that NOVA would be split in two. Despite the fact that it offered generous golden-parachute provisions, I couldn't in all conscience sign it because I simply believed the company should stay whole. I came on board without a contract.

By the fall, Bob Blair (one of the highest-paid executives in Canada) had finally retired as chairman and CEO, as predicted, and Doc Seaman was the interim chair. And for the time being, I acted as special advisor to a distinguished newcomer recruited from Toronto—Ted Newall. He would head the petrochemical company, Novacor Chemicals, and serve as NOVA's chief executive while the company was being reorganized.

J.E. Newall was a hell of a fine catch, a senior statesman in the Canadian business world. Bob had approached him early in the year when Ted was still chairman, president, and CEO of DuPont Canada, a subsidiary of the American-based multinational famous for developing synthetic fibres. He was the current chair of the Business Council on National Issues, had chaired the Conference Board of Canada, and served on advisory groups to Prime Minister Brian Mulroney and Mike Wilson, when he was the international trade minister. Yet for a guy who was a director of the Molson Companies, the Royal Bank, and Akan Inc., he had a surprising liberal bent, admitting he'd been known to vote NDP and considered Tommy Douglas to be the most admirable Canadian politician.

Ted knew me through Carl Jones, HBOG's former president, who was on DuPont's board. The two of us hit it off from the start. I like journalist Sydney Sharpe's description of him: "A tall, burly man who looks like a friendly Henry Kissinger." Aside from the fact that he stood four inches taller than me and counted six siblings to my one brother, we had a lot of things in common. He was born only a year after me in small-town Alberta, and his Scottish-bred father was, like mine, an artisan—a champion butter-maker with Burns Creamery. Ted worked there summers to pay for university, watching his dad and learning what customer service was all about. He got a commerce degree, too, but at the University of Saskatchewan, where he was also a bit of a party animal (though those hijinks were cut short when he met his wife-to-be and budding social activist, Margaret).

He came to NOVA off a thirty-three-year career with DuPont Canada. The subsidiary of the American chemicals, materials, and energy corporation had begun as a nineteenth-century explosives manufacturer, branched into making cellophane and nylon products, and was now producing everything from consumer paints and automotive finishes to polyethylene resin and film. Just out of college, Ted had started there in the accounting department before moving into sales promotion and direct sales of new nylon and Lycra products in Ontario. Bouncing between Toronto and the Montreal head office, he became a marketing manager and then group director of fibres, the largest division, and eventually vice-president of corporate development in 1974. Under his inspired direction, the company developed a major polyethylene resin polymer plant in Ontario.

Within four years, at age forty-two, he was CEO of a suddenly money-losing DuPont Canada. Fixing it, he streamlined thirteen management levels down to an average of five. The following year, he chaired the company, and later, also oversaw all the nonAmerican operations around the world reporting to the parent company's international department. He then talked the head office into eliminating the department and giving the regional subsidiaries more autonomy. Yet he was a big enough man to acknowledge mistakes, as when he misread the marketplace and DuPont lost about $50 million in developing, killing a polyester plant. All in all, he had a good mix of boldness and humility: Ted Newall seemed just the fixer to turn around NOVA's failing chemicals division.

Bob Blair had caught him just as Ted was planning to retire. Bud Estey, whom he knew from the Business Council, convinced him to take on the task back in his home province. Before deciding, Ted approached the chairs of several banks that propped up the chemicals company, particularly the Bank of Nova Scotia's Ced Ritchie and CIBC's Don Fullerton.

"These guys want me to go out to Calgary and run this company and it wasn't in my plans to do that," Ted recalls telling them. "You know, I'm not the least bit interested in running NOVA if I'm going to be at the beck and call of the banks, worried about these loans all of the time. I need some breathing space to get the place fixed."

And the bankers responded by saying, "Go out there and get things fixed, and we're with you 100 percent. If you need any help from us, just ask."

As special advisor, I greeted him when he arrived in town by offering, "Tell me anything I can do to help you get this bloody place fixed, and I'll do it."

Knowing nothing about the pipeline side, he was grateful to have me battle with the producers who thought NOVA was making too much money from shipping their petroleum to market. Years later, *Globe and Mail* columnist Mathew Ingram criticized NOVA for what he called its "typical arrogance," pointing out that we finally had to agree to modify our pricing for a group of gas producers—primarily PanCanadian Petroleum and Vancouver's Westcoast Energy—who'd planned a competing pipeline project. He said in this situation and similar ones, we should have "tried to understand the concerns of producers … instead of ridiculing them." It was a reasonable argument: While the gas producers always tried to nickel-and-dime us, to be fair, I'm not sure NOVA handled their concerns with enough understanding.

I also inherited the job of co-chair at Husky Oil. If NOVA was a mess, Husky was in even worse condition, both because of the low price of natural gas and lax management. The Royal Bank was hounding it about $400 million in corporate debt, and while the company had roughly the same amount tied up in a capital program, the cash flow was only $100 million or so.

"Doc," I asked, "do you realize what shape Husky's in?"

"Oh, no," he said, "they make presentations once in a while, and they seem to be okay."

"This goddamn place is going bust."

When I asked Art Price, Husky's president and CEO, why it was teetering on the abyss, he said his masters at NOVA had urged him to expand: "It's a private company, and so you can go ahead and lever things up because you know you have two big strong outfits behind you [NOVA and Li Ka-Shing's conglomerate]."

Then I met with Bob Blair, and—while not wanting to be critical—I asked, "How had Husky come to such a sorry state?"

"Well, Dick," he replied, " K.S. [which is what he called Li Ka-Shing] promised us a billion dollars, and that didn't come through; and I promised the price of gas would be $4 [per thousand cubic feet], and that didn't come through."

We had to sell Husky. The logical acquisitor was our partner, Li Ka-Shing. But first, I sought a local buyer. By now, I was good friends with David O'Brien, Bart Rombough's successor as CEO of PanCanadian Petroleum.

"David," I said, "I have got a hell of a deal for you!"

When I told him what it was, he just about threw me out of his office: "Haskayne, that company is a dog, for Christ's sake. You can't sell that to me."

Chastened, Ted and I decided we had to go to Hong Kong to talk with Li and his people at Hutchison Whampoa, his public company. Because Bob Blair still hadn't cut all his connections with NOVA and felt he had an in with the Asian magnate, he came along, too. We stayed at the Hilton, where exotic bottles of cognac awaited us in our rooms, because it was not only located across the street from Li's skyscraper but owned by Li, as well.

We were certainly trying to make a deal with him on his home turf. This is the man who operated most of the local port, the world's largest, supplied electricity to the Chinese mainland, and was one of Hong Kong's leading retailers and property owners. Li is an intriguing character who'd started out as a Chinese refugee sweeping factory floors in Hong Kong. (He still liked wearing cheap watches and setting them eight minutes early because in Cantonese that number sounds like the word "prosperity.") The three of us had lunch with him in the corporate dining room to set up the ground rules for negotiating the sale. Li, sixty-three then, was unfailingly polite and, though his English wasn't perfect, was easy to understand. Ted reflected afterward, "I felt like I was a first-year university student and here was a hugely respected prof who knew everything there was to know." Between us, Ted and I suggested to him, "We're the new management on the block, and if you prefer to have Bob sit in with us, that's fine. But if you think we might have some different views than Bob..."

We began negotiating with his assistants—without Bob. Among them were his quiet son, Victor, who would become the conglomerate's deputy chairman, and Canning Fok, his aide-de-camp, a round, smiling chartered accountant from Australia who would stay in touch with me over the years. Canning took the lead on their side, and I handled NOVA's interests in negotiations that reached several roadblocks. Before I left Hong Kong, Li asked for a private meeting with me. Surprisingly, it turned out to be an hour of chatting not about Husky but about CIBC, where I was now a director. He was a big investor in the bank, and the bank had a 5 percent piece of Husky, and we both considered Don Fullerton, the chairman, to be a friend.

The complex talks resumed in Calgary, this time with Husky's legal expert, Bob Phillips, a partner in Blake, Cassels, and Graydon. Again, we hit stalemates that kept us bargaining long into the night until Canning came up with a solution and an agreed-upon price. We had been mandated by NOVA'S board to accept anything over $175 million for Husky. In the end, we got a comfortable $375 million. Frankly, I believe Li's people just didn't appreciate how deep a hole Husky had dug itself. At the time, we thought we were striking a good deal for ourselves, but in later years, I wished we'd sold the bloody chemical company and kept Husky because I saw how successful the new owner was in reviving it. Under the dynamic leadership of John Lau, the financial and operating results have been simply outstanding—he's built the business into a Northern Tiger.

Near the end of 1991, fellow directors were urging me to become chairman of NOVA as well as run the pipeline operation. Ted Newall remembers, "I went to Doc Seaman and said, 'Look, I know you don't want to be the chairman of NOVA, and the board doesn't want to have a situation again where the CEO is the chairman. You know they don't want me to be chairman, so why don't you propose to them that we make Haskayne the chairman?'" As usual, I sought opinions from informed outsiders, in particular Don Fullerton, my friendly banker.

"Don't touch the chairman role," he cautioned me. "You'll have all the responsibility without the authority to handle things. For all practical purposes, you have a chairman in Ted, and he'll continue to act that way—even though you both get along. Your problems will start when things go wrong—and they might, because the chemical business may not be out of the woods for two years or more. And Ted may not last more than two years."

I argued that Ted was a very good executive who'd impressed me with his performance.

"I'll wait and see," Don replied, "and hope I can agree with you later."

Despite his misgivings, I agreed early the next year to become a non-executive chairman, holding no other positions in the company and operating independently from an office outside the NOVA headquarters. As it turned out, Lee's health began failing at about that time, and in my regular exercise of chronicling the seven benchmarks of my life, I'd written about the present state of my career: "Perfect at age fifty-eight—DON'T WANT TO BE CEO AGAIN." I'd happily leave that role to Ted Newall. And my faith in him was repaid in spades.

With our board's blessing and the help of outside consultants, he and eight top managers began an eighteen-month strategic review. As Don predicted, the first couple of years were as tough as they come, rife with the restructuring of the chemical company and fire sales of defective assets, including several chemical plants in Sarnia, Ontario. The chief casualty was Polysar Energy & Chemical Corp., which Bob Blair had acquired in 1988 for a steep $1.9 billion in an overreaching attempt to become a world-class petrochemical enterprise. "And all of a sudden, the chemical business is losing money like there's no tomorrow," Ted remembers. He sold Polysar to Bayer AG of Germany for $1.25 billion. The writeoff on the company's books during his first year on the thirty-sixth floor of the NOVA Building would total $923 million "which at that time was the largest loss in Canadian corporate history." Doc Seaman simply asked him, "Are you sure you've got it all?" Though NOVA'S shares dropped by about half in value, they shot up again a week or two later as analysts decided Ted meant business. Within six months or so, we released two equity issues because investors were demanding stock. And Ted was announcing that the plan to divide NOVA into two companies was "deader than a doornail."

Meanwhile, he confounded most other North American chief executives by refusing to take any salary as president and CEO, preferring instead to be compensated only in NOVA shares. “It sends a very clear message to investors that I’m one of them,” he explained. “And they know I’m not captured by suicidal impulses.”

By 1992, thanks to his disciplined, team-building approach and with natural-gas sales humming along nicely, NOVA had a profit of $164 million, our shareholders enjoyed a 24 percent return, and the managers among our 6,300 employees benefited from an incentive plan tied to the performance of the company, each business unit, and the individual. Along with everything else, the Native Employment Services of Alberta was soon to name us “Company of the Year” for our Aboriginal hiring practices. Not bad for an old nylon salesman, as Ted liked to call himself.

He and I became as tight as brothers. (And I admired his wife, Margaret, a former music teacher who was so horrified by the Montreal massacre of fourteen female engineering students in 1989 that she created an action network devoted to research and the frontline treatment of victims of violence and abuse.) Early in 1993, I wrote Ted a letter of appreciation on behalf of the board:

> Ever since your appointment in 1991, NOVA has been provided with exceptionally strong leadership in overcoming a number of challenges such as dealing with the financial community to restructure the Company’s balance sheet, resulting in the successful issuance of common shares, establishing a plan to address serious problems in the chemicals business, rectifying corporate governance issues, completing the sale of Husky, improving relations with the producing companies and establishing senior management development as a priority.

Later that year, Ted returned the compliment when he was named “Canadian CEO of the Year,” chosen by a group of his executive peers from companies such as Bombardier, McCain Foods, and Shell Canada. In his acceptance speech at a gala evening in Vancouver, he recalled having known only a few key people in his new line of business: "I'd met Dick Haskayne. Dick became my chairman, and he's been one of the best coaches I've ever worked with. I credit Dick with helping me make the transition to the energy industry."

What I'd done was pretty basic: introducing him to the right people and warning him off the wrong ones. I knew the economics of pipelines and had spent my whole career in the Oil Patch. Ted took the puck from me and then put it in the net.