

CATALYTIC GOVERNANCE

Leading Change in the
Information Age

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introduction

Leadership and Governance in the Information Age

It has been quite a journey. This is the story of a major effort to devise and implement transformative changes to Canada's payments system (CPS). It began in a relatively traditional way but became a case study of developing better approaches to leading and governing in the information age.

The information age¹ is accelerating the pace of change and threatening to overwhelm methods of governance that were designed for a world of slower change, more limited information flow, and clearer boundaries. To succeed in this more complex, interconnected, and rapidly changing world, people in all sectors are recognizing the urgent need for approaches to leadership and governance that are inclusive,² dialogue-based, forward looking, and action-oriented. These are approaches that can enable systems to adapt more quickly than previously and operate more effectively across the shifting boundaries between organizations, industries, disciplines, sectors, and political jurisdictions. A society or organization's ability to prosper in this world of rapid change will depend, in no small measure, on its ability to develop these new leadership and governance capacities.³

One such approach is detailed in this book. *Catalytic Governance* describes a process for leading transformative change that engages a wide range of stakeholders in dialogue and empowers them to envisage and enact a desired future.⁴

Catalytic Governance

The word “governance” derives from the Greek *kybernan* (to steer) and *kybernetes* (pilot or helmsman). Governance is the process whereby an organization or society steers itself. While government is central to the process of governance in society, in the information age government is increasingly only one helmsman among many, as more and more players – voluntary organizations, interest groups, the private sector, the media, and more – become involved in that process. To steer effectively when so many hands (with so many different agendas) are on the wheel, a more catalytic approach to governance is needed.

Our understanding of “leadership” has undergone a similar shift in recent years, as the literature shifts away from a focus on the traits and practices of the effective leader and towards a focus on leadership as a process or function within a group. Leadership in the information age is a process of making meaning – the process of making sense of what people are doing together so that people will understand and feel committed. This is a process that is dialogue based and in which many individuals can participate.⁵

The model described in *Catalytic Governance* emphasizes that a wider range of stakeholders needs to be involved in the governance process in the information age, and that governments, boards, and other governing bodies need to make room for those players. This means that governments and boards must relax day-to-day control (or the illusion of such control) and shift to a catalytic role.

In a seminal article, Harlan Cleveland eloquently describes why a catalytic approach to leadership and governance is essential in the information age:

In an information-rich polity [or organization], the very definition of control changes. Very large numbers of people empowered by knowledge assert the right or feel the obligation to “make policy.” Decision-making proceeds not by “recommendations up, orders down,” but by development of a shared sense of direction among those who must form the parade if there is going to be a parade ... Real-life “planning” is the dynamic improvisation by the many on a general sense of

direction – announced by the few, but only after genuine consultation with those who will have to improvise on it. Participation and public feedback become conditions precedent to decisions that stick.⁶

In this process the core roles of governments and boards remain as important as ever – in particular the responsibility to define and protect the broader public interest, including that of the voiceless (in the case of governments), or to ensure that actions are taken in the best interests of the corporation (in the case of boards). In both cases there is a longer-term stewardship responsibility, including a responsibility to future generations. That public interest or corporate interest cannot be reduced to the sum of stakeholder interests. What changes is not these fundamental responsibilities of governments or boards but how they can accomplish them effectively in the information age, in particular when transformative change is required.

Another reason we need catalytic governance processes is that the information age increasingly presents us with “wicked problems.” A wicked problem has innumerable causes, is tough to describe, and does not have one right answer. It cannot be addressed with a purely scientific/rational approach because it lacks a clear definition of what the problem is; and it is difficult to tackle because effective and legitimate action requires the support of multiple stakeholders with widely differing perspectives and priorities.⁷ Examples of wicked problems include climate change, health care, terrorism, inequality, and many business strategy issues.⁸

The catalytic governance model represents an important step forward in developing a practical approach to addressing such intractable challenges, and is designed for the interconnected and rapidly changing world of the information age.

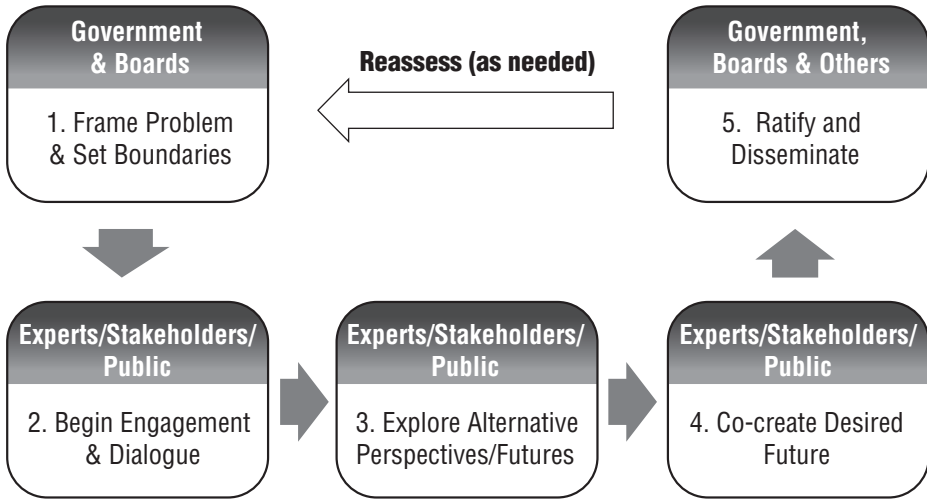
Through the work described in this volume, we have further developed and tested the catalytic governance process to produce a model that has five steps. These are summarized in figure 0.1 and described in more detail in chapter 6.

Step 1: Frame the Problem and Set Boundaries for Solutions:

Governments, boards, or other governing bodies (as stewards) take the initial step of framing the problem and agenda, defining

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Figure 0.1: The Catalytic Governance Model



the process to be followed and the range of stakeholders to be included, and setting the boundaries for acceptable solutions.

Step 2: Begin Engagement and Dialogue: Governing bodies engage a wide range of stakeholders around the issue, embedding the ground rules of dialogue and engagement in all conversations from the outset. Governing bodies need to ensure that all the key stakeholders and viewpoints are included in the process, including those normally underrepresented. The stakeholders should be selected to be a microcosm of the system at issue, not just representatives of particular interests. In a true dialogue, participants need to be free to speak for themselves, not as representatives. A continuing and expanding process of dialogue and engagement is fundamental to catalytic governance.

Step 3: Explore Alternative Perspectives/Futures: Participants in the process explore in detail a variety of perspectives on the issue and alternative possibilities for how it may unfold in the future. This provides a way for participants to understand and learn from others' points of view, and to start to see the limitations of their own. Ensuring that multiple viewpoints are taken into account creates a richer view of the issue and its possibilities.

Step 4: Co-create the Desired Future: Those stakeholders who are willing define their more desired future and develop practical action steps to realize that future. Often this will require a process of action learning – taking experimental actions and learning from the result. To be effective, the stakeholder group must include key individuals in a position to bring about change and willing to take action.

Step 5: Ratify and Disseminate the Desired Future: Governments, boards, and other governing bodies play a leading role, first by ratifying and disseminating the result of the catalytic governance process, and then by acting and encouraging action on the emerging strategy (including legislating if necessary) and monitoring the results. This step is not a simple, once-and-for-all end point; it is itself the start of a new process of action learning.

Task Force for the Payments System Review

In this book we use the transformation of Canada's payment system as a rich case study of catalytic governance. The reform effort was sparked by years of stakeholder complaints about the lack of information provided by the Canadian payments system and its high cost. Small and medium-sized businesses were upset about the escalating merchant discount fees on credit cards; individuals were perplexed by the myriad rules, regulations, and service charges for small payments; large corporations complained that existing systems could not carry enough information for them to automate the processing of their receivables and payables. New entrants were concerned about access to payments systems infrastructure and the uncertainty created by a patchwork of regulations. And

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Canada did not have a plan to move from paper-based payments (cash and cheques) to digital immediate funds transfer.

On 18 June 2010, James Flaherty, Canada's Minister of Finance, announced the members of the Task Force for the Payments System Review (Payments Task Force). The chair was a non-partisan former senior bank executive and strategy adviser to financial services and technology companies. The members of the task force were selected for their expert backgrounds and demographic diversity⁹ and deliberately did not include any traditional payments players, such as banks and networks. Already this represented a significant departure from previous such efforts.

Minister Flaherty mandated the Payments Task Force to "conduct a review, given the importance of a safe and efficient payments system, to ensure that the framework supporting the Canadian payments system remains effective in light of new participants and innovation." Payments are everywhere. From coffee purchased at a coin-operated machine to the daily exchange of billions of dollars among corporations, financial institutions, and governments, the transfer of value underpins our economy. Every year, Canadians make more than 25 billion payments, worth more than 45 trillion dollars. These payments allow people to run households, make it possible for businesses and other organizations to operate, and let governments fund essential programs. But the payments business is undergoing a dramatic shift. Just as the Industrial Revolution brought massive change in production and manufacturing, the information revolution is changing our payments system.

Given the complexity, rapid change, and resulting uncertainties of the payments environment, the task force recognized that a traditional approach (conducting research, hearing stakeholder and expert opinions, and then making recommendations) would not be adequate. Instead it chose to make dialogue its guiding principle and called on consumers, industry, government, and businesses to work together to build the payments system we need. To focus that dialogue and to explore alternative plausible futures for the Canadian payments system (CPS), the task force helped to convene and participated in a Payments Roundtable. When a "coalition of

the willing” emerged from the roundtable, ready and able to develop initiatives to co-create the most desired future, the task force provided resources to support stakeholder working and advisory groups to begin to realize that future.

As described in the following pages, what transpired over eighteen months was transformative, as mindsets shifted and mental maps were redrawn. What began as forty leaders with different and sometimes conflicting agendas and perspectives became the core of an energized and more inclusive “payments industry,” with group members working together to make the governance and other changes needed to take the CPS into the digital age.

Having experienced this dramatic progress on the complex and intractable issues of the CPS in so short a time, we began to ask ourselves whether the process we had followed could produce similar results on other “wicked problems.” That possibility led us to write this book.

Catalytic Governance is written for leaders in the public and private sectors who are looking for more effective ways to initiate transformative change and to tackle wicked problems in the information age, and for students of leadership and governance in universities and the media.

The Shape of This Book

Catalytic Governance presents a detailed model of a more catalytic approach to governance – one that is designed for the realities of the information age and the need to tackle wicked problems. It also describes how this model was developed and tested in a major effort to lead change in the Canadian payments system.

Chapter 1 sets the stage by summarizing the interplay of social and technological changes that define the information age, the particular challenges facing the Canadian payments system, and the need for new forms of governance and leadership.

Chapter 2 introduces the Task Force for the Payments System Review (Payments Task Force) and the mandate it was given by the Minister of Finance – the *first step* in the catalytic governance

model. It then describes the effort of the Payments Task Force to engage a wide range of stakeholders in an open, inclusive, and transparent dialogue – the *second step* of the catalytic governance model. The chapter also describes the special form of dialogue central to this effort, to the model, and to the “magic”: a method that enabled stakeholders to get on the same page, find a surprising amount of common ground, and begin to think of themselves as the “Canadian payments industry” – a concept that had not existed prior to the work of the Payments Task Force.

Chapter 3 describes the Payments Roundtable, which was created to explore different perspectives and challenge underlying assumptions and beliefs about the future of payments, to establish a shared language, and to create alternative plausible futures for the Canadian payments system based upon different assumptions. (This is the *third step* of the catalytic governance model.) Through the roundtable process, participants from a wide range of sectors and with different connections to the payments system deepened their understanding of the issues they all faced in adapting to advancing digital technologies. Armed with this shared understanding, they were able to frame a number of scenarios to explore the challenges faced by a nascent “payments industry” – scenarios that formed the basis for a new understanding of the issues and new ways forward. In the process, what had started as an inchoate group – whose members had a wide range of interests, perspectives, and agendas – became a cohesive community focused on realizing transformative change.

As the Payments Roundtable was unfolding, the task force began a parallel effort to develop a new governance framework for payments. As described in chapter 4, this process began with a more traditional strategy/policy-development approach, which was not successful: none of the resulting governance options seemed likely to be effective in dealing with the dramatic challenges facing the system (and indeed some had been tried before without success). At the same time, the inclusive, dialogue-based, forward-looking, and action-oriented process of the task force and roundtable was proving to be far more effective. So the catalytic governance process of the task force and roundtable became the

model for a “Proposed Governance Framework” that was developed and refined by working and advisory groups before being recommended to Minister Flaherty in December 2011.

The insight, energy, and sense of ownership created through the roundtable process also inspired a large group of its members to commit themselves to realizing one of the scenarios: a vision of the future in which Canada becomes a world leader in payments. Almost immediately, this self-described “coalition of the willing” began the practical work of drafting and testing initiatives to transition Canada from paper-based to digital payments, including building a digital identification and authentication regime, implementing electronic invoicing and payments for business and government, creating a public-private mobile ecosystem, and upgrading Canada’s clearing and settlement infrastructure. The development and testing of these strategies – the *fourth step* in the catalytic governance model – and the dissemination and response by the federal government – the *fifth step* in the model – are outlined in chapter 5.

In our concluding chapter, we use the lessons learned from the Payments Task Force experience to provide a more detailed description of catalytic governance. We also describe areas where more work is needed to further develop the model, as well as examples of subject areas where it could be applied.

The catalytic governance process uses dialogue to engage stakeholders, explore alternative perspectives or scenarios, develop shared mental maps and a vision of the future, and co-create strategies and initiatives to realize that future. It creates governance that is inclusive, learning-based, and action-oriented. It is designed to address the wicked problems and governance challenges we face in the interconnected and rapidly changing society of the information age.

We hope that the experience described in this book and the lessons we learned along the way will be helpful to others facing their own wicked problems and seeking to improve leadership and governance in the information age.