

# Key Trends in Corporate Governance 2019

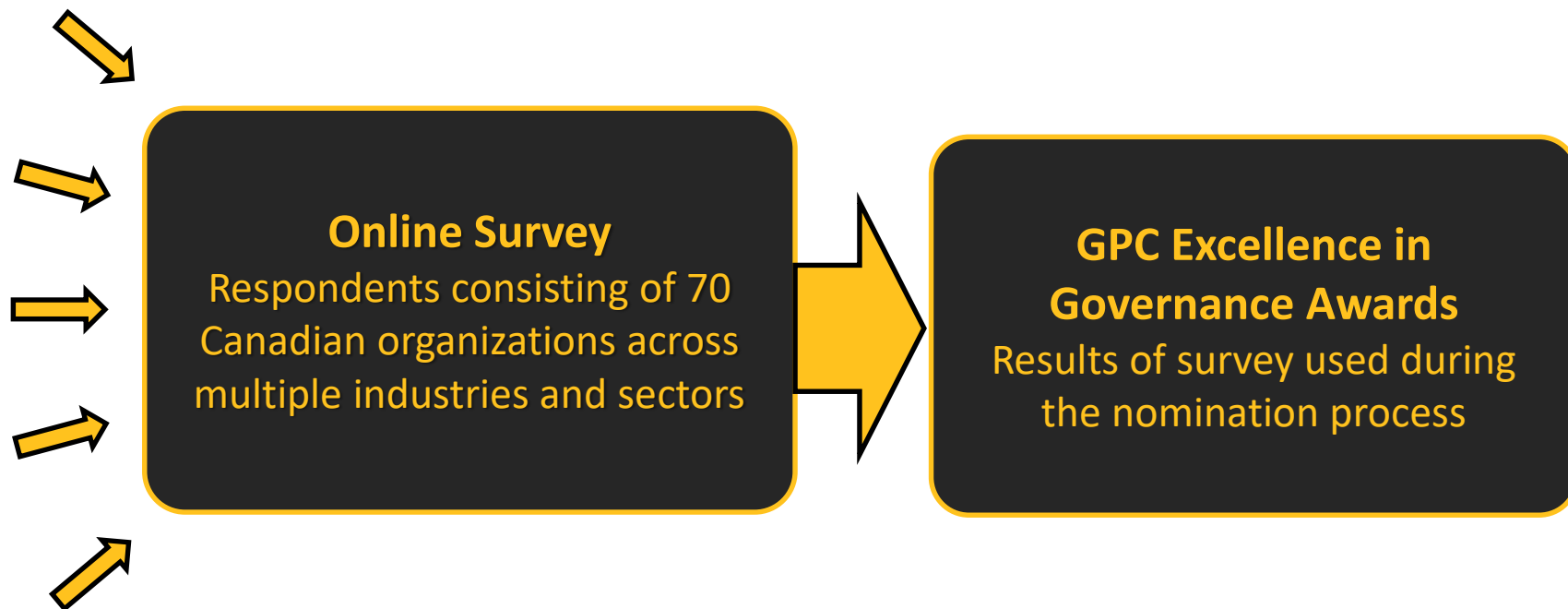
**Christopher Chen**  
Managing Director,  
Compensation Governance Partners



# 1. 2019 Survey Approach

## Survey Methodology

- The **Corporate Governance Best Practices Survey** is an annual survey conducted by CGP on behalf of and in collaboration with the **Governance Professionals of Canada**
- This survey aims to capture the current corporate governance landscape and provide insights on prevalent practices implemented across Canada



## Focus of our research

### Corporate Governance Overview

A general overview of significant issues & risks for the organization and strategic planning practices

### Sustainability Governance

Corporate sustainability governance, agreement on social and environmental risk, and sustainability in incentives and recruitment

### Compensation Communication

Levels of compensation disclosure, stakeholder perception of disclosure language, and transparency of compensation decision-making process

### Enterprise Risk Management Oversight & Governance

Risk policies and practices, top risk-related accountabilities, and most significant barriers to risk oversight

### Engagement by a Governance Team

Frequency of respondents' interaction with stakeholders, along with the approach and types of stakeholders involved in these interactions

### Boardroom Diversity

Boards' perspectives on the definition of 'diversity' and what relevant measures they have implemented towards promoting board diversity

### Subsidiary Governance

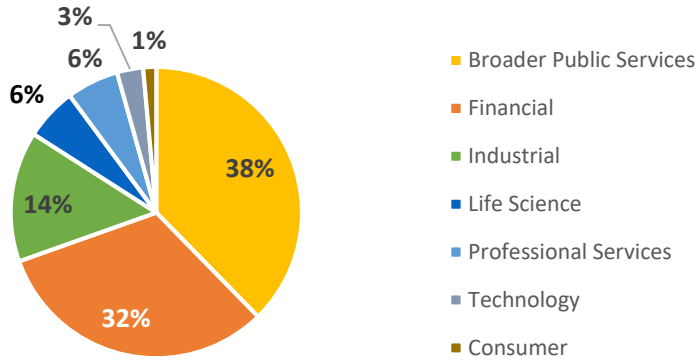
Effectiveness of board operations in terms of subsidiary governance

### Effective Board and Committee Operations

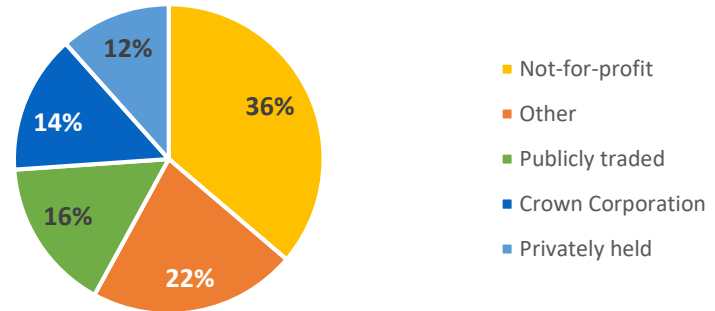
Methods used to increase the effectiveness of board operations via evaluation, education, assessment and succession planning

# Participant Background

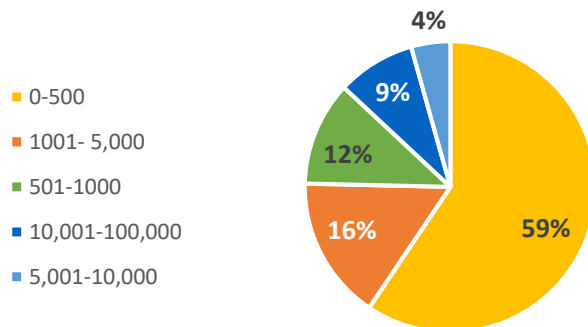
### Sector Breakdown



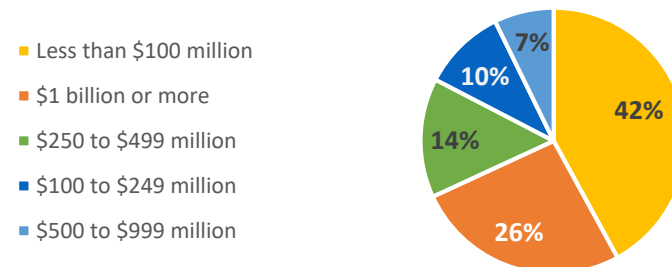
### Ownership Type Breakdown



### Headcount Breakdown

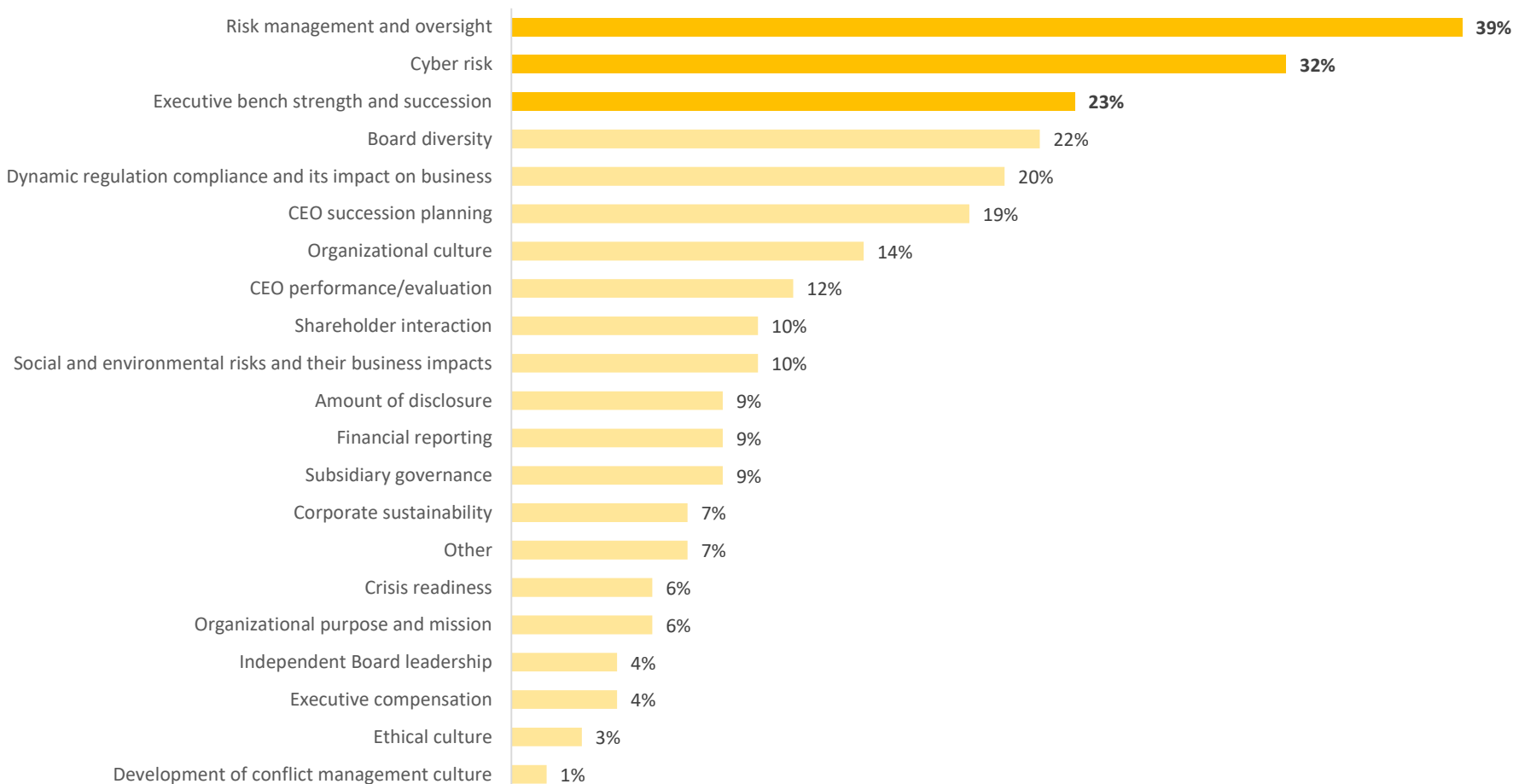


### Revenue Breakdown

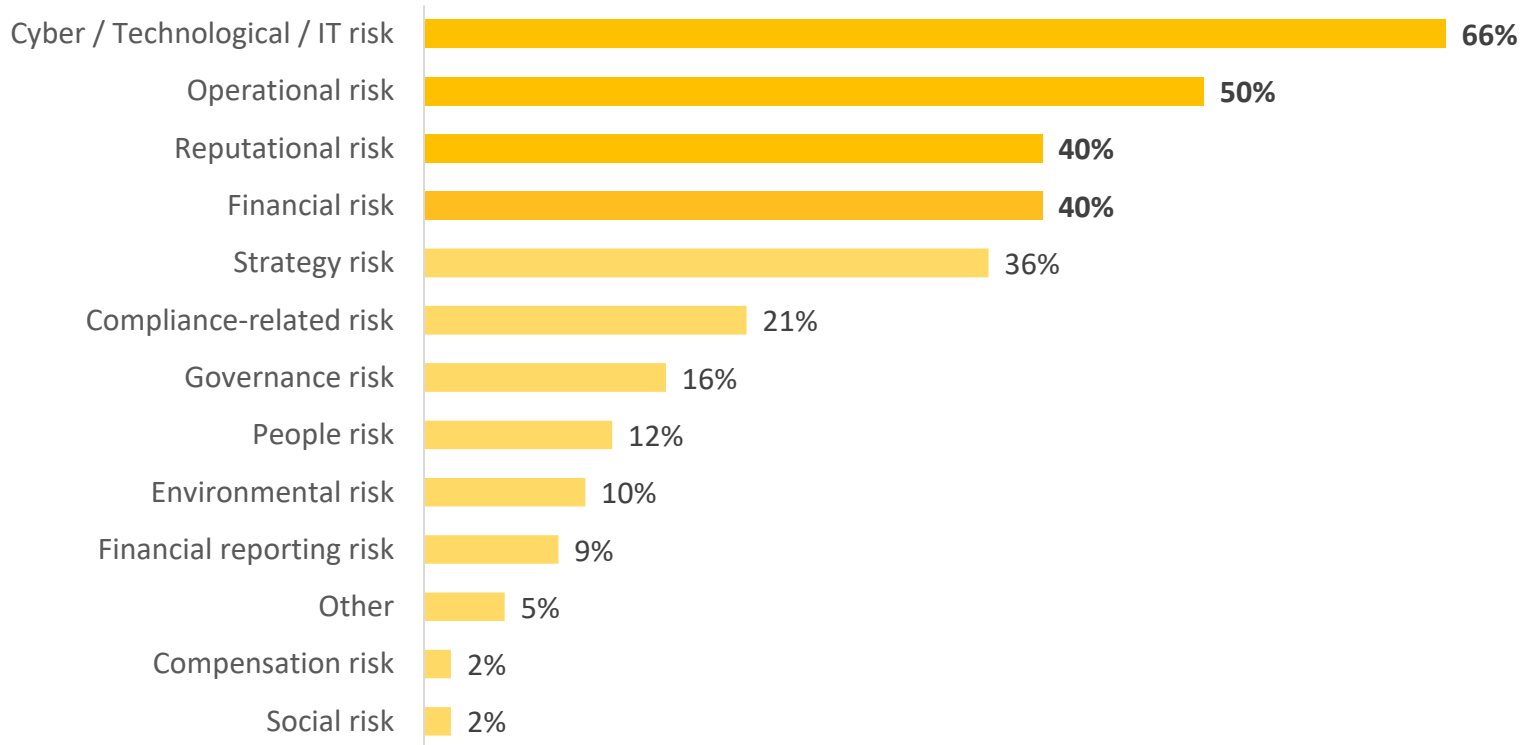


## **2. Corporate Governance Overview**

## What are your most significant corporate governance issues?



## What are the most critical types of risks faced by your organization today?

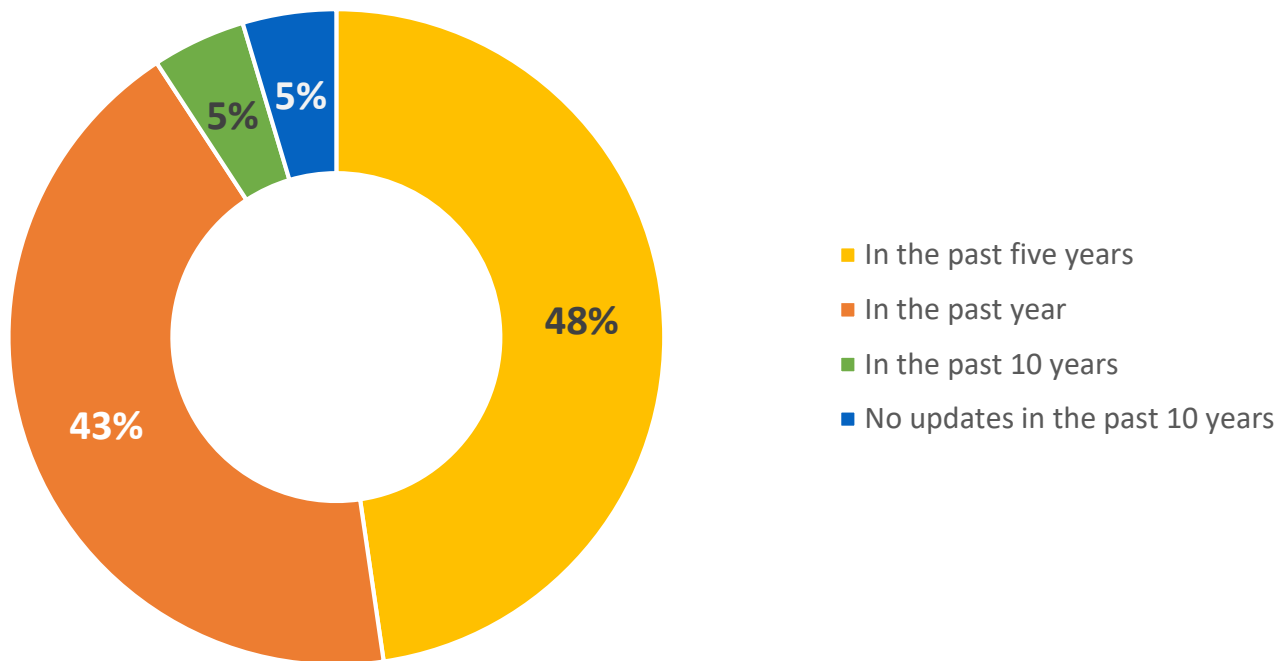




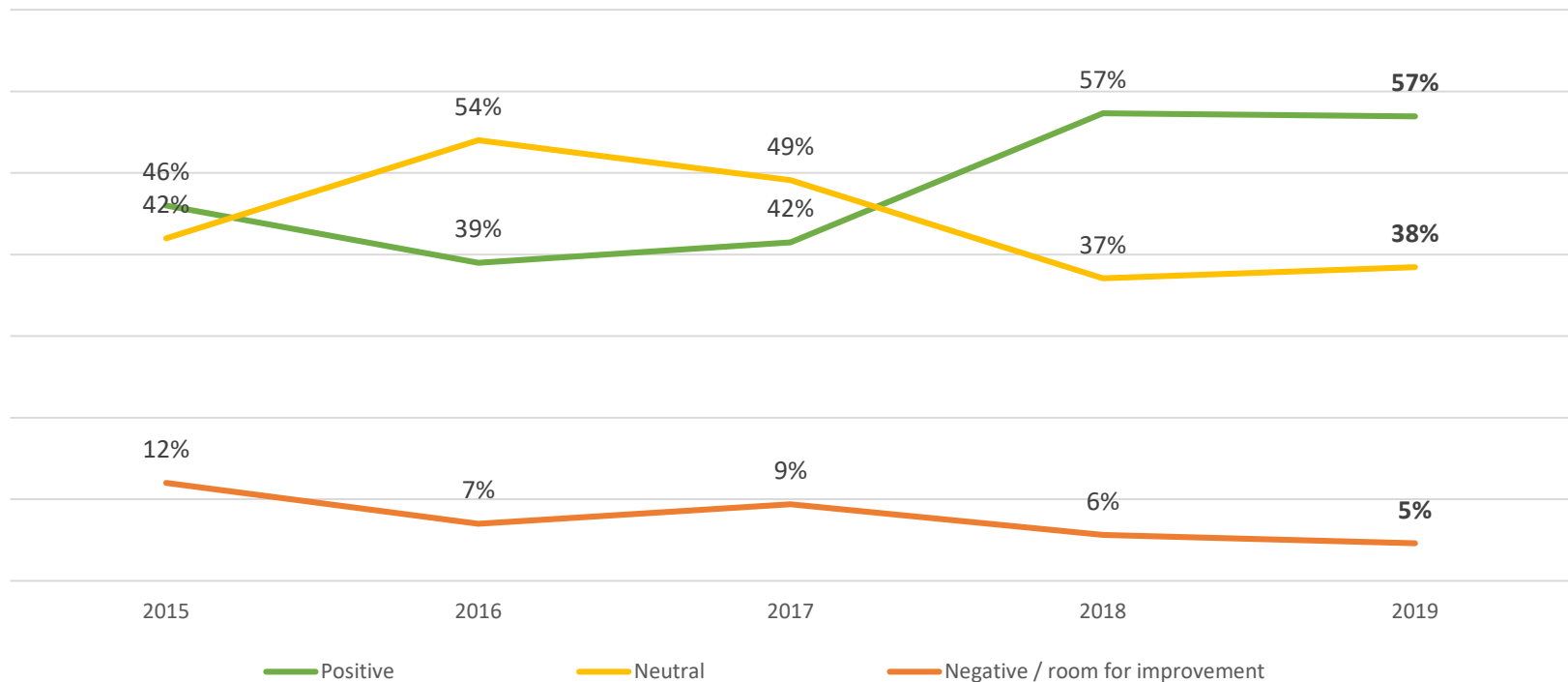
# What are the top issues for your Board?



## Have the Board and Management updated your organization's purpose, mission and / or vision?



# What is your opinion on the impact of corporate governance codes and legislation?



# **3. Trends in Sustainability Governance**

## What we explored



**Corporate sustainability governance**

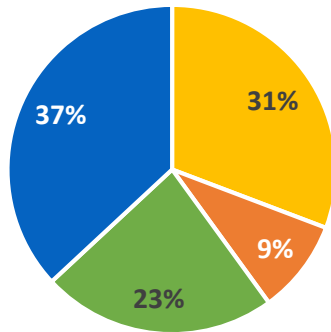
**Agreement on social and environmental risks**

**Sustainability / social purpose in incentives**

**Sustainability in Board recruitment**

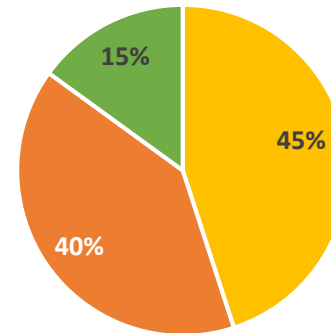
# Corporate Sustainability Governance

Formal sustainability policy in place?



- Yes
- We have separate Board-approved environmental and H&S policies instead
- No, but under consideration
- No

Frequency of review / update



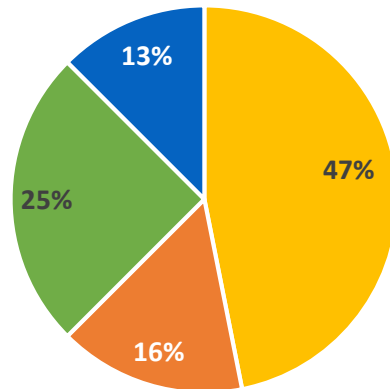
- Annually with periodic audits
- Annually
- Occasionally

## What we found:

31% of respondents have a fully-implemented formal sustainability policy in place.  
 Of the 31% with policies, 45% review / update annually.

## Formal agreement on social and environmental risks

Management and Board agreement on social and environmental risks?

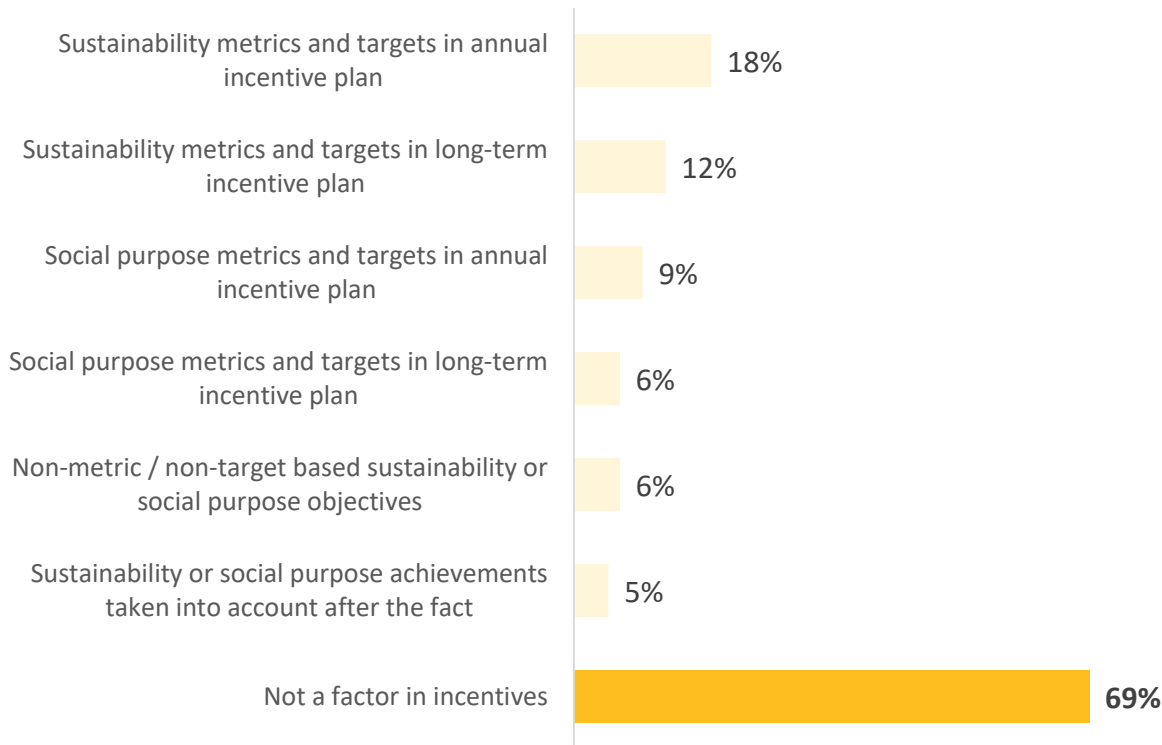


- Yes, and they are addressed in the corporate strategy / business plan
- Yes, but they are not addressed in the corporate strategy / business plan
- No
- No, but planning to

**What we found:**  
63% of all respondents have agreed upon the most material social and environmental risks, and 47% of all respondents have addressed them in their corporate strategy or business plan.

# Sustainability in incentive compensation

## Sustainability / social purpose in incentives

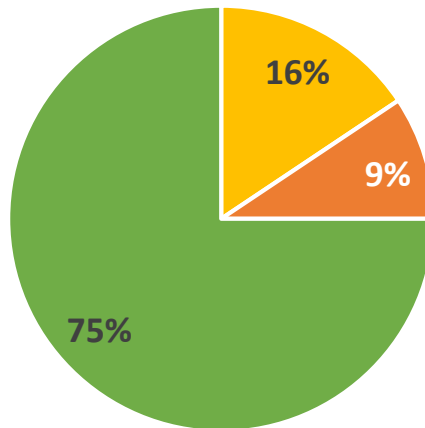


**What we found:**  
 Only 31% of all respondents have sustainability or social purpose metrics / targets incorporated into their incentive plans in some form.



# Sustainability in board recruitment

Is sustainability expertise a factor in  
Board recruitment?



- Yes, it is combined with other factors, e.g. engineering
- Yes, it is an explicit factor
- No, it is not a factor in board recruitment

**What we found:**  
Sustainability expertise is  
a factor in board  
recruitment for 25% of  
surveyed organizations.

Only 9% of surveyed  
organizations state  
sustainability expertise  
as an explicit factor

# 4. Trends in Compensation Communication

## What we explored



**Documentation of discussion**

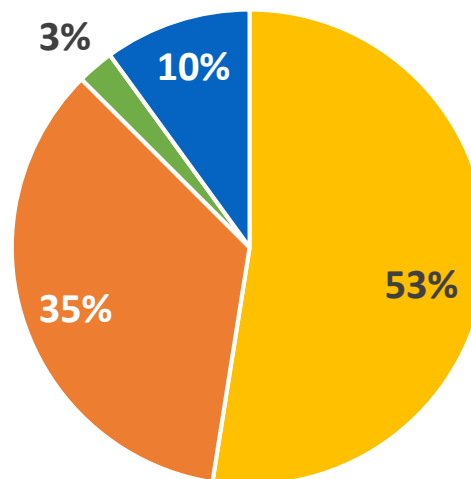
**Clarity of disclosure documents**

**Completeness and transparency**

## Documentation of discussion

**What we found:**  
88% of respondents discussed executive compensation in their disclosure materials in some form.

Is there discussion of executive compensation in disclosure material?



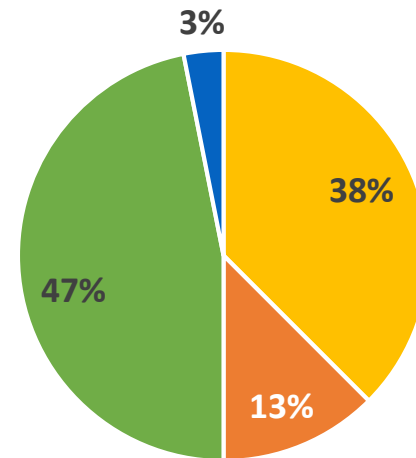
- Yes, high level only
- Yes, in great details
- No, but under consideration
- No and not planning to disclose

# Clarity of disclosure document

**What we found:**  
**Over one-third** of the participants felt their disclosure was objectively clear and concise to stakeholders.

However, **a little under half** of all participants have never conducted such a survey on perception before.

Do you feel your executive compensation disclosure document is clear and concise to stakeholders?

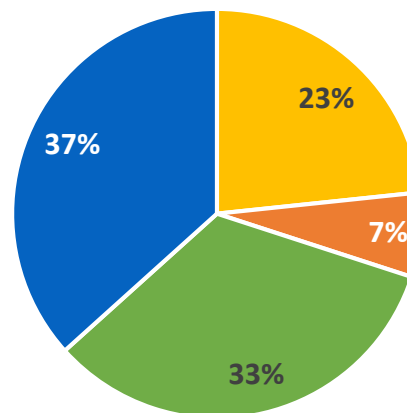


- Yes
- Yes, compared to disclosure documents in other organizations
- Unsure, have never conducted a survey to determine stakeholder perception
- No, there is room for improvement

## Completeness and transparency

**What we found:**  
**63%** of  
respondents  
described their  
compensation  
decision-making  
process in some  
form in their  
compensation  
disclosure  
document.

Is there a description of the compensation decision-making process in your compensation disclosure document?



- Yes, outlines a formal process and clearly defined roles
- Yes, outlines a formal process
- Yes, a general description provided
- No

# **5. Trends in Enterprise Risk Management Oversight and Governance**

## What we explored



**Formal risk policy implementation**

**Barriers to risk oversight process**

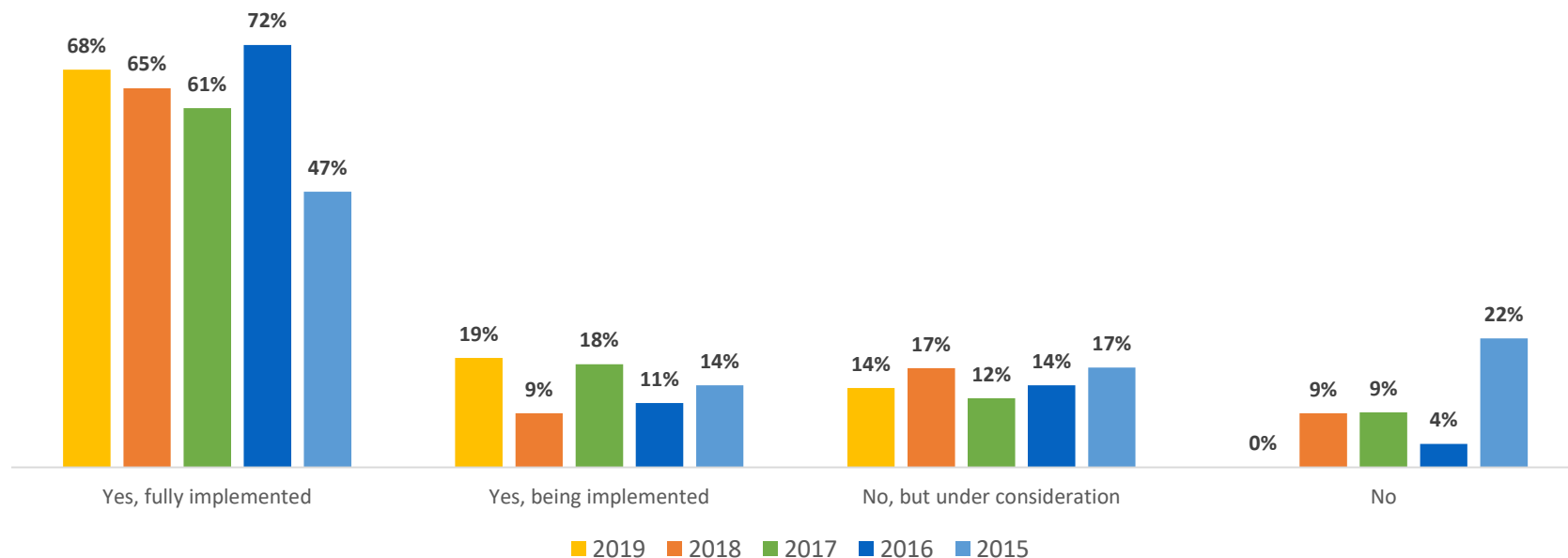
**Major risk accountabilities**

**Risk management disclosure**

**Ethics and risk**



# Formal risk policy



### What we found:

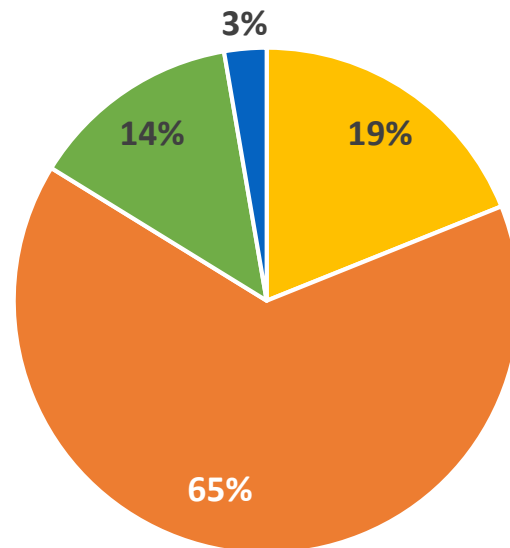
The percentage of respondents with a fully implemented formal risk policy is **68%, 3% higher than 2018**.  
 By ownership type, **crown corporations and publicly-traded companies** have the highest % of respondents with a formal risk policy.  
 By sector, **consumer and financial** organizations have the highest % of respondents with a formal risk policy.

# Barriers to risk oversight process



# Risk management disclosure

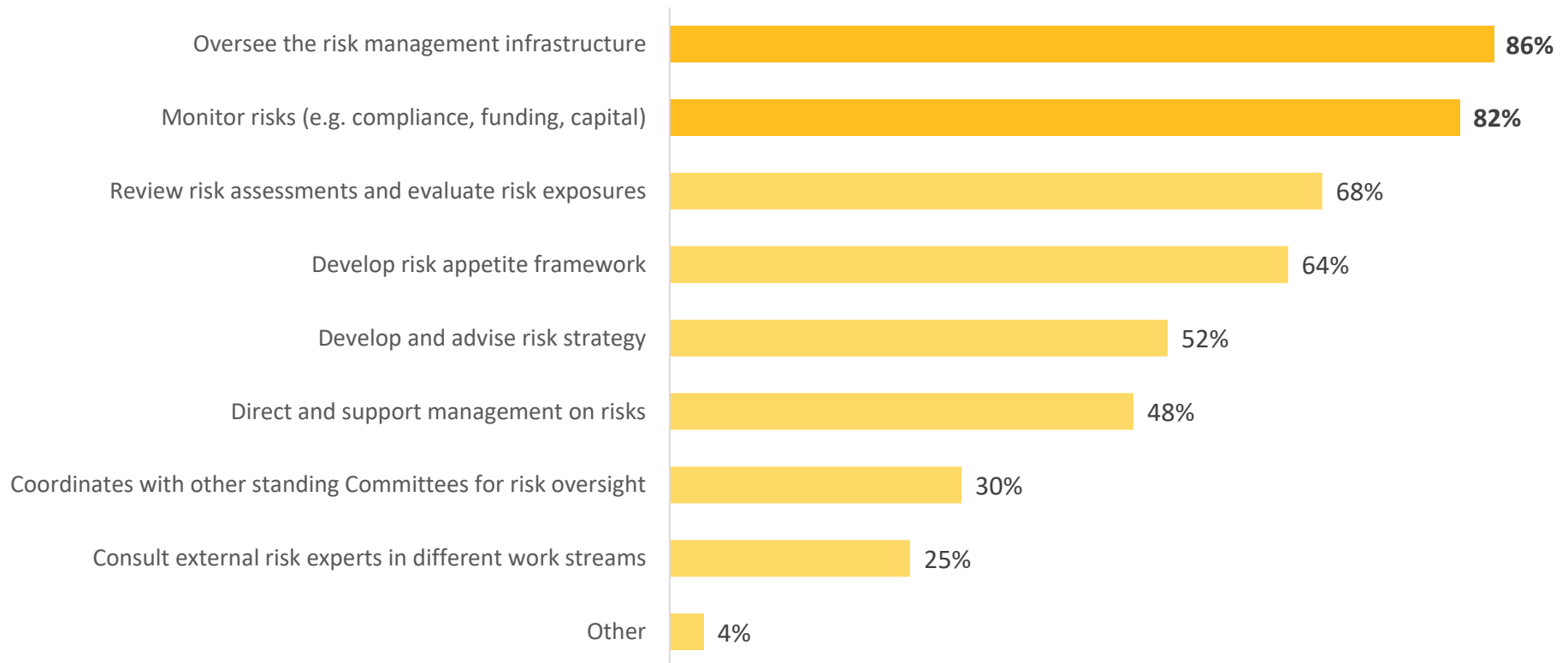
Is there discussion of risk oversight /  
management in your disclosure material?



- Yes, in great detail
- Yes, in high level only
- No, but under consideration
- No and not planning to disclose

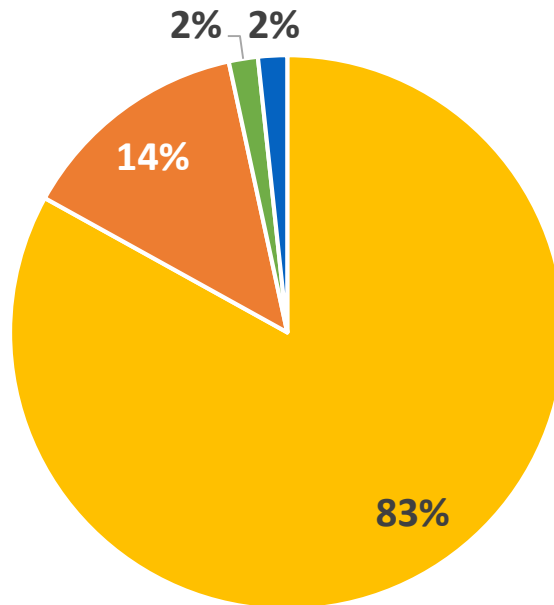
**What we found:**  
**84%** of all respondents discuss risk oversight / management in some form in their disclosure material.

# At the Board / Committee level, what are the major accountabilities with regards to risk?



# Ethics and risk

Is there an employee business conduct and ethics policy?



- Yes, all employees must sign an agreement
- Yes, but no formal signed agreement by employees
- No, but under consideration
- No

**What we found:**  
**97%** of all respondents have an employee business conduct and ethics policy in place.  
**83%** of all respondents require their employees to sign an agreement to this policy.

# 6. Trends in Engagement by a Governance Team

## What we explored



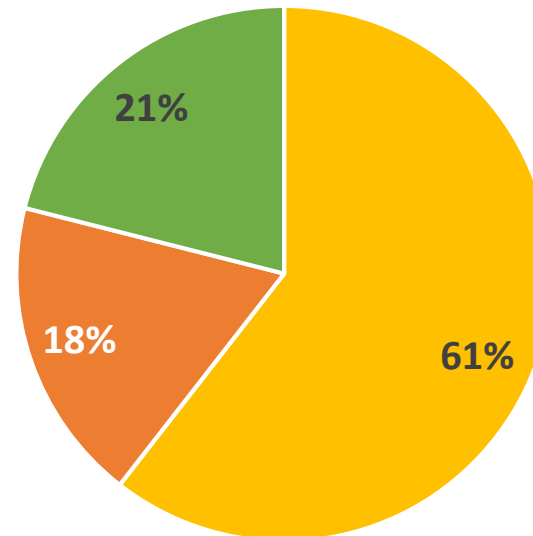
**Frequency of Board interaction**

**Stakeholder groups**

**Relationship between the IRO and Board**

## Frequency of Board interaction

**What we found:**  
61% of respondents hold a structured meeting or call with shareholders at least once per year.

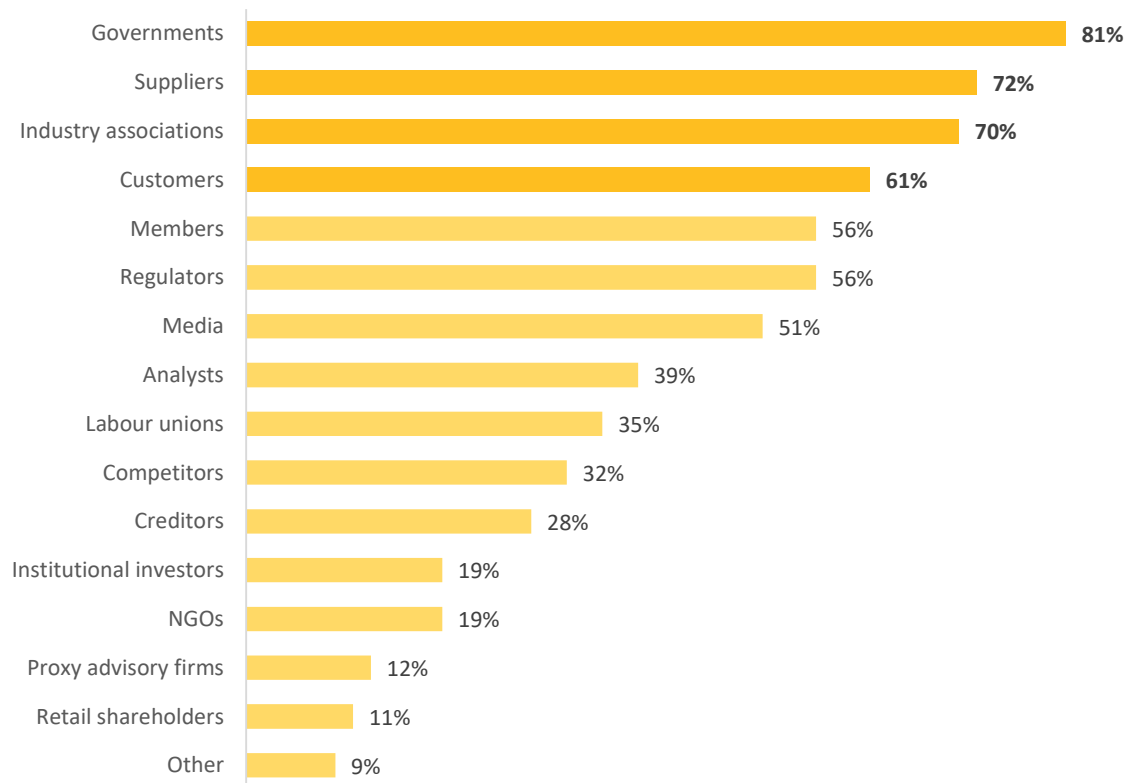


- Our Board schedules a structured meeting or call with shareholders at least once per year
- The Board does not interact directly with shareholders and relies on executives to do so
- Board members will meet with shareholders only if asked

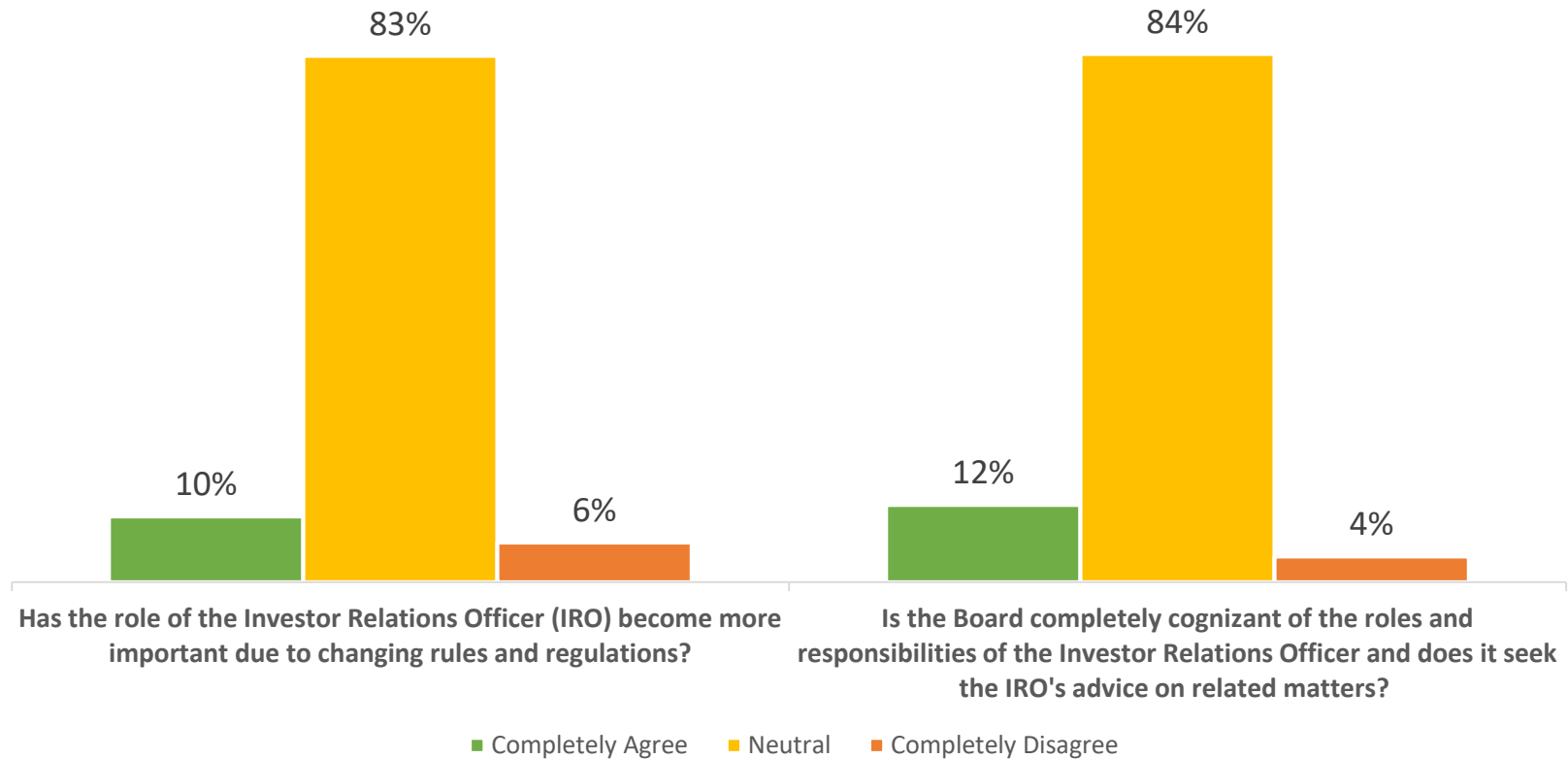


# Stakeholder groups

**What we found:**  
 Out of the most common stakeholder groups, respondents tend to interact most frequently with **governments, suppliers, industry associations and customers.**



# Relationship between the IRO and Board



# 7. Trends in Boardroom Diversity

## What we explored



**Board diversity policy**

**Board recruitment policy**

**Gender, visible minority and ethnic diversity**

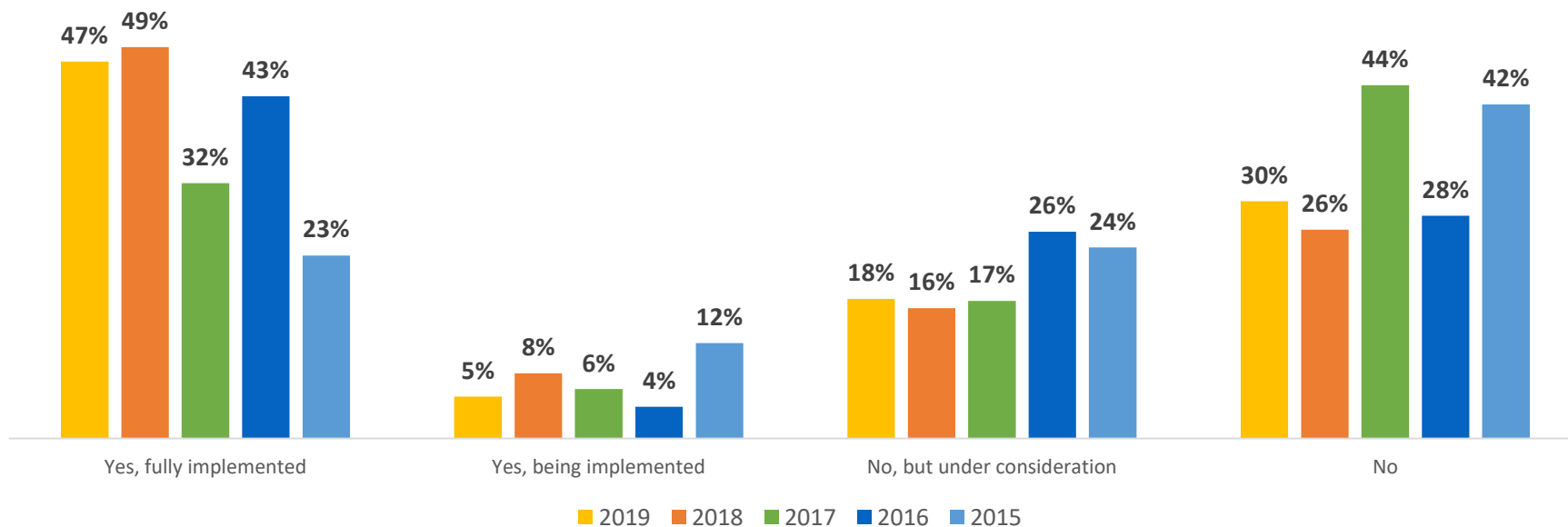
**Average age of directors**

# Diversity Snapshot for Canada

Demographic	Overview*
<b>Geography</b>	<ul style="list-style-type: none"> <li>Canada is the second-largest country in world (after Russia). The majority of the population is concentrated within 100 miles of the US border. It consists of 10 provinces: <b>Quebec, British Columbia, Nova Scotia, Ontario, Alberta and Saskatchewan</b>. The 3 territories are <b>Northwest Territories, Nunavut and Yukon</b>.</li> </ul>
<b>Major Metro Areas</b>	<ul style="list-style-type: none"> <li>Canada's four largest provinces (<b>Ontario, Quebec, British Columbia, and Alberta</b>) are also its most populous. They account for 86% of the country's population. Canada's major metropolitan areas are: <b>Toronto, Montreal, Vancouver, Calgary, Edmonton and Ottawa</b>.</li> </ul>
<b>Languages</b>	<ul style="list-style-type: none"> <li>English-only speakers account for roughly 68% of the population and French-only speakers account for 12% of the population. (2016 est.)</li> <li>French and English are both official languages of Canada.</li> <li>Approximately <b>86%</b> of Canadians have working knowledge of English while only <b>30%</b> have a working knowledge of French. (2016 est.)</li> </ul>
<b>Population</b>	<ul style="list-style-type: none"> <li>More than <b>37 million people</b> live in Canada as of May 2019.</li> </ul>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>The workforce participation rate is <b>65.4%</b> and the unemployment rate is <b>5.7%</b>. (2018 est.)</li> </ul>
<b>Race/Ethnicity</b>	<ul style="list-style-type: none"> <li>The population is approximately 77.7% Caucasian, 16.5% Asian, 3.5% Black, 4.8% Aboriginal, 1.3% Hispanic or Latino. (2016 est., based on Statistics Canada categories)</li> </ul>
<b>Gender</b>	<ul style="list-style-type: none"> <li>In 2018, 18.7 million females accounted for 50.3% of the total population, continuing a slim female majority that has held for over three decades. Roughly 61% of the female population participate in the workforce.</li> <li>However, when compared to the average Canadian man, <b>the average Canadian woman in Canada makes approximately 70%</b>.</li> </ul>
<b>Generations</b>	<ul style="list-style-type: none"> <li>The demographics of the labor force primarily span three generations: the <b>Baby Boomers (17%), Generation X (43%), and Generation Y/Millennials (22%)</b>, with <b>Generation Z</b> just beginning to enter the labour force. (2018 est.) The average age is 41, compared to 40 in 2011. (2016 est.)</li> </ul>
<b>Religion</b>	<ul style="list-style-type: none"> <li><b>Catholic 40.6%</b> (includes Roman Catholic 38.8%, Orthodox 1.6%, other Catholic .2%), <b>Protestant 20.3%</b> (includes United Church 6.1%, Anglican 5%, Baptist 1.9%, Lutheran 1.5%, Pentecostal 1.5%, Presbyterian 1.4%, other Protestant 2.9%), Muslim 6.3%, Hindu 3.2%, Sikh 1.5%, Buddhist 1.1%, Jewish 1%, none 23.9% (2011 est.)</li> </ul>
<b>Disability</b>	<ul style="list-style-type: none"> <li>As of 2018, <b>22.3%</b> of Canada's population aged 15 or over identified themselves as disabled.</li> </ul>
<b>LGBTQ+</b>	<ul style="list-style-type: none"> <li>The Canadian Community Health Survey in 2014 found that <b>1.7%</b> of Canadians ages 18-59 consider themselves gay or lesbian, and an additional <b>1.3%</b> consider themselves to be bisexual.</li> <li>As of 2005, same-sex marriage was legalized in Canada.</li> </ul>

\* Statistics are based on response categories as specified by their respective data sources

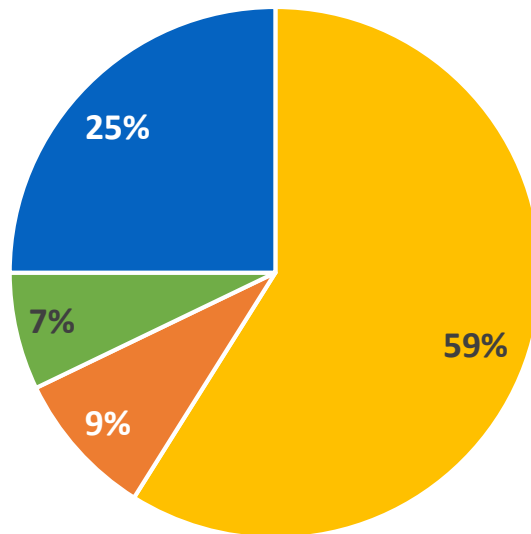
# Board diversity policy



**What we found:**  
 47% of respondents' boards have a fully-implemented Board diversity policy in place, a slight decrease from 2018.

# Board recruitment policy

Formal board recruitment policy in place?



■ Yes, fully implemented ■ Yes, being implemented ■ No, but under consideration ■ No

**What we found:**  
59% of respondents have a fully-implemented formal Board recruitment policy in place, covering practices surrounding director nominations and elections.

This number has decreased by 5% since 2018.

# Gender, visible minority and ethnic diversity

## Facts & Figures within the Canadian Boardroom

<b>4</b>	Average number of Committees
<b>96%</b>	Boards with female representation
<b>53%</b>	Boards with visible minority representation
<b>29%</b>	Boards including non-Canadians
<b>42</b>	Average age of the youngest Director
<b>56</b>	Average age of Board Directors
<b>69</b>	Average age of the oldest Director
<b>5+ years</b>	Typical tenure

### Gender diversity:

Of the respondents who disclosed their female representation, **93%** had 2 or more female directors.

### Visible minority diversity:

There is a member of a visible minority on the Board for **over half** of all respondents.

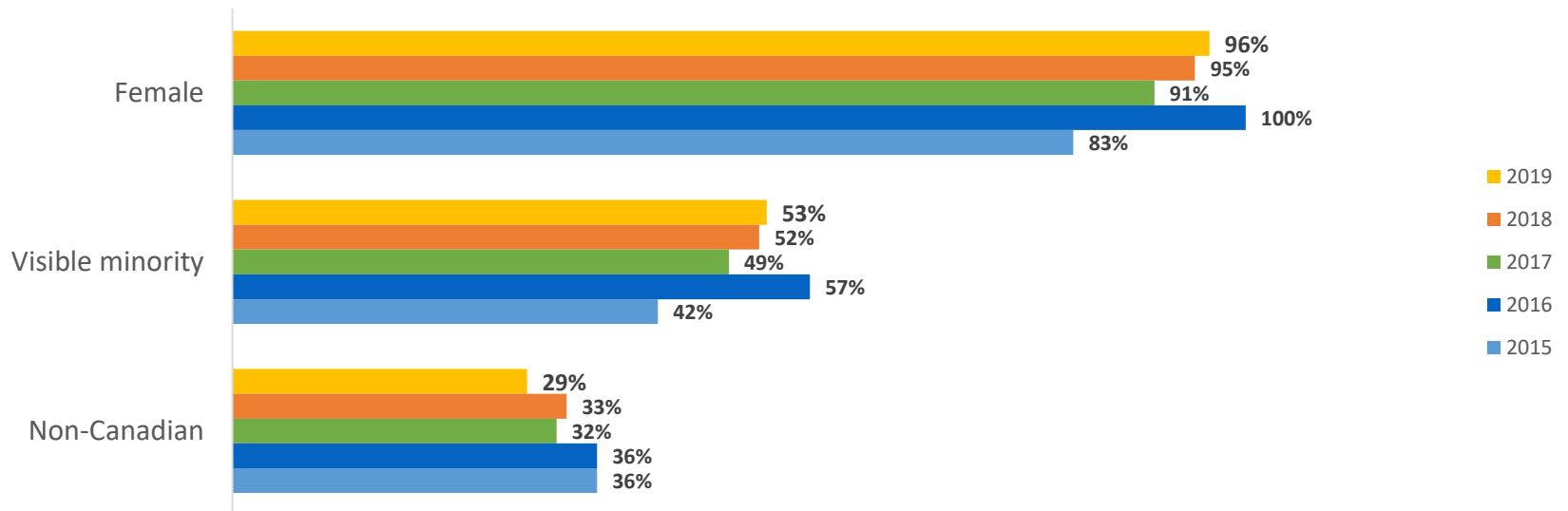
### Ethnic diversity:

Of the Boards who have a non-Canadian director, the number ranges from **1-6**



# Gender, visible minority and ethnic diversity

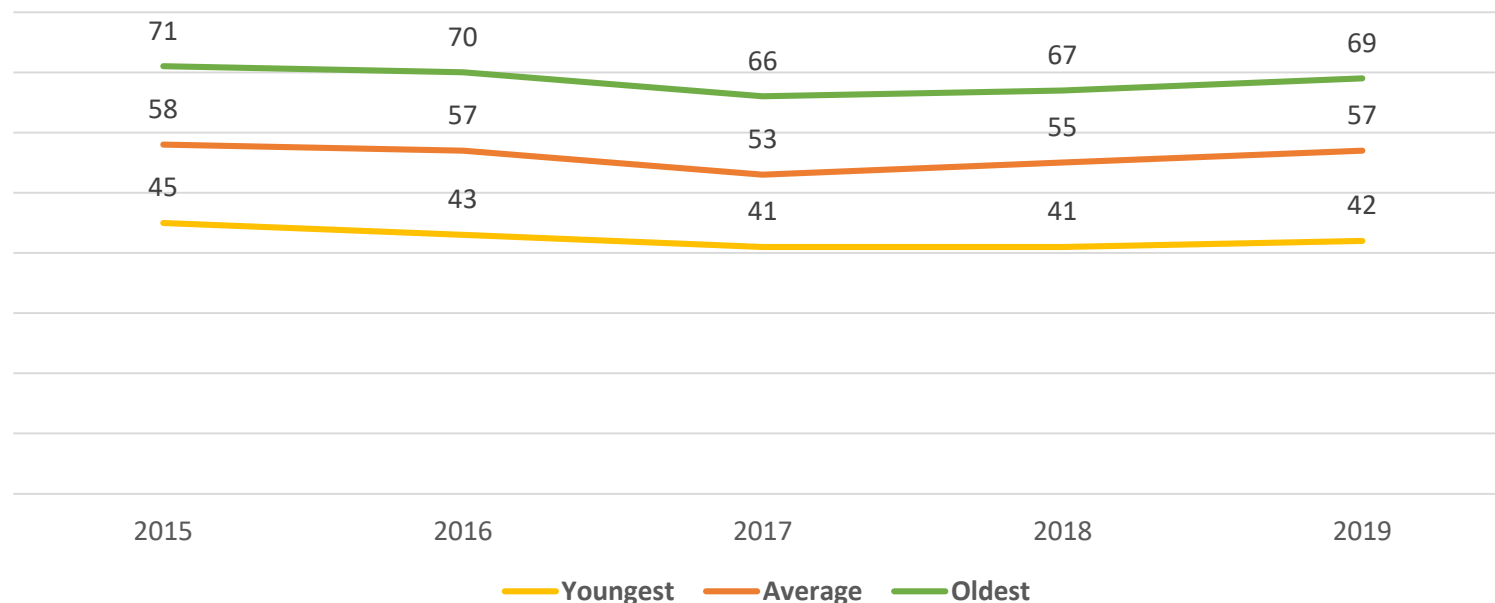
% of Board with directors that are:



### What we found:

The % of respondent Boards with visible minority and female representation has **increased** over the past 5 years, while the % of Boards with non-Canadian members has **slightly decreased**.

## Average age of directors



### What we found:

The average age for respondents' youngest, oldest and average directors is returning to 2015 averages after a brief dip in 2017.

# 8. Trends in Subsidiary Governance

## What we explored



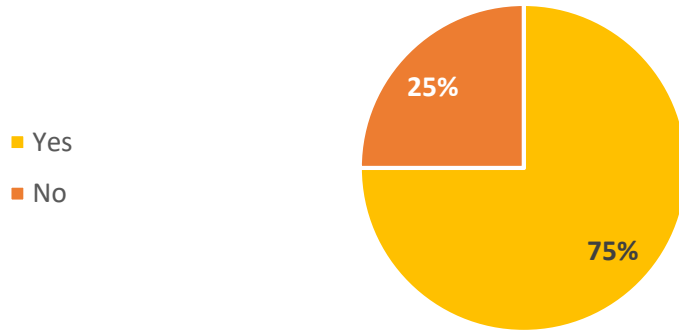
**Degree of separation**

**Degree of integration**

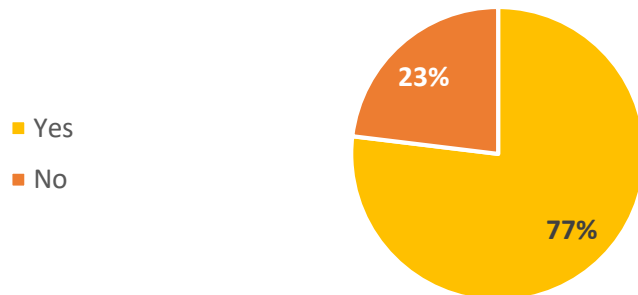
**Director orientation and education**

# Degree of separation

Separate boards of directors for significant subsidiaries?



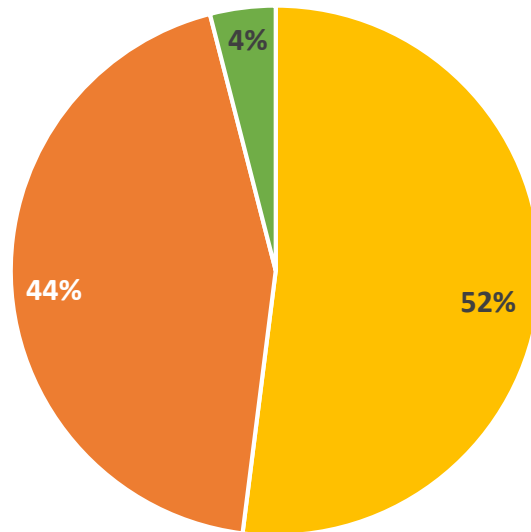
Directors serving on both the parent and the subsidiary's Boards?



**What we found:**  
**75%** of respondents have a separate Board of Directors for their significant subsidiaries.  
  
**77%** of organizations with subsidiaries have Directors who serve on the Boards of both the parent and its subsidiaries

# Integration

## Subsidiary business and risk oversight discussion frequency



■ On an ad-hoc basis ■ Every meeting ■ Every second meeting

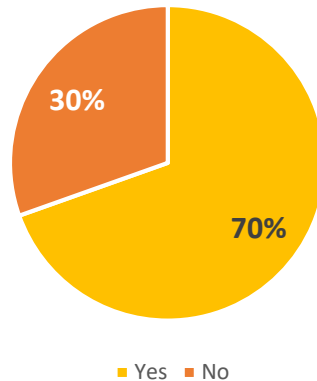
### What we found:

The most common practice for Boards is to discuss subsidiary business and risk oversight **on an ad-hoc basis**.

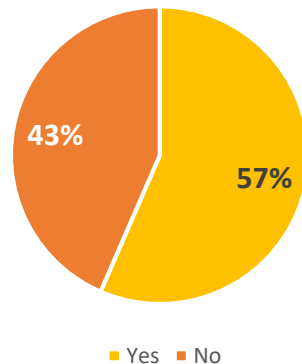
The second common practice is to discuss the matter in **every Board meeting**.

# Director orientation and education

Formal orientation for new subsidiary directors?



Director continuing education program for subsidiary directors?



**What we found:**  
 Formal orientation / on-boarding programs for new subsidiary directors are present in **70%** of the participating organizations.

**Over half** of all respondents have a continuing education program for its subsidiary directors.

# 9. Trends in Effective Board and Committee Operations



## What we explored



**Board committees**

**Frequency of Board meetings**

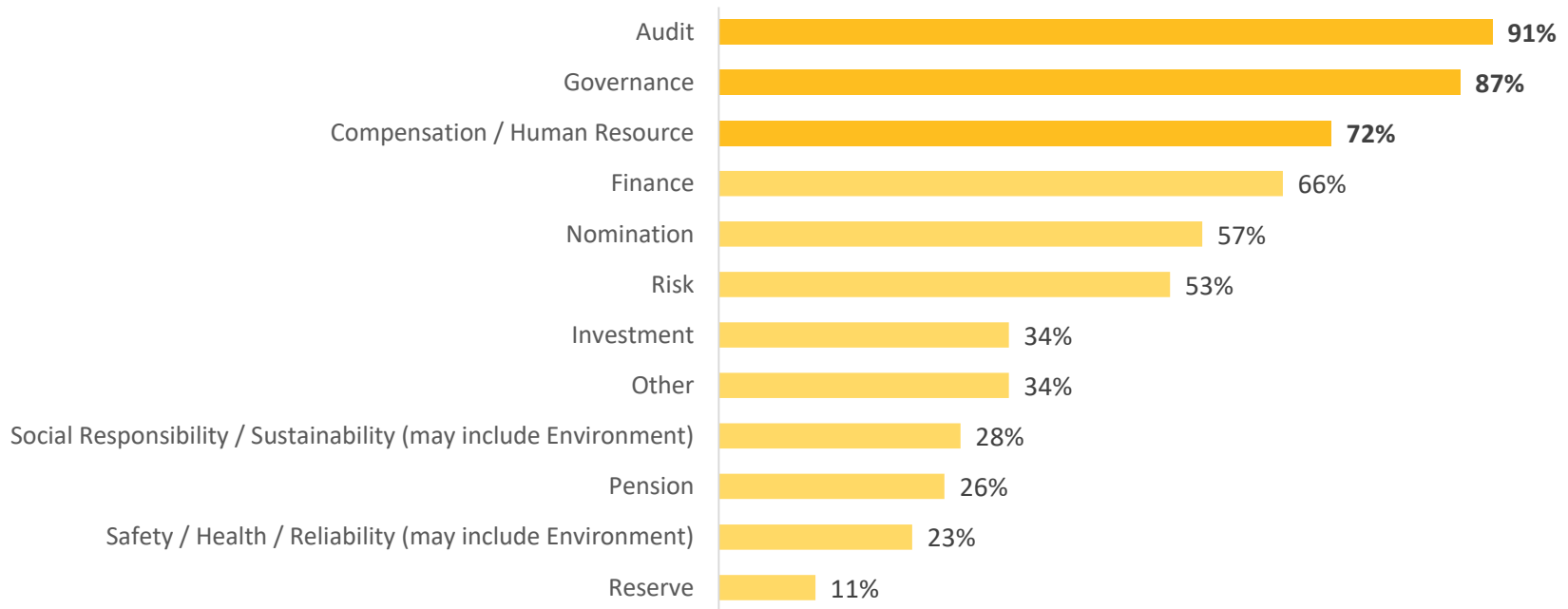
**Management performance evaluation**

**CEO succession planning**

**Board performance evaluation**

**Director orientation and education**

# Board committees

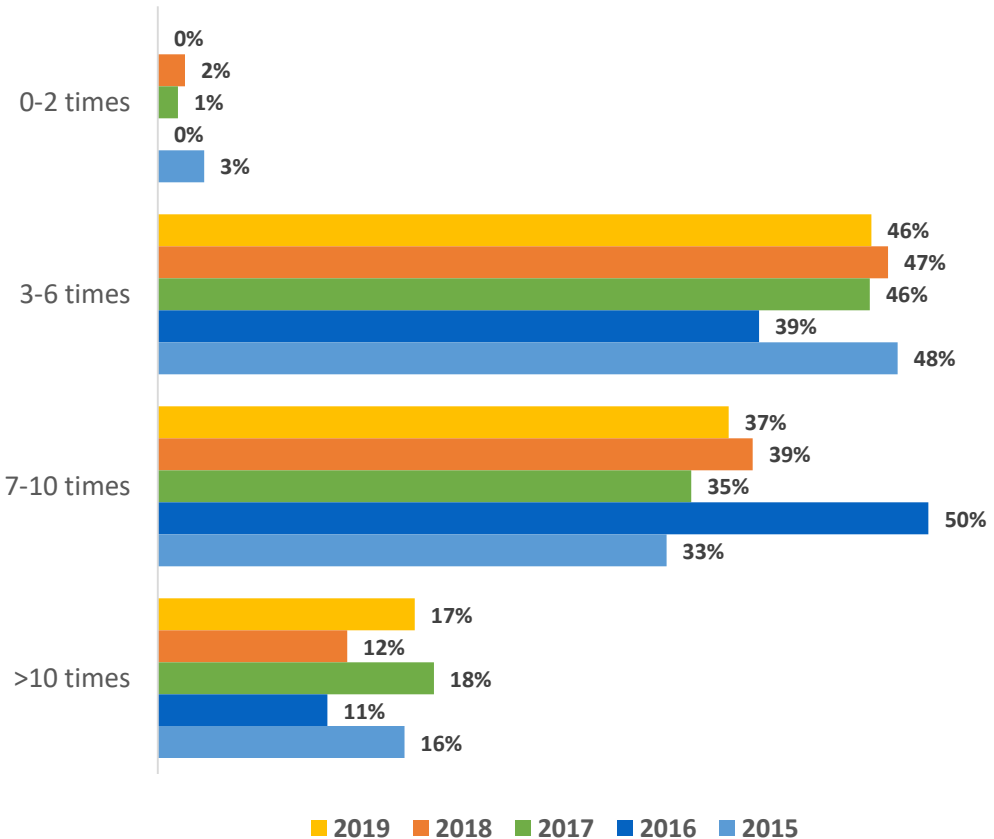


### What we found:

**Audit, Governance, and Compensation/Human Resources** have remained the top three most common Board committees since 2015.

# Board meetings

**What we found:**  
 In 2018, the most common Board meeting frequency was **3-6 times / year**.  
 Compared to previous years, a higher % of participants met **more than 10 times**.

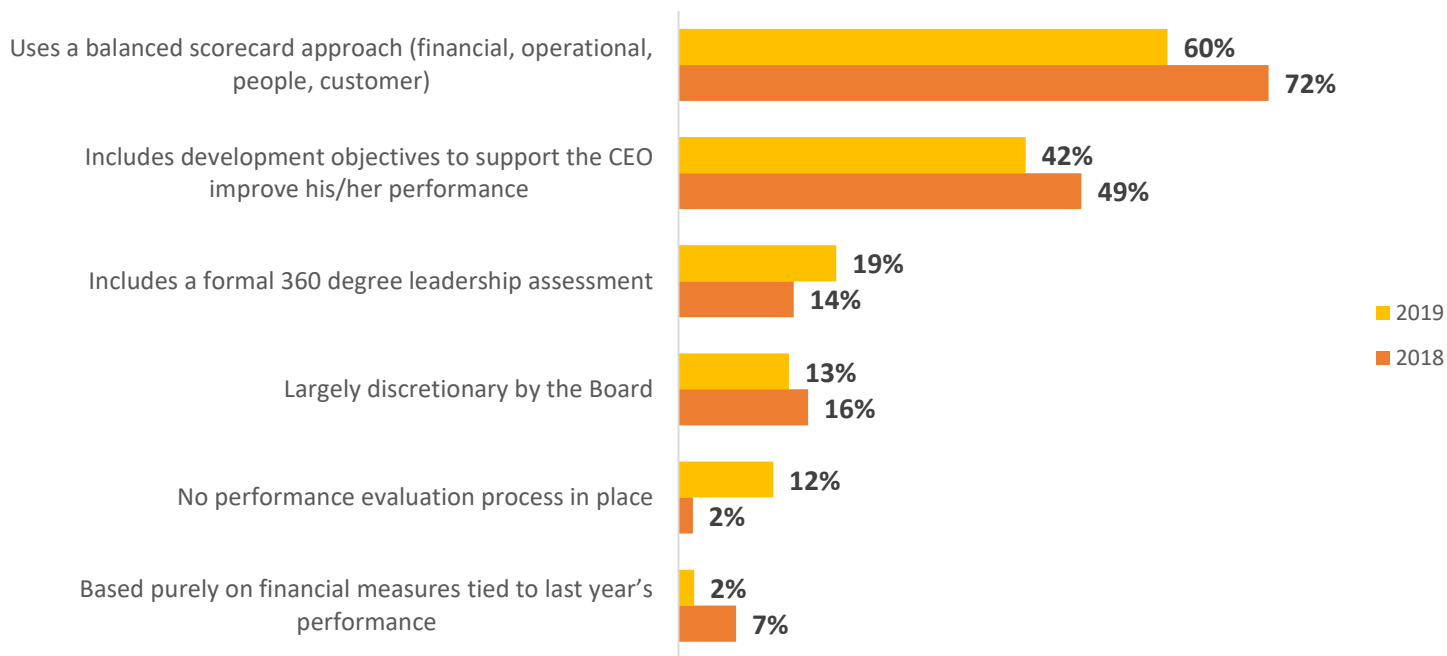


# Management performance evaluation

## What we found:

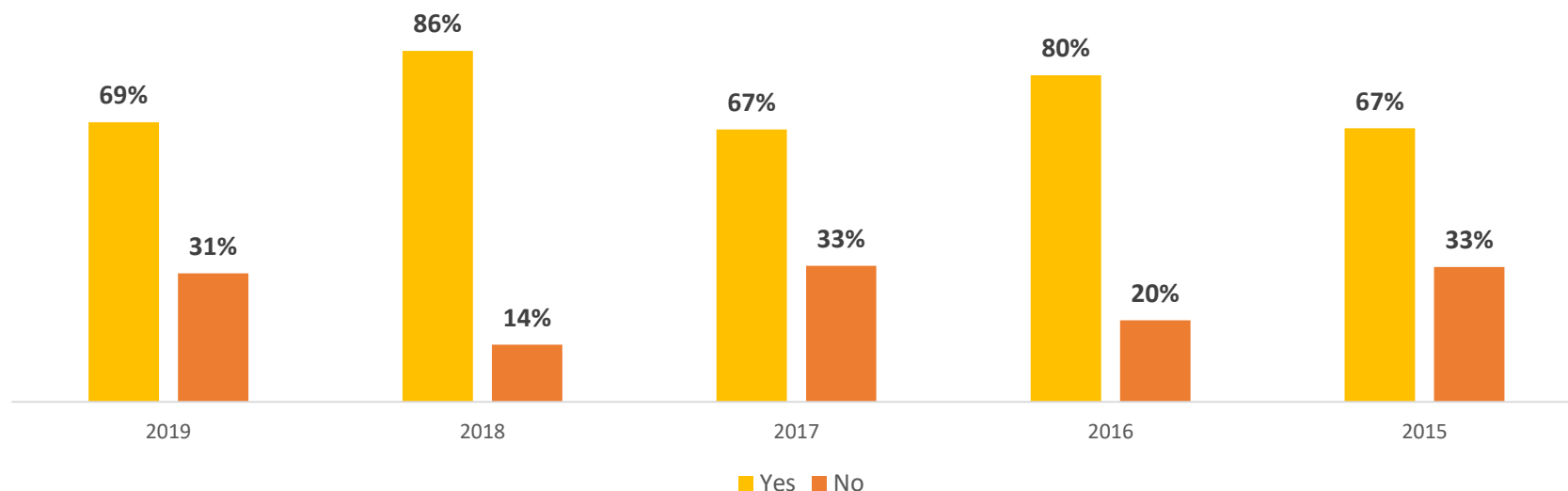
Compared to last year, a greater % of participants favour a formal 360 degree leadership assessment or a largely discretionary approach.

Elements of performance evaluation process



# Board performance evaluation

Is there a formal Board evaluation policy?

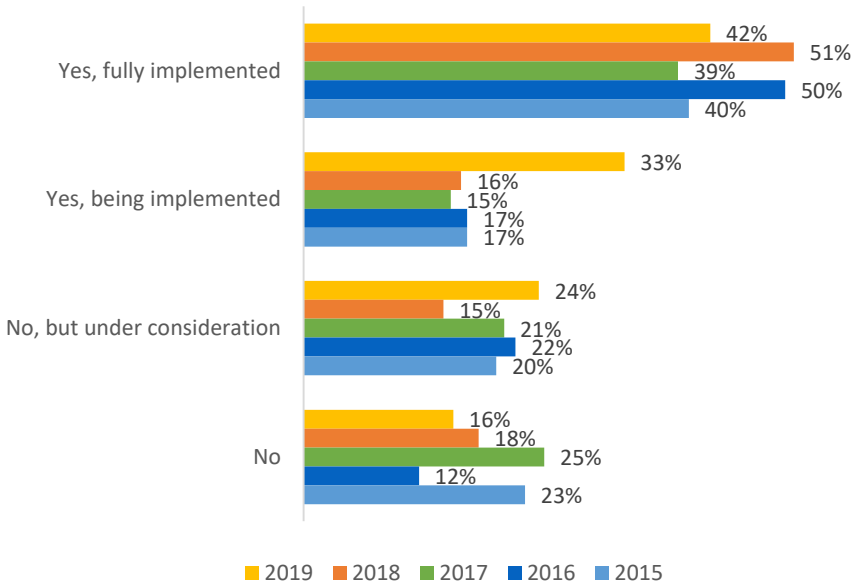


**What we found:**

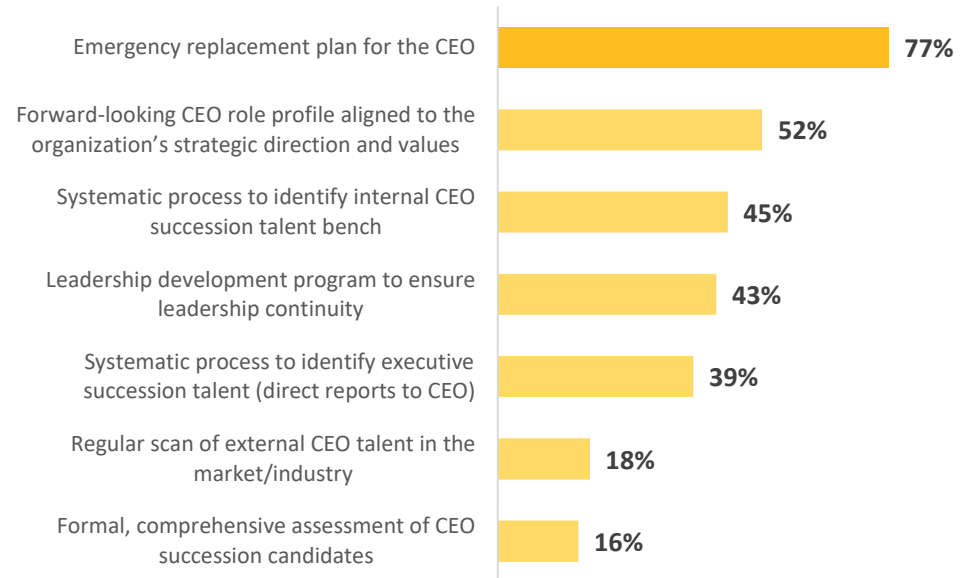
69% of organizations have a formal policy for Board performance evaluation, a drop of 17% from 2018.

# CEO succession planning

Succession plan in place?



Elements of CEO succession plan

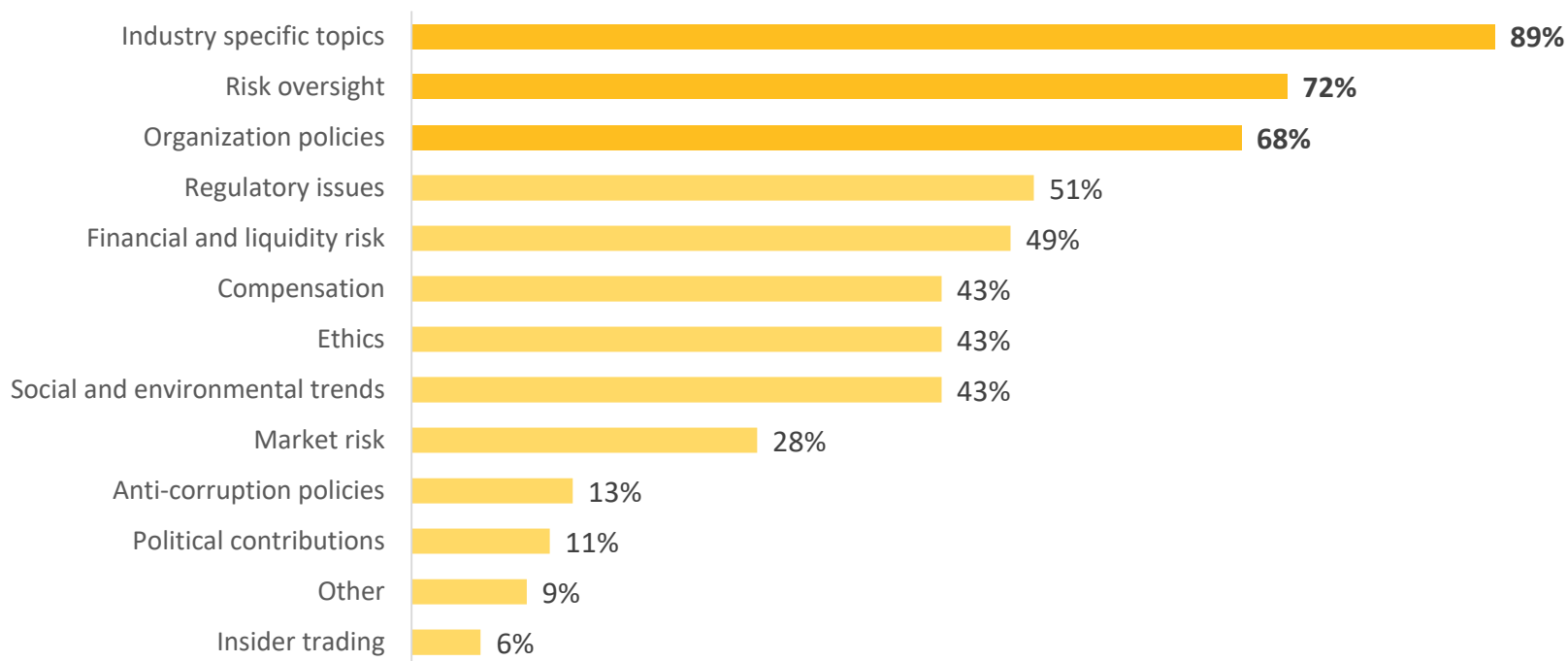


## What we found:

42% of the organizations have fully implemented a formal CEO succession planning process. An emergency replacement plan for the CEO remains the most common element in CEO succession plans.

# Director orientation and education

## Board education topics





**CHRISTOPHER CHEN**  
Managing Director, CGP



GUEST SPEAKER

**JASON MILNE**  
Principal, ESG Global Advisors



CGP will be presenting the results of the **GPC Corporate Governance Best Practices Survey**.

Joining us will be ESG Global Advisors on the importance of **ESG risk governance**.

**Register now.**



**Key Trends in  
Corporate Governance 2019**

**WEBINAR**

**September 9<sup>th</sup> at 12pm EST**

**Sign up link:** <https://www.compgovpartners.com/corporate-governance-2019-sign-up>



## Who to contact



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E: [cchen@compgovpartners.com](mailto:cchen@compgovpartners.com)

- **Christopher Chen** is the Managing Director of Compensation Governance Partners, based in Toronto
- Christopher advises clients on supporting stakeholder value through effectively aligning organizational strategy to executive pay
- Prior to CGP, Christopher was the National Executive Compensation Practice Leader of a multinational human resources consulting firm
- As a lawyer and in-house advisor, he provides deep technical and industry expertise to his clients in all aspects of executive compensation and governance

