2017 Corporate Governance Best Practices Report

In collaboration with:

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Executive summary

This report outlines the prevalent corporate governance policies and practices among organizations in Canada. There were 106 participants for the survey this year, compared to 81 participants in 2016.

Corporate governance overview

The most significant corporate governance issue continues to be risk management and oversight. Operational, reputational and cyber risk are the risks most commonly perceived as most critical by organizations. Strategic planning, risk management and succession planning are ranked as the top three board matters in 2017.

Corporate sustainability governance

The number of organizations with formal sustainability policies has decreased from 2016. Currently, less than half of respondents have a formal sustainability policy. However, over three quarters of organizations have implemented several sustainability initiatives, with improving energy efficiency being the most common initiative.

Compensation communication

Approximately three quarters of the participants discuss executive compensation in their disclosure material. The responsibility for the executive compensation disclosure document is most commonly delegated to the human resources / compensation committee. The compensation disclosure document is most commonly available to the board of directors, executive management team and general public.

Enterprise risk management oversight and governance

61% of organizations have a fully implemented formal risk policy in place, a drop from 72% in 2016. In the majority of organizations, accountability for enterprise risk oversight and governance is shared between the board and standing committees. The top barrier to risk oversight is a gap in risk reporting, where there is a barrier in methodology, data and / or the tracking system.

Engagement by a governance team

The number of boards who schedule a structured meeting or call with shareholders at least once per year has increased to 53% from 47% in 2016. Media and regulators continue to be the most common stakeholder groups that interact with organizations.

Boardroom diversity

The number of organizations with a formal board diversity policy has decreased from 2016. Currently, 32% of organizations have a fully implemented formal board diversity policy in place, half of which are publicly traded organizations. 91% of the organizations report having at least one female director on the board.

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Subsidiary governance

84% of organizations report having a separate board of directors for the organization's significant subsidiaries. 35% of organizations have a written subsidiary governance framework in place and 38% of the organizations adopt formal board mandates and position descriptions at the subsidiary level.

Effective board and committee operations

When comparing the past four years, 2017 has the second highest prevalence of organizations with a formal policy for board performance evaluation. The most common board performance evaluation methodology is conducting an individual peer-evaluation survey led by the corporate secretary or other in-house personnel. Almost half of respondents reported that the majority of their directors attended an education program in the past year. The most common education topics include industry specific topics, risk oversight and organization policies.

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Introduction

Welcome to the 2017 corporate governance best practices report, an annual report reflecting the trends of corporate governance in Canada since 2013. This year, Korn Ferry Hay Group, along with the Governance Professionals of Canada (GPC), conducted surveys with corporate secretaries and other governance professionals at 106 organizations across the country. This report highlights the key findings of our research, outlines the views shared by survey respondents and provides greater context on the current corporate governance landscape in Canada.

The Governance Professionals of Canada (GPC)

The GPC is a leading resource for corporate secretaries and corporate governance professionals. It is recognized as being the most important professional organization for good corporate governance in Canada. Aside from striving to enhance the visibility and credibility of the office of the corporate secretary, it also offers a unified voice and proven tools for best practices in corporate governance.

Korn Ferry Hay Group

Korn Ferry is the preeminent global people and organizational advisory firm. We help leaders, organizations, and societies succeed by releasing the full power and potential of people. Through our Executive Search, Hay Group, and Futurestep divisions, our more than 7,000 colleagues deliver services in the following areas:

- Strategy execution and organization design.
- Talent strategy and workforce design.
- Rewards and benefits.
- Assessment and succession.
- Executive search and recruitment.
- Leadership development.

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Our approach

Korn Ferry Hay Group, in partnership with GPC, conducted the 2017 corporate governance practices survey (Appendix), which included 106 respondents from organizations of varying sizes, industries and structures. We sought perspectives on the following topics:

1. Corporate governance overview.
2. Corporate sustainability governance.
3. Compensation communication.
4. Enterprise risk management oversight and governance.
5. Engagement by a governance team.
6. Boardroom diversity.
7. Subsidiary governance.
8. Effective board and committee operations.

The results from these areas have been summarized and presented in this report. Additionally, these results were used during the nomination process for the annual GPC Excellence in Governance Awards. The categories for these awards are similar to those conducted via the online survey described above, and include:

1. Best practices in sustainability and environment, social and corporate governance (ESG).
2. Best compensation communication.
3. Best practices in enterprise risk management.
4. Best engagement by a governance team.
5. Best practices to enhance boardroom diversity.
6. Best practices in subsidiary governance.
7. Best approach to achieving effective board and committee operations.
8. Best practices in strategic planning, oversight and value creation by the board.
9. Best overall corporate governance.

Methodology

Several question formats are used in the survey, including multiple choice and rating options in order of preference. '*Not applicable*' responses were excluded from the analysis.

It should be noted that findings illustrate trends for respondents. Additional comments have been provided where differences between data cuts, such as differences in ownership structure, have been identified.

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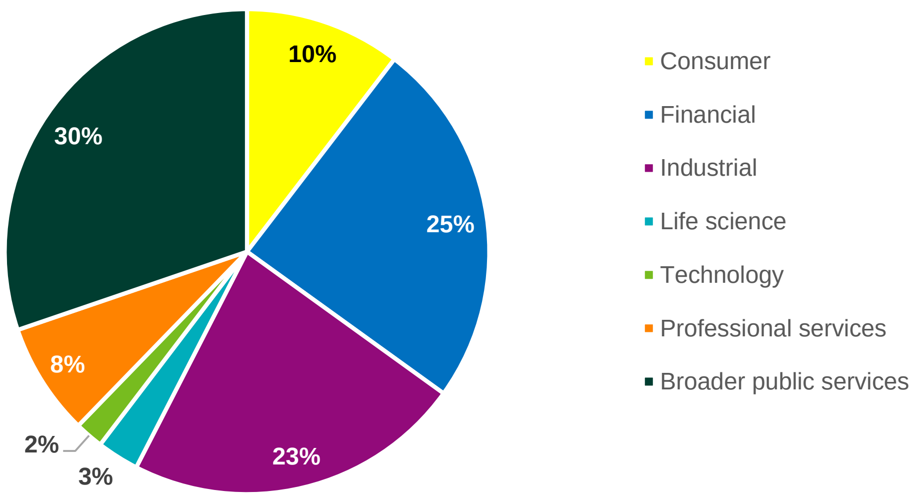
Participant profile

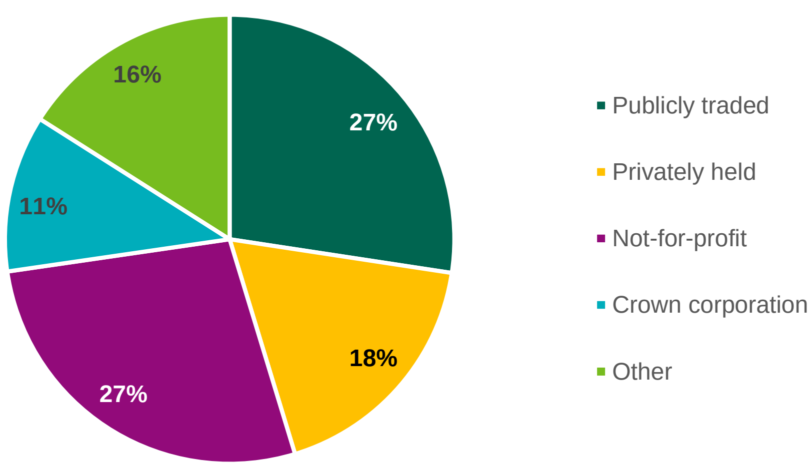
The respondents are grouped into seven industries in total; the industries with the most responses are the broader public services sector and financial sector.

Respondents by industry



In terms of ownership structure, the highest percentage of organizations are either publicly traded or not-for-profit organizations. One in two respondents have 500 employees or fewer. More than 70% of the participants either have less than $100M in revenue, or over $1B in revenue.

Respondents by ownership structure



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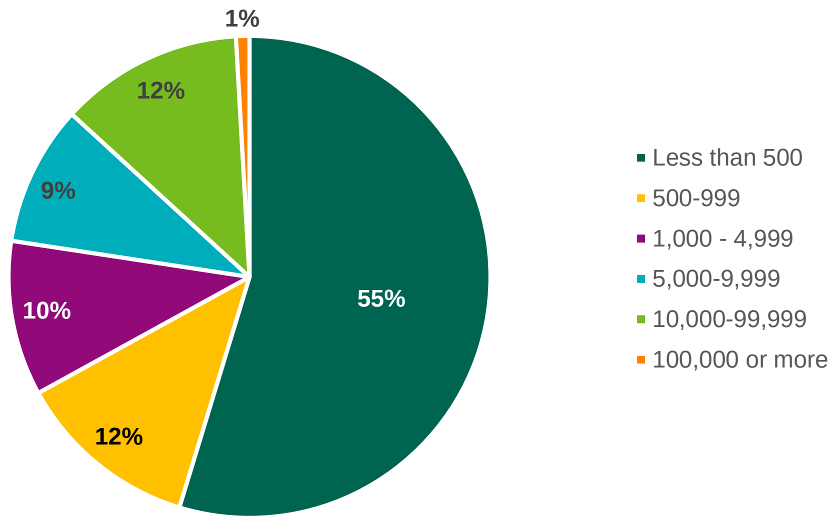
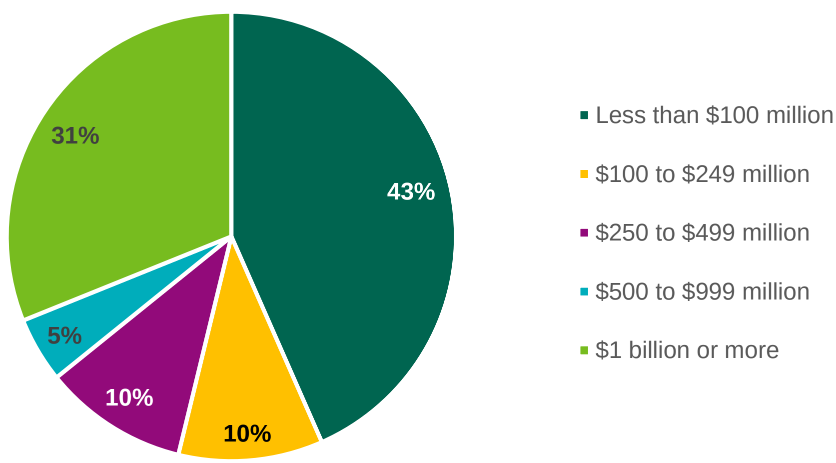
Respondents by number of employees



Respondents by total annual revenue



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Corporate governance overview

This section covers topics including risk management and oversight, corporate governance legislation, formal policies and strategic planning.

The most significant corporate governance issue is risk management and oversight. The figure below indicates other pressing issues such as CEO succession planning, board diversity, cyber risk, executive bench strength and succession and dynamic regulation compliance.

Most significant corporate governance issue

As with the last 3 years, “risk management and oversight" and "board diversity" remain two of the top three corporate governance issues. However, "dynamic regulation compliance and its impact on business” has been replaced by “CEO succession planning” this year. The top issues can be different for respondents of different industry types and ownership structures. For instance, “risk management and oversight” is a top issue for every type of organization across different ownership structures except for privately held corporations, where CEO succession planning is the most significant issue.

Operational and reputational risks are the most common types of risk perceived as the two most critical risks for participating organizations. Compensation risk and financial reporting risks were reported as the least critical risks.

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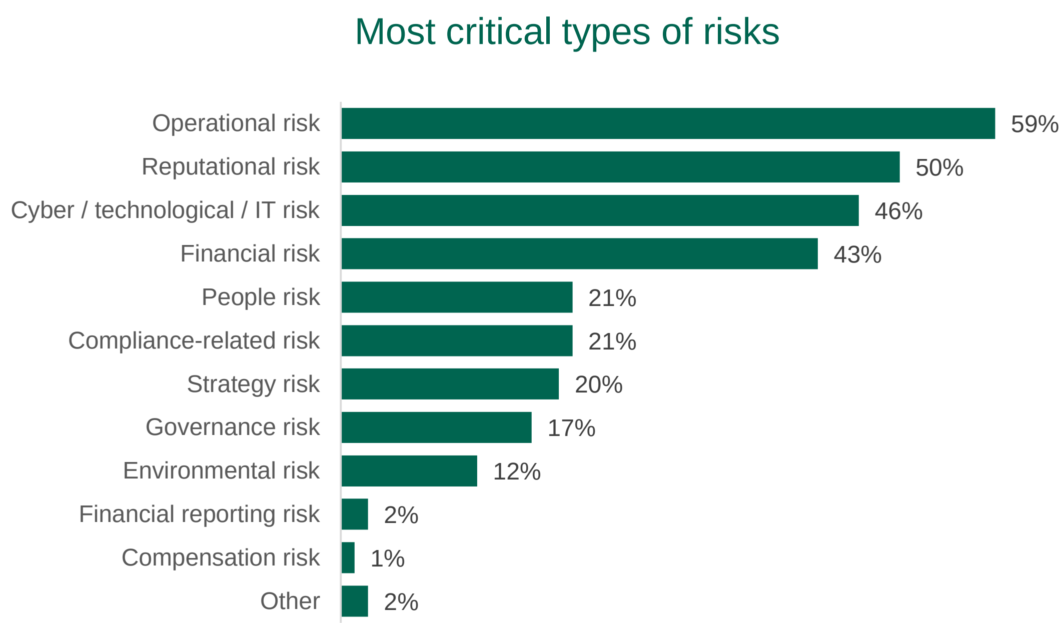
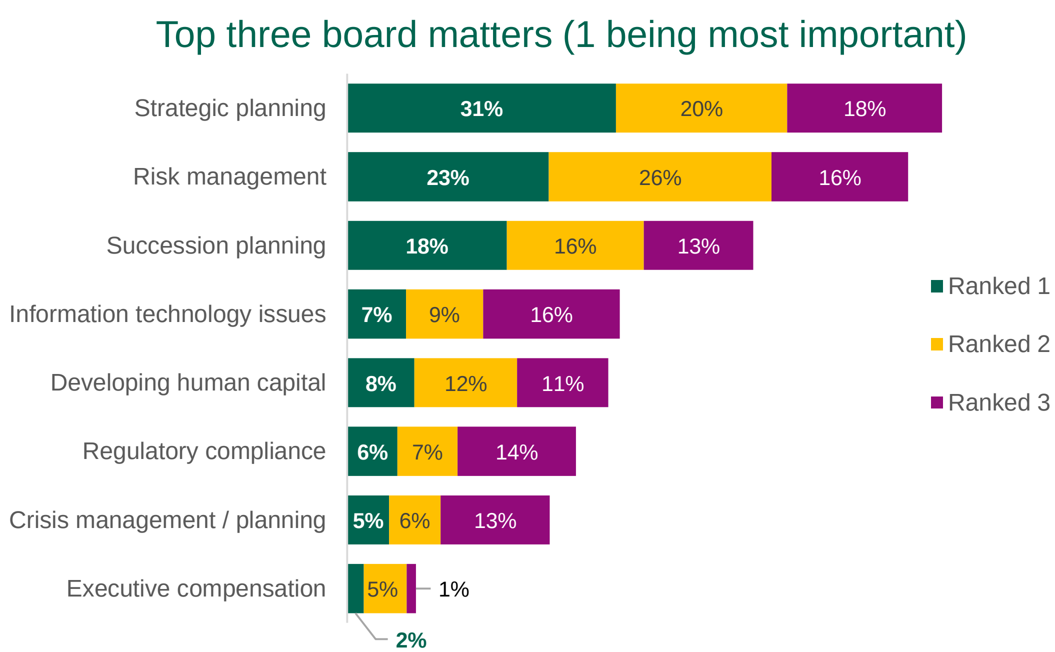


Top board matters

The top three issues for boards remain the same as last year – strategic planning, risk management and succession planning. The percentage of respondents who ranked strategic planning as the top board issue decreased from 37% in 2016 to 31% in 2017. The prevalence of risk management and succession planning being ranked as the top issue increased by 5% since 2016.



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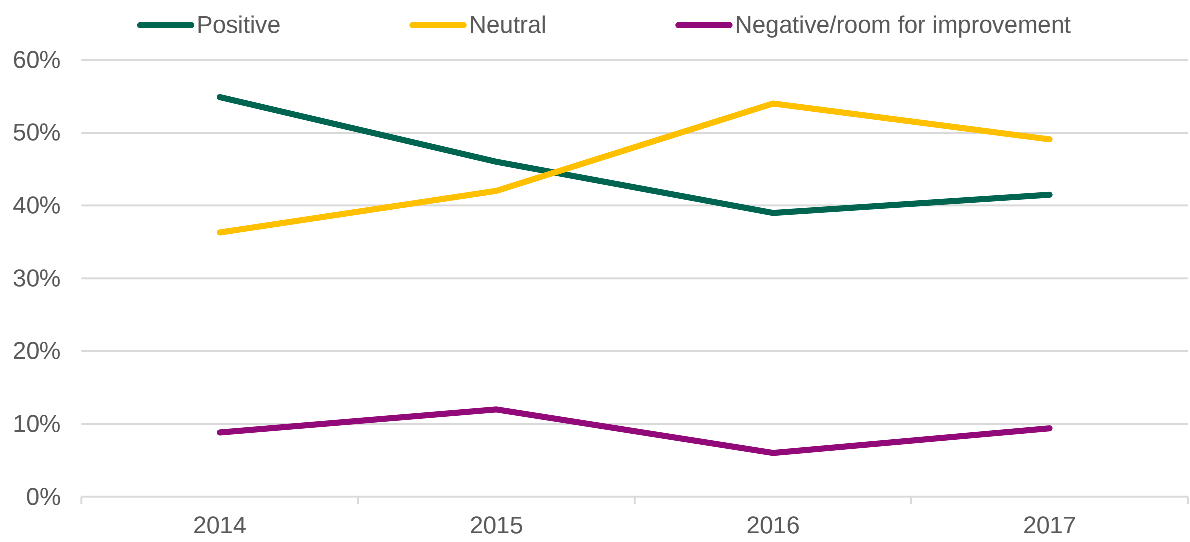
Corporate governance legislation

About half of respondents believe corporate governance codes and legislation had a neutral impact on board operations. As shown in the figure below, the number of respondents who perceive the impact of corporate governance legislation to be positive or negative has increased from 2016.

Impact of corporate governance codes and legislation



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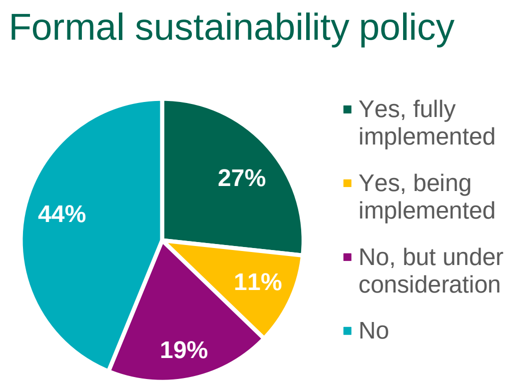
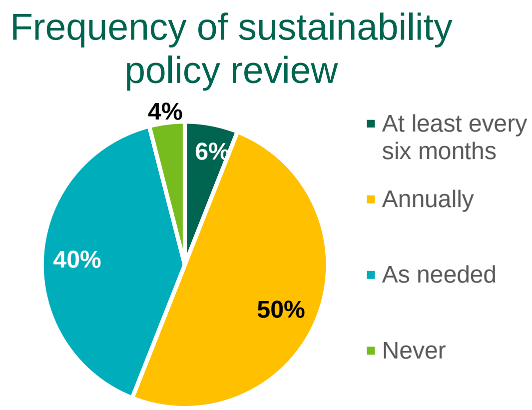
Corporate sustainability governance

This section includes information related to corporate sustainability governance, sustainability initiatives and related policies.

Sustainability policy





The majority of the respondents do not have a formal sustainability policy in place. 27% of the respondents have a fully implemented formal policy in place. Also, one in every two organizations with a formal sustainability policy in place review their policy annually.

Environment

Most organizations have implemented several sustainability initiatives, as shown in the figure below. Improving energy efficiency has remained the most popular initiative each year since 2014.

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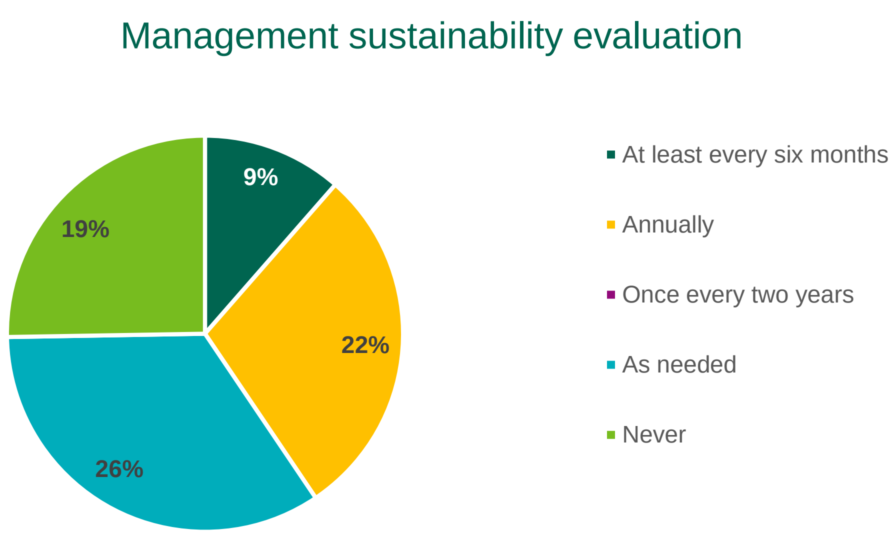
As illustrated below, one out of every four participants have their board assess management's performance on sustainability initiatives on an as needed basis. Around 22% of participants reported having their management sustainability evaluation conducted annually.



For the broader public services, industrial, professional services, and consumer sectors, the most common practice for sustainability evaluation is to perform the evaluation on an as needed basis. For the financial, life science, and technology sectors, the most common practice is to perform the evaluation annually.

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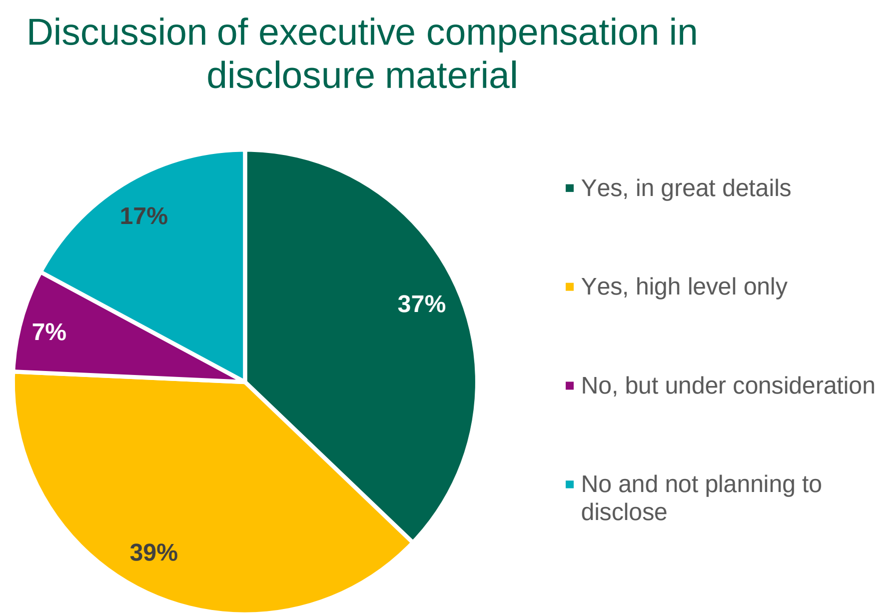
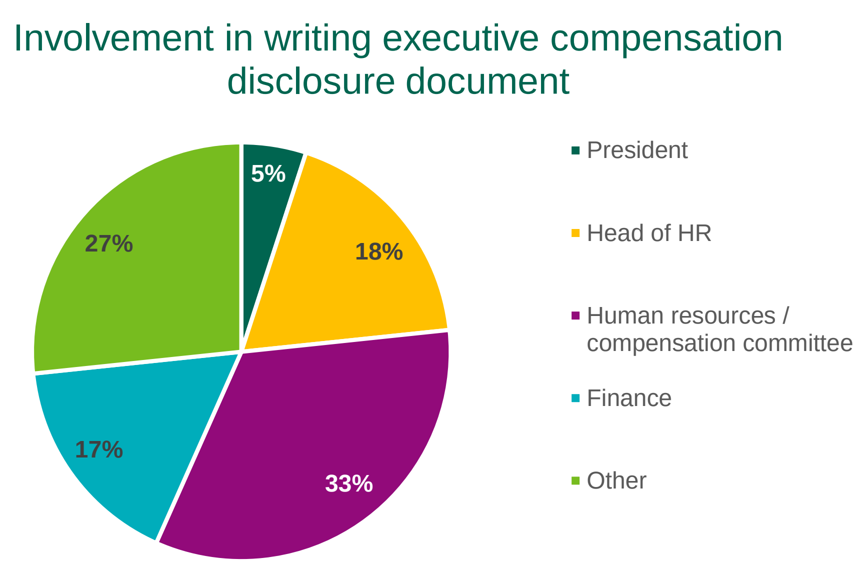
Compensation communication

Approximately 75% of the participants discuss executive compensation in their disclosure material with 37% disclosing detailed information about their executive compensation.



As illustrated in the chart below, one in every two participants involve their head of HR or human resources / compensation committee in writing the executive compensation disclosure document.



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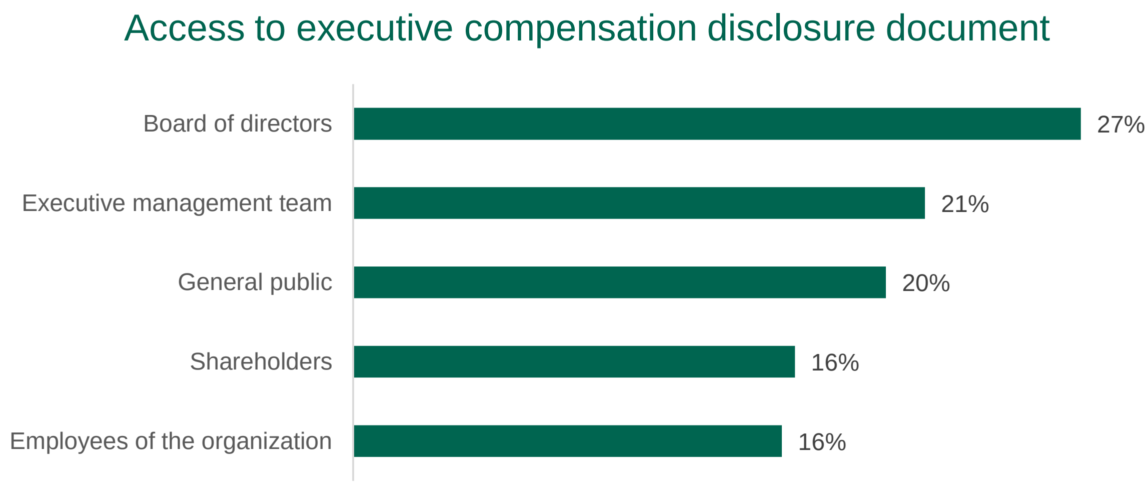
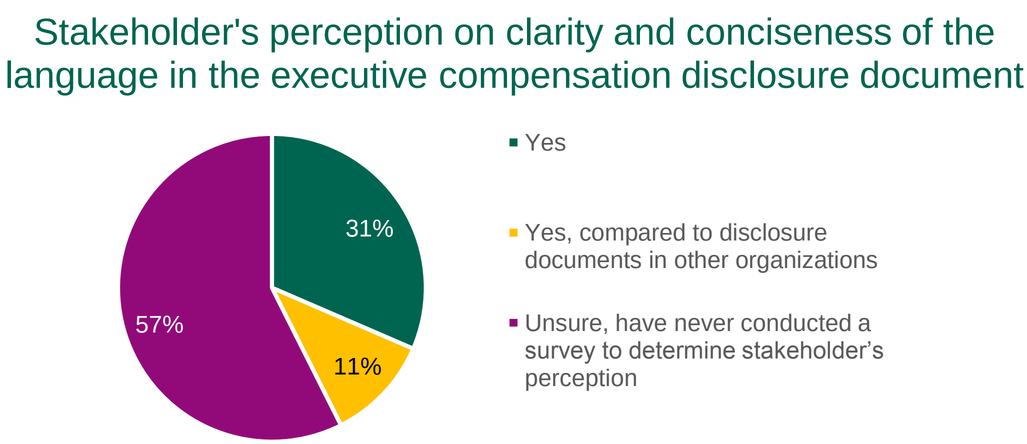
The chart below indicates that the top 3 stakeholder groups that have access to organizations' executive compensation disclosure document are the board of directors, executive management team and general public.



In terms of public executive compensation disclosure, almost half of participants reported posting the disclosure document on the organization's website, while the remaining half of organizations do not.

Clarity

The majority of the organizations reported that they have never conducted a survey to determine their stakeholder's perception of their disclosure document in terms of clarity and conciseness of the language. One third of organizations reported that their stakeholders perceived the executive compensation disclosure document as clear and concise.



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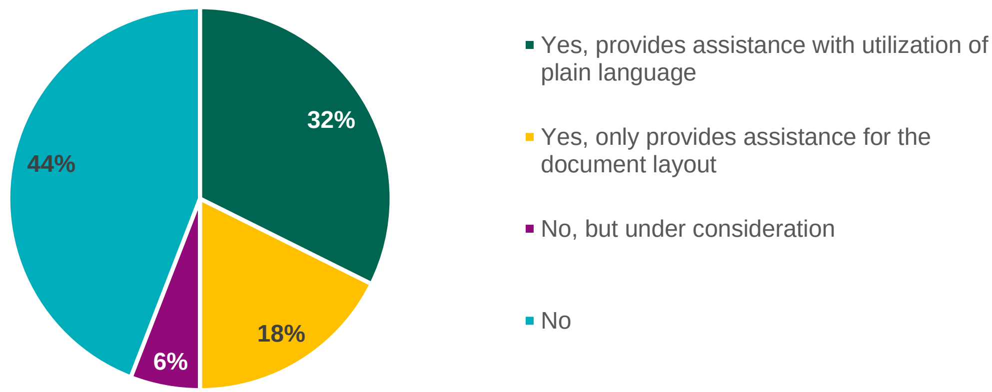
For the organizations that reported to have conducted a survey of their stakeholder's perception of the language in their disclosure document, only half of these organizations receive assistance from the organization's communications department in developing the disclosure document.

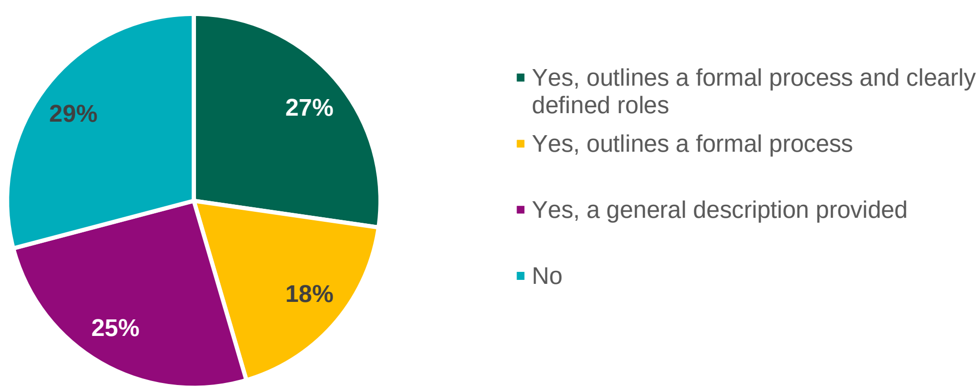
Communications department's involvement in developing the executive compensation disclosure document



Completeness and transparency

Most of the participant's compensation disclosure documents include at least a general description of each respective organization's compensation decision-making process. 27% of the respondents reported that their executive compensation disclosure document contains description of a formal compensation decision making process with clearly defined roles.

Description of the compensation decision-making process in executive compensation disclosure document



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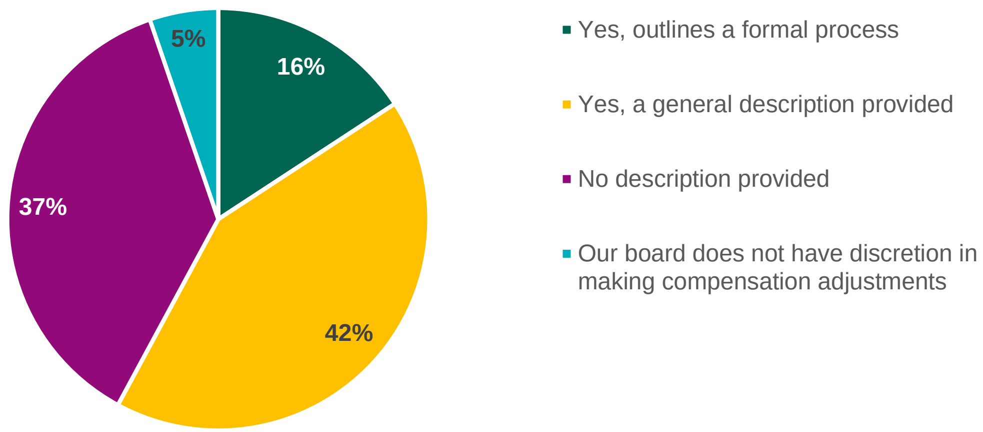
One in every two participants reported that their organization includes a description of the board's discretion in making compensation adjustments in their disclosure documents.

Description of the Board's discretion in making compensation adjustments in executive compensation disclosure document



Few participants (5%) reported having received criticism from a financial journalist in terms of lack of transparency on financial disclosure.

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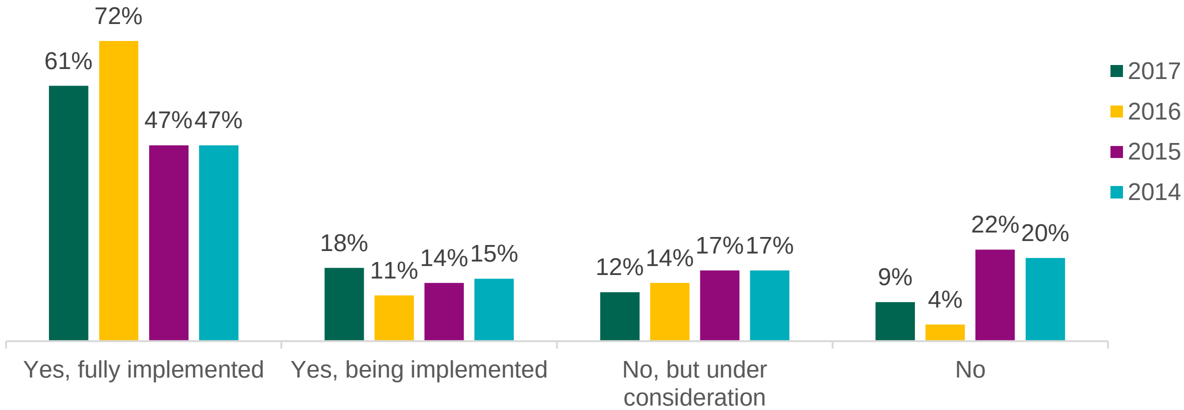
Enterprise risk management oversight and governance

Formal risk policy includes a risk governance model, segregated and distinctive functional responsibilities for risk management and / or written goals and reports. In 2017, 61% of organizations reported having a fully implemented formal risk policy in place which has decreased from last year by 11%. Financial and publicly traded organizations have the largest percentage of respondents with a fully implemented formal risk policy.

Presence of formal risk policy



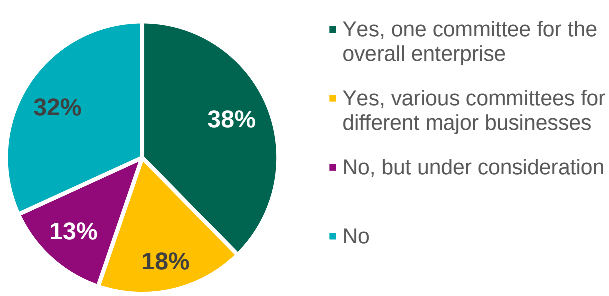
Enterprise risk management accountability

A risk committee (or equivalent) exists at the management level for majority of the organizations.

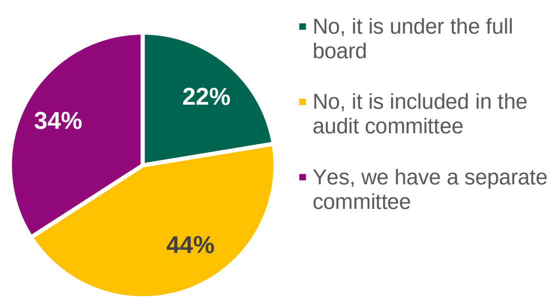
A chief risk officer or an equivalent senior risk officer role is present in three out of five organizations. This is the highest number reported over the past four years of the survey, suggesting that more organizations have a chief risk officer present than ever before.

Other than the full board, the audit committee primarily holds responsibility for risk oversight and governance for participant organizations.

Management risk committee



Separate risk committee



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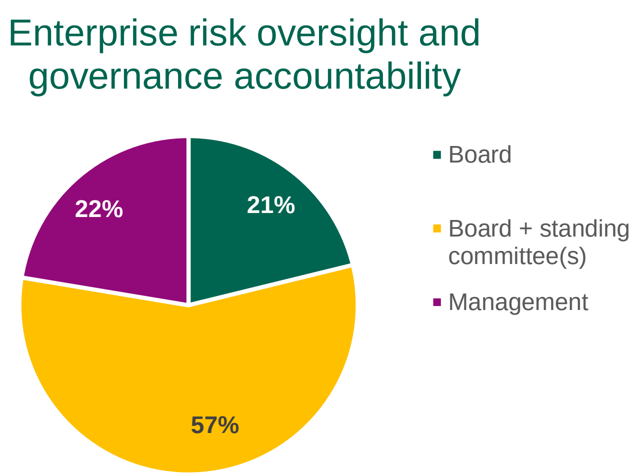
One in three organizations have a board with 5-10% of the members having expertise in enterprise risk management. Requisite expertise for committee members is up to each individual organization to define, based on the requirements specific to each organization. However, some expertise to be considered would include:

a) Experience successfully managing significant risks; and

b) Organizational and leadership skills required to work with the board and management to support sound risk management in the organization.

In the majority of organizations, accountability for enterprise risk oversight and governance is shared between the board and standing committees.



As indicated in the following chart, the board / committee is most commonly accountable for monitoring risk (e.g. compliance, funding, and capital risks). Other commonly reported accountabilities include overseeing the risk management infrastructure and reviewing risk assessments in order to evaluate the organization's risk exposure. For most of the industry sectors, the most common risk-related accountability for the board is to monitor risk. However, for financial and broader public services sectors, reviewing risk assessments and evaluating risk exposures were more prevalent.

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Board / committee's accountability for risks

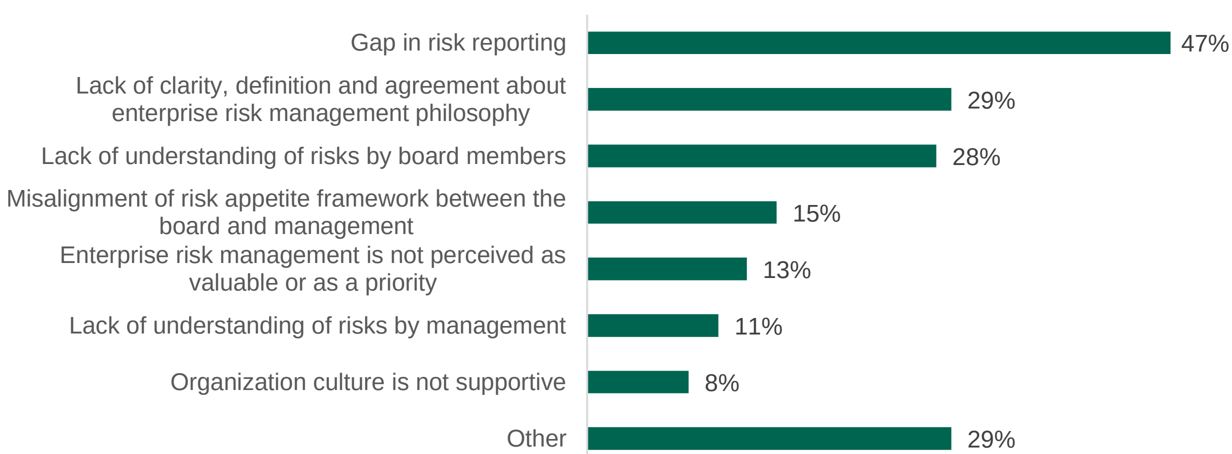
Barriers to risk oversight

The top three barriers in an organization's risk oversight process are consistent with 2016 results and are as follows:

1. A gap in risk reporting, where there is a barrier in methodology, data and / or the tracking system.
2. A lack of clarity, definition and agreement about the organization's enterprise risk management philosophy.
3. A lack of understanding of risks by board members.

Inferring from these results, more education on enterprise risk management may be necessary for board members to better understand the risk reporting regulations and enterprise risk management philosophy.

Barriers to risk oversight process



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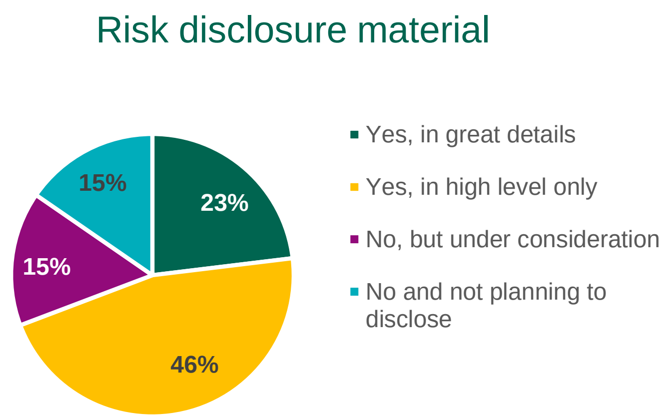
When the results are compared between publicly traded and non-publicly traded organizations, it is notable that a lack of understanding of risks by board members is less commonly reported as a barrier within publicly traded organizations. Instead, the third most commonly reported barrier is misalignment of risk appetite framework between the board and management.

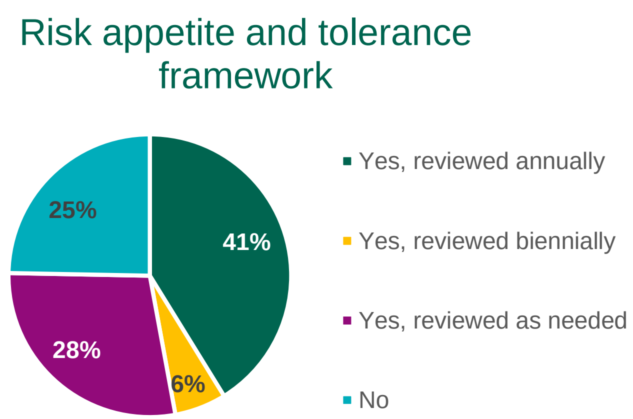
This may suggest that the boards of publicly traded organizations have a more comprehensive understanding of the risk inherent in their business. For non-publicly traded organizations, more communication between the board and management may help to overcome this barrier.

Disclosure

69% of organizations discuss risk oversight and risk management in disclosure material.



Three out of four organizations have a defined risk appetite and risk tolerance framework. Of these organizations, 41% review their framework annually.



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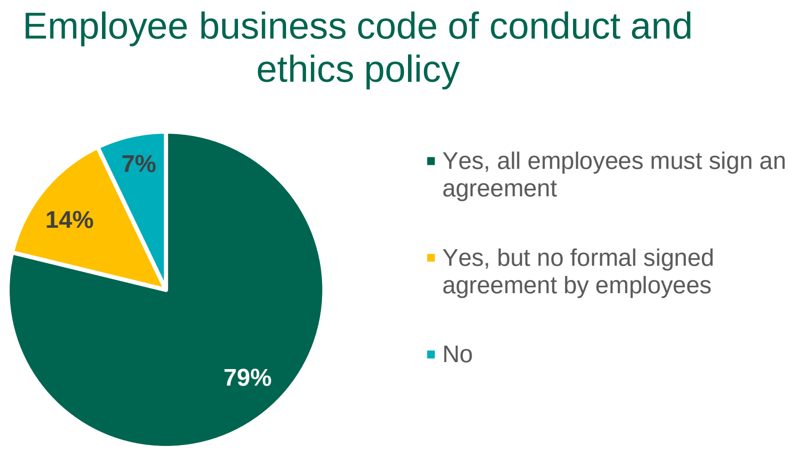
Ethics and risk

Almost all organizations have an employee business code of conduct and ethics policy in place. Among these organizations, common practice requires all employees to sign an agreement. This is especially true in the financial and consumer sectors, as 91% of the participants in financial sector and all participants in consumer sector require all employees to sign an agreement.



In addition, the majority of organizations reported having a board-approved crisis management plan and written policy in place, and 84% of the organizations have implemented a formal whistleblower policy.

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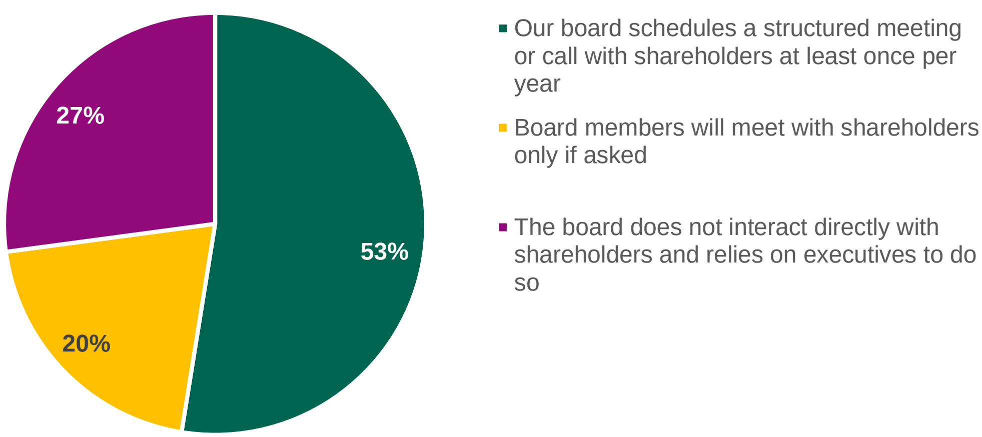
Engagement by a governance team

This section discusses the frequency of respondent's interaction with stakeholders, along with the approach and type of stakeholders involved in these interactions.

Board interaction

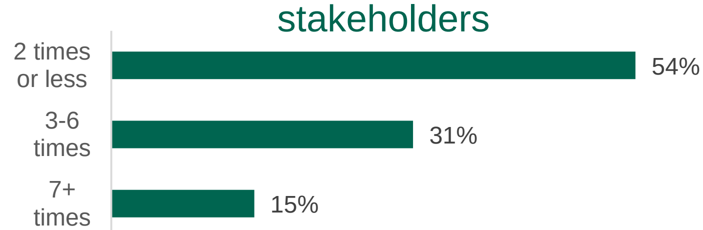
There are various approaches boards can take to interact with their shareholders. The majority of boards schedule structured meetings or calls, while one out of five boards meet with shareholders only if asked. Most notably, only 29% of publicly traded organizations schedule a structured meeting or call with shareholders at least once per year. For the remaining 71%, half of them reported that they will meet with shareholders only if asked, while the other half indicated that the board does not interact directly with shareholders and relies on executives to do so. On the contrary, three in five privately-held organizations schedule a structured meeting or call with shareholders at least once per year.

Board's interaction with shareholders



More than half of organizations communicate with stakeholders two times or less each year.

Board communications with stakeholders



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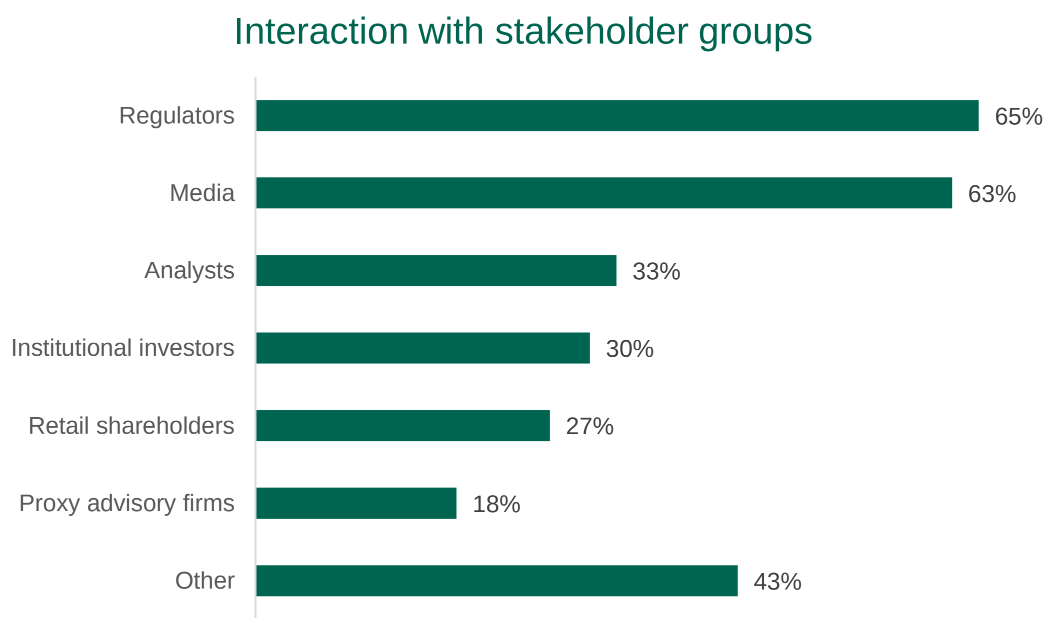
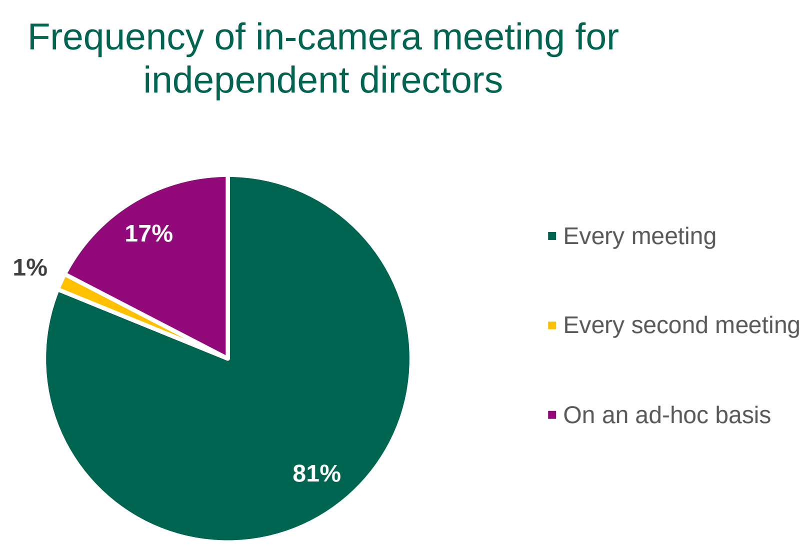
The chart below indicates that regulators and media continue to be the key stakeholder groups that interacted with the respondents. This is a trend that has been consistent over the past four years.



The majority of the participants reported having an in-camera session for independent directors in every meeting.



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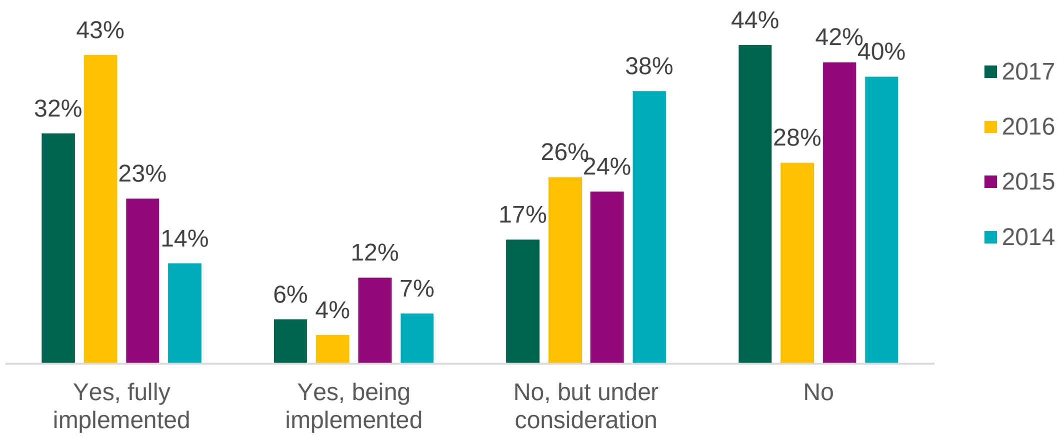
Boardroom diversity

This section addresses boards' perspectives on the definition of 'diversity' and what relevant measures they have implemented towards promoting board diversity.

Board diversity policy

One in three organizations have fully implemented a formal board diversity policy covering gender, age and ethnicity. This is a decrease from 2016, when 43% of organizations had a fully implemented formal board diversity policy. The number of organizations with no formal board diversity policy has significantly increased this year and went back to the 2015 / 2014 levels.

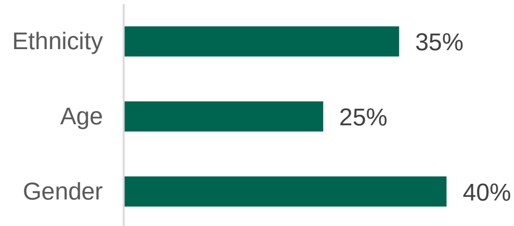
Formal board diversity policy



A significantly higher rate was observed among publicly traded organizations, where 53% of publicly traded organizations have fully implemented a formal board diversity policy. The majority of the remaining 47% of publicly traded organizations are also either in the process of implementing or considering implementing a formal board diversity policy. The diversity requirements for the boards of publicly traded organizations in Canada may be tied to our results.

According to the 38% of organizations who reported having a formal board diversity policy in place or are in the process of implementing one, the most common topic that the board diversity policy addresses is gender, followed by ethnicity and age.

Board diversity policy topics



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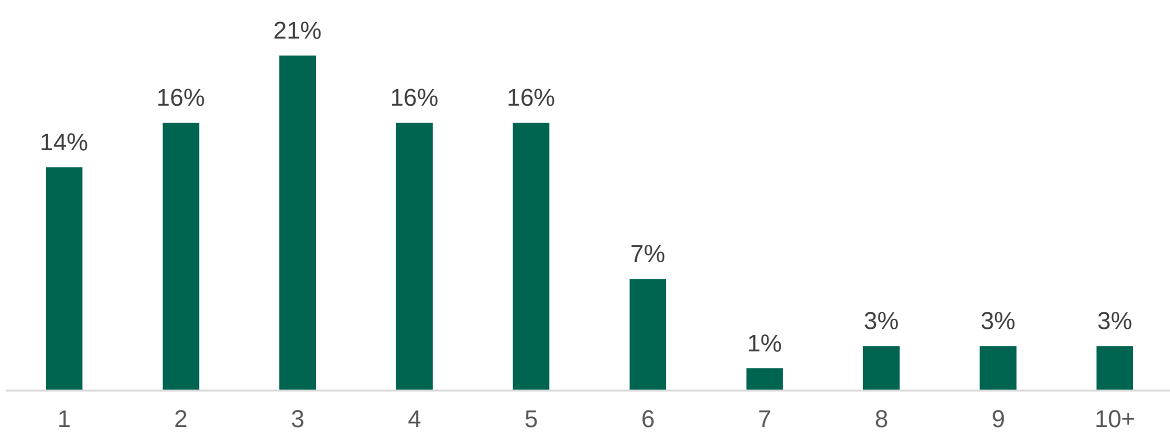
Facts and figures within the Canadian boardroom

4	Average number of committees
91%	Boards with female representation
49%	Boards with visible minority representation
32%	Boards including non-Canadians
41 years	Average age of the youngest director
53 years	Average age of board directors
66 years	Average age of the oldest director
5+ years	Typical tenure

Gender diversity

91% of the participating organizations have at least one female director on the board. Out of these organizations, 86% have two or more females. This has increased from 2016, when approximately 81% of organizations had two or more females as directors. There has been an increasing trend in female board representation over the past few years due to the CSA diversity disclosure rule, and this result confirms continuation of the trend.

Number of female directors



A written policy related to the identification and nomination of female directors has been adopted by only one in five organizations. This number is relatively low, and has decreased slightly from 2016, where a quarter of organizations had such written policy in place.

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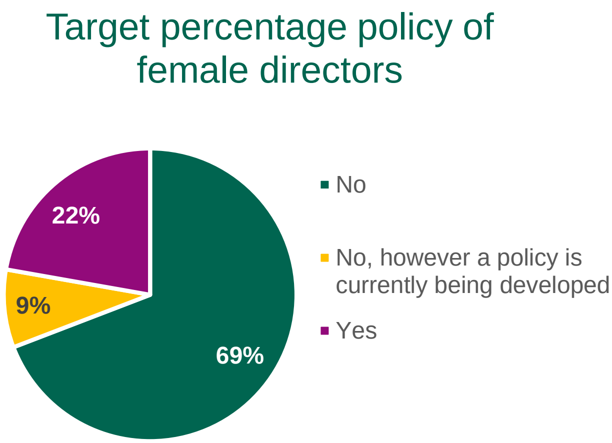
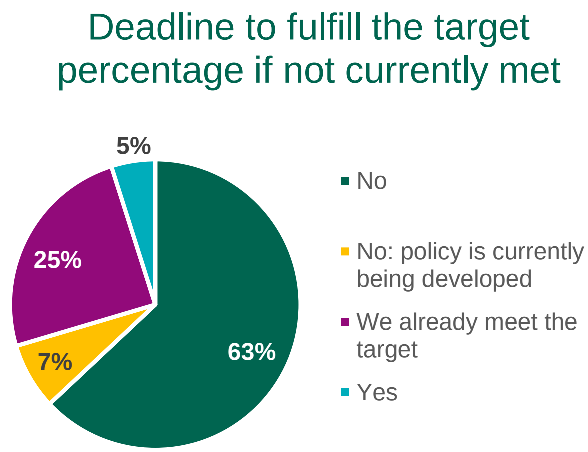
Twenty-two percent of organizations have a policy related to the target percentage of female directors on the board. Of the organizations reported to have a policy for having a target percentage of female directors on the board, the target percentage policy ranged from 25% to 50%, with an average of 35%.

For publicly traded organizations, this number increases to 50%. This is a significantly higher percentage compared to other types of organizations. For those with a target percentage policy who do not currently meet the target, the number of organizations with a deadline to fulfill that policy has decreased from 8% in 2016 to 5% in 2017.





Visible minority diversity

There is a member of a visible minority on the board for almost half of the organizations. This number has decreased from 2016 by 10%. In boards with a member of a visible minority, the number of such director ranges from one to seven.

Ethnic diversity

One in three organizations have a non-Canadian director, which aligns with statistics collected between 2013 and 2016. The number of non-Canadian directors ranges from one to eight among the Boards with a non-Canadian director. Also, the United States and Europe are the most common countries of origin for non-Canadian directors.

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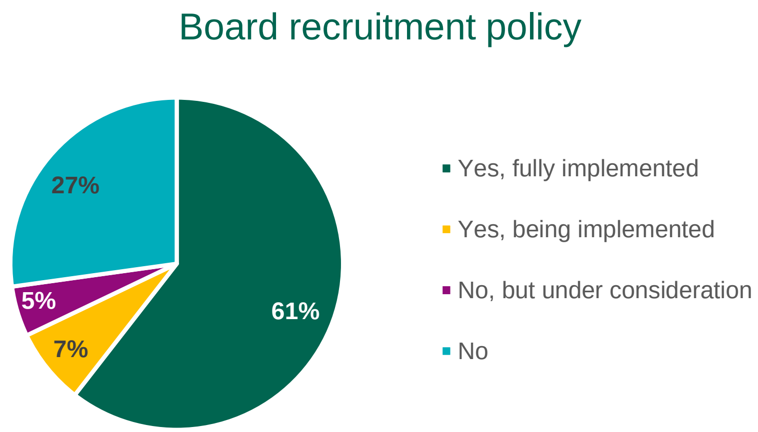
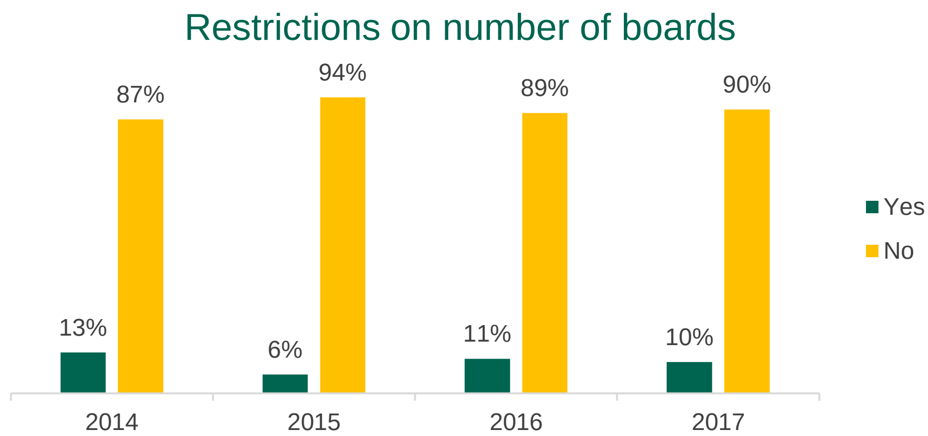
Board recruitment

A fully implemented formal board recruitment policy is in place for 61% of the organizations, covering practices surrounding director nomination and election. This number has decreased by 9% since 2016.



As indicated in the chart below, only 10% of the organizations have a formal restriction on the number of boards on which a director can serve in. This trend remains similar from 2014 to 2016.



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Subsidiary governance

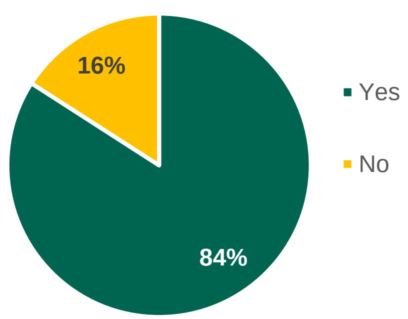
This section covers the survey results on effectiveness of board operations in terms of subsidiary governance.

Degree of separation

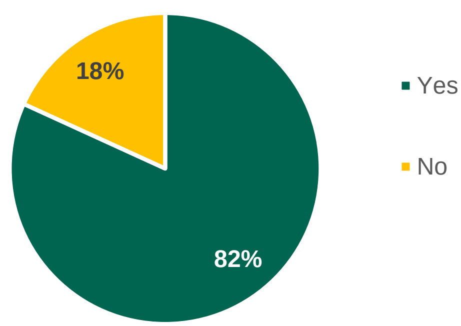
Eighty-four percent of organizations have a separate board of directors for the organization's significant subsidiaries.

For organizations with subsidiaries, 82% have directors who serve on the boards of both the parent company and its subsidiaries.

Separate boards of directors for organization's significant subsidiaries



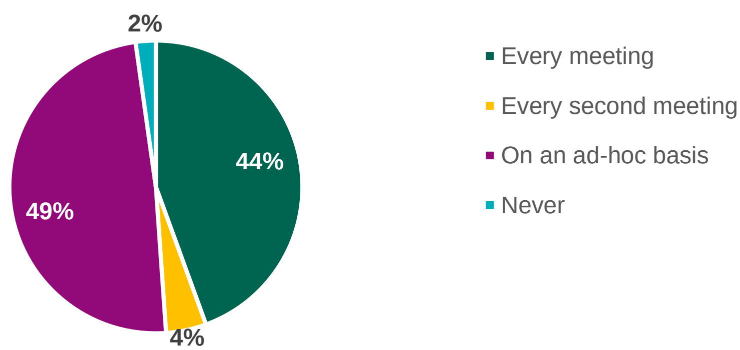
Directors on both the boards of the subsidiaries and the parent company



Integration

The most common practice for boards is to discuss subsidiary business and risk oversight on an ad-hoc basis. The second most common practice is to discuss the matter in every board meeting.

Subsidiary business and risk oversight discussion



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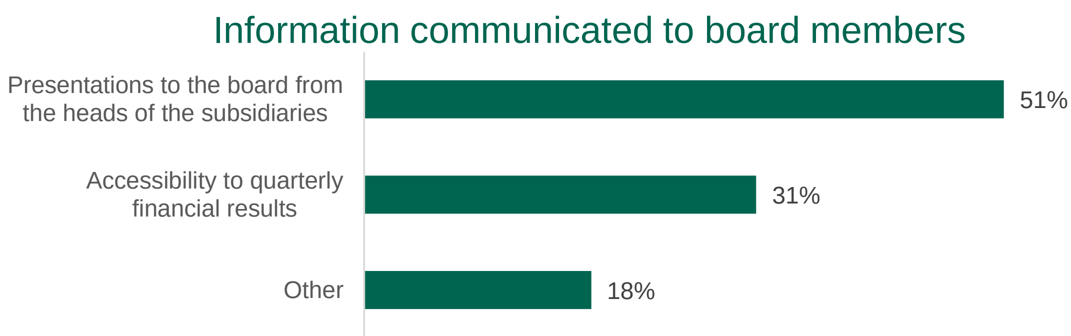
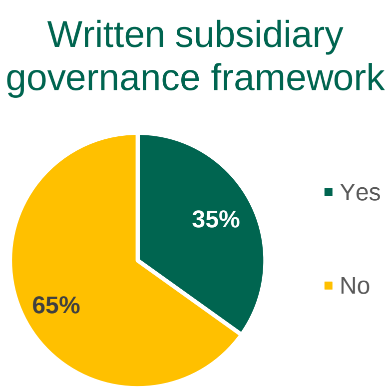
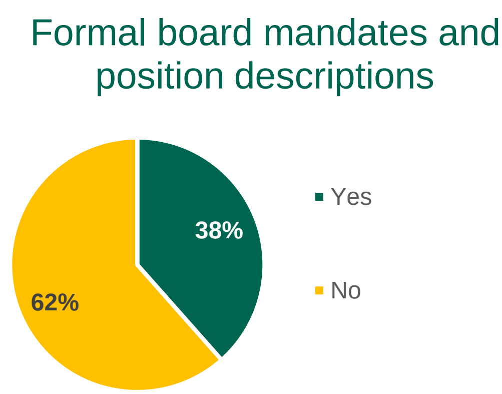
As shown in the chart below, the majority of organizations are communicating subsidiary information through board presentations conducted by the heads of the subsidiaries. 18% of organizations reported other communication methods such as annual subsidiary governance oversight report from the CEO or reports from the management.

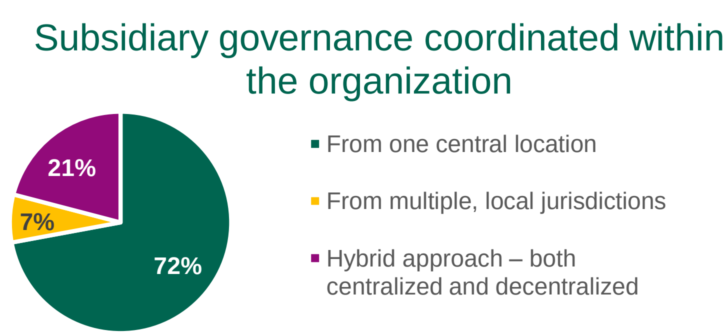


35% of organizations have a written subsidiary governance framework, and 38% of the organizations adopt formal board mandates and position descriptions at the subsidiary level.





For coordination of subsidiaries with the parent organization, 72% of the participants have reported the use of one central location. 21% of the participants have reported the use of a hybrid approach, where the subsidiaries are coordinated from both a centralized and decentralized location. 44% of publicly traded organizations use the hybrid approach.



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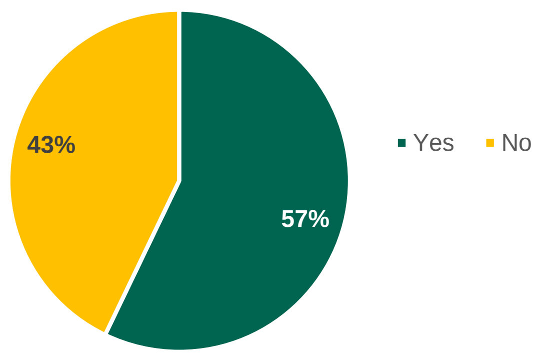
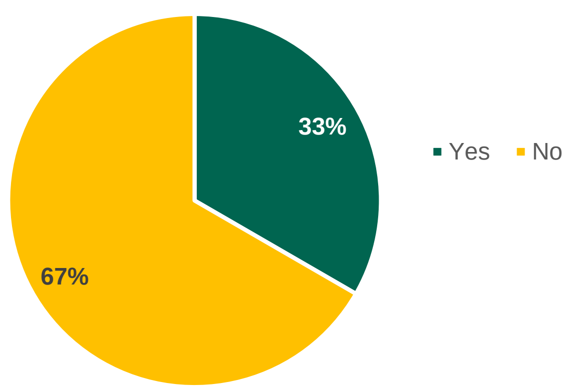
Director orientation and education

Formal orientation / on-boarding programs are present in more than half of the participating organizations. One-third of the participants reported having a continuing education program available for subsidiary directors.

Formal orientation / on-boarding for new directors of the subsidiary board



Director continuing education program in place for subsidiary directors



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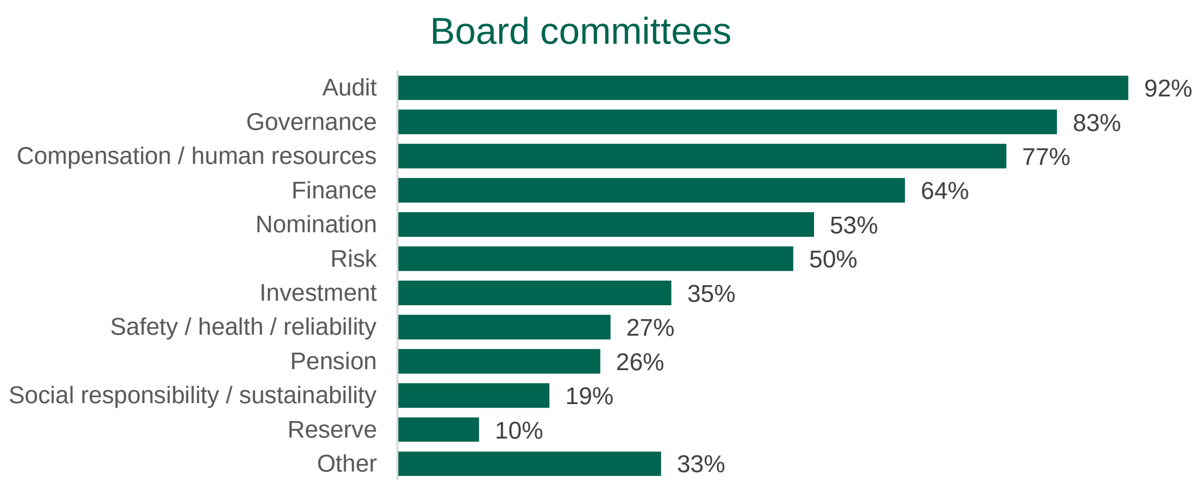
Effective board and committee operations

This section covers methods used to increase the effectiveness of board operations via evaluation, education, assessment and succession planning.

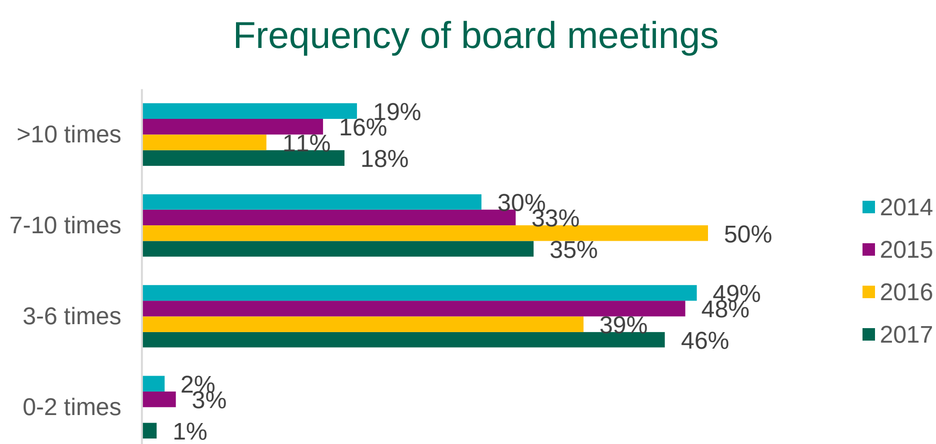
Board committees

Audit, governance and compensation / human resources remain the top three board sub-committees since 2015.



Board meetings

The number of organizations who hold board meetings (whether live or via teleconference) 7-10 times per fiscal year has significantly decreased since 2016. Now, 35% of organizations hold board meetings 7-10 times per fiscal year compared to 50% as observed in 2016. Consequently, the frequency of board meetings has increased for other frequencies: 0-2 times, 3-6 times and >10 times.



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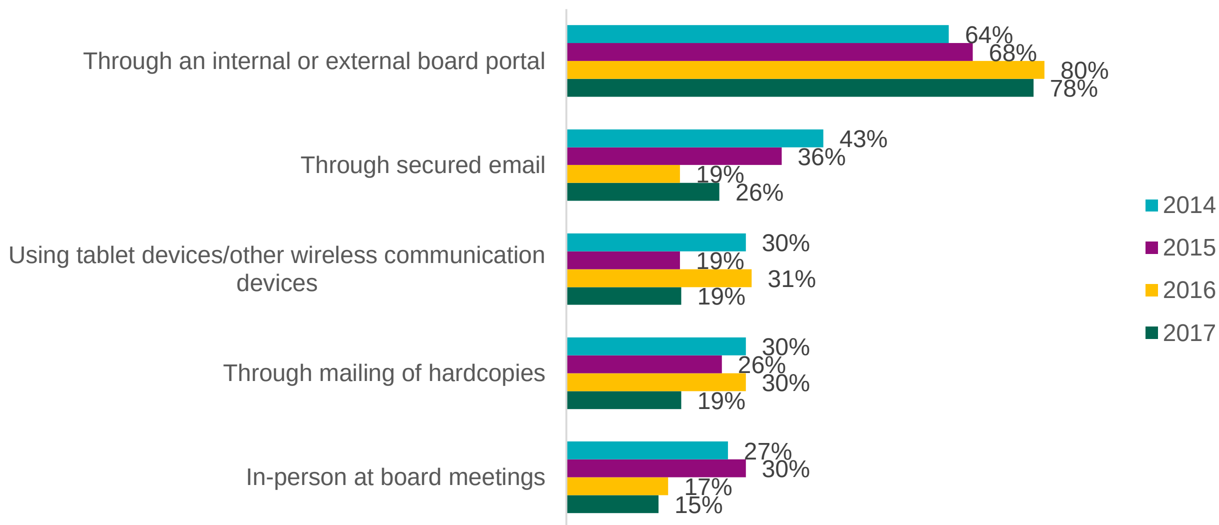
Board materials are most commonly distributed through an internal or external board portal. In 2017, 78% of organizations distributed their materials using this method. This has remained the most common method over the past four years. Lower technology methods such as secured email and in-person at board meetings are becoming less common choices of distribution, and have seen a downward trend since 2014.

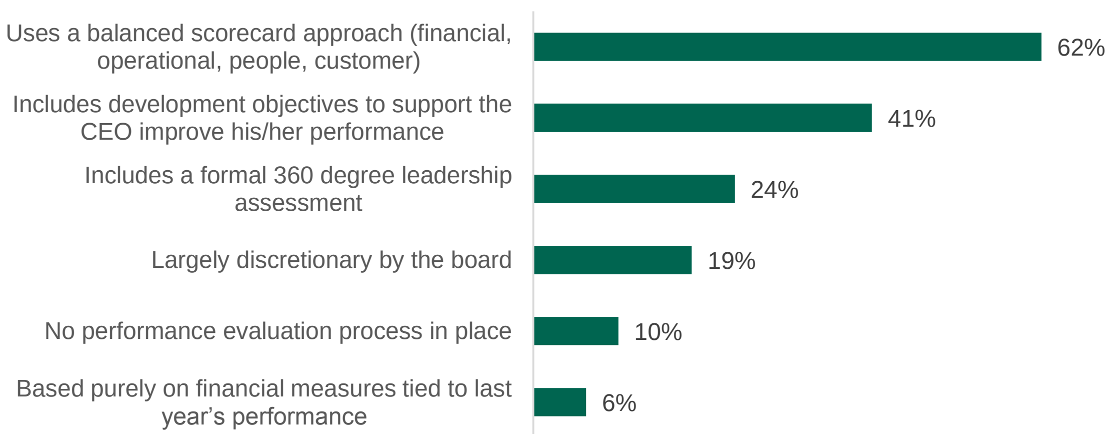
Distribution of board materials



Management performance evaluation

When making pay decisions, the performance evaluation process for senior executives in 2017 was largely based on using a balanced scorecard approach (i.e. financial, operational, people and customer measures) and evaluating development objectives to support the CEO to improve his or her performance. Sole reliance on board discretion is rare.

Performance evaluation process for senior executives for making pay decisions



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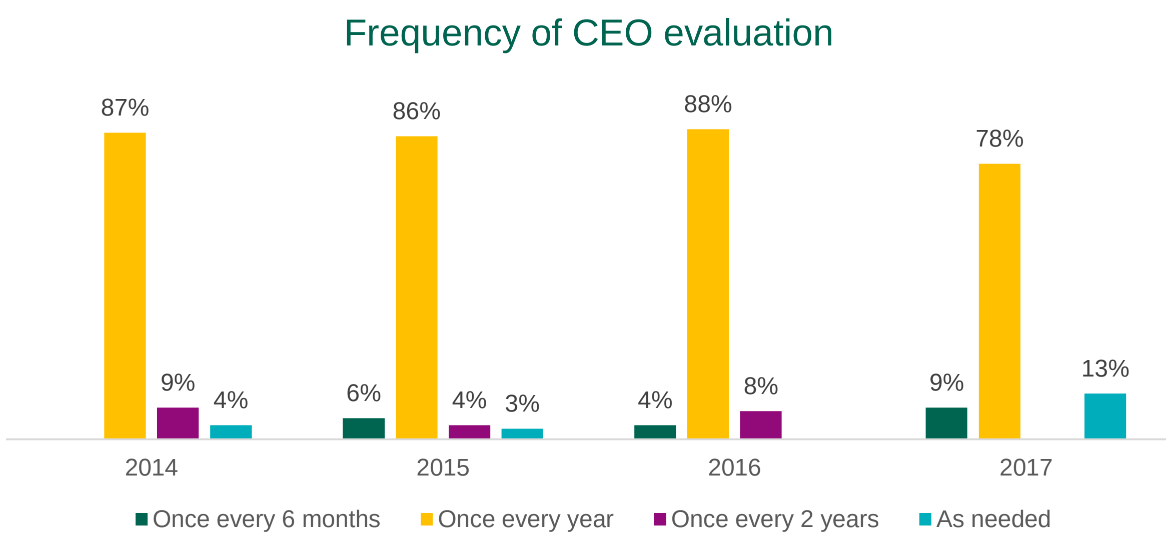
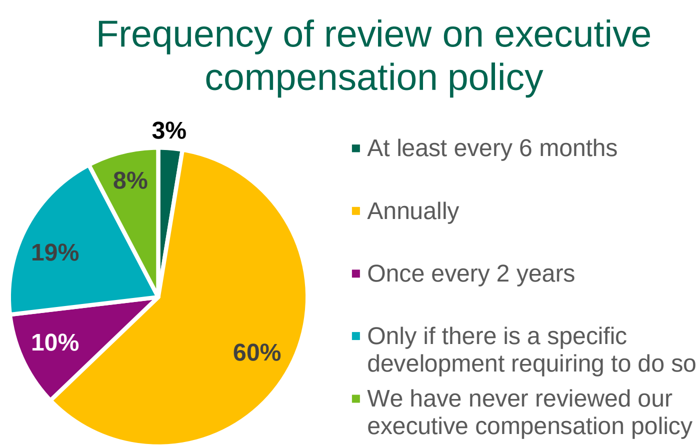
In 78% of organizations, the CEO is evaluated once every year. This was also the most common frequency in 2014, 2015, and 2016.



The majority of the participating organizations reported reviewing their executive compensation policy on an annual basis. One in five organizations reported reviewing their executive compensation policy only if there is a specific development requiring the organization to do so.



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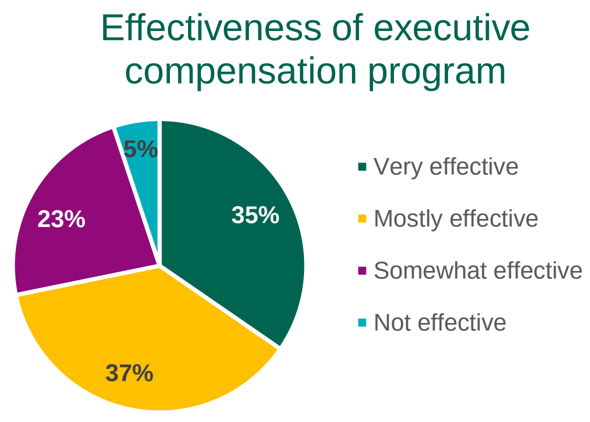
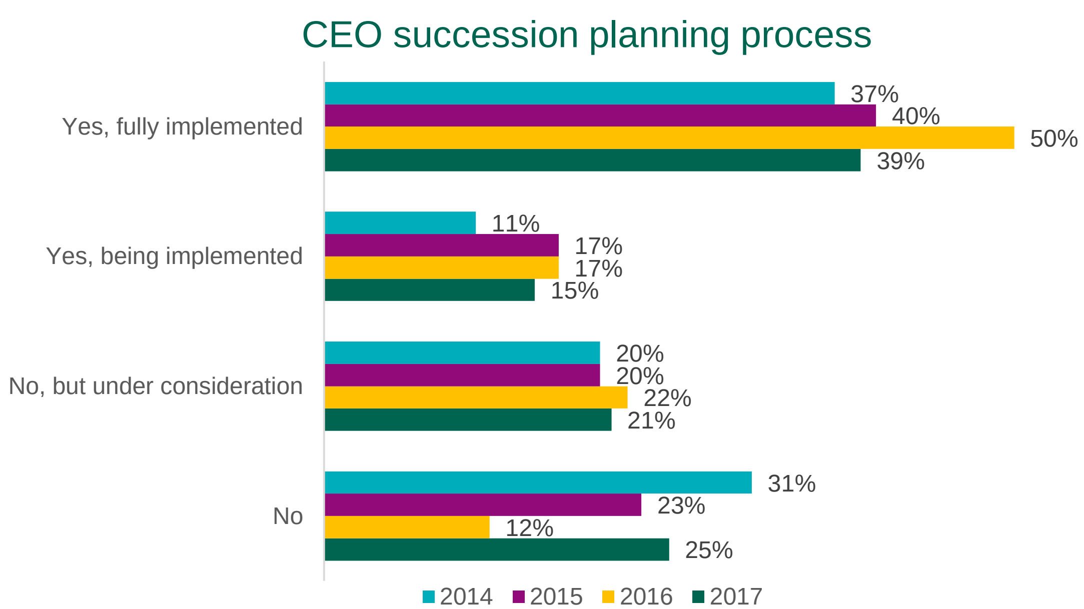
The majority of participants reported positive effectiveness ratings towards the effectiveness of their executive compensation program in terms of motivating, retaining and achieving desired performance. Almost three quarters of participants reported their executive compensation program being either very effective or mostly effective.



CEO succession planning

In 2017, four in ten organizations have fully implemented a formal CEO succession planning process, including a policy, written objectives and a report. This is a decrease from 50% in 2016. Similarly, there has been a significant increase in the number of organizations with no formal CEO succession planning process, where it has increased from 12% in 2016 to 25% in 2017.



The most prevalent approach used in planning for CEO succession is an emergency replacement plan, as shown in the next figure. This remains the most popular approach, where in 2016, 58% of organizations used this approach for CEO succession planning. The second most common trend in 2017 is using a forward-looking CEO role profile aligned to the organization's strategic direction.

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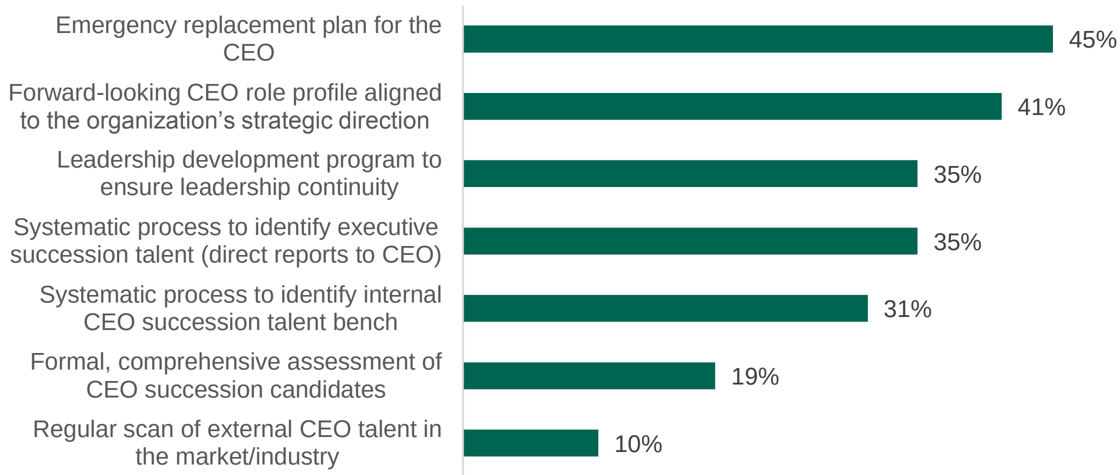
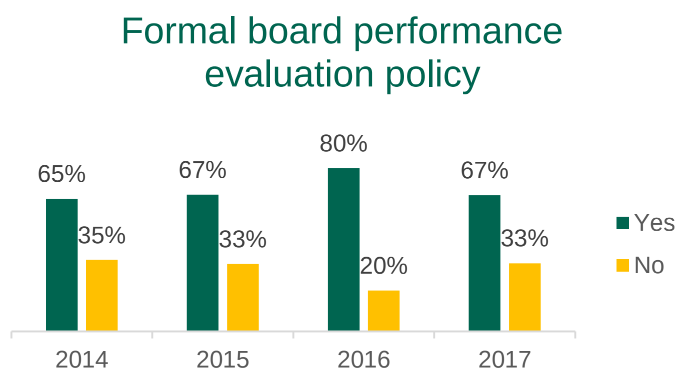
Description of CEO succession planning process

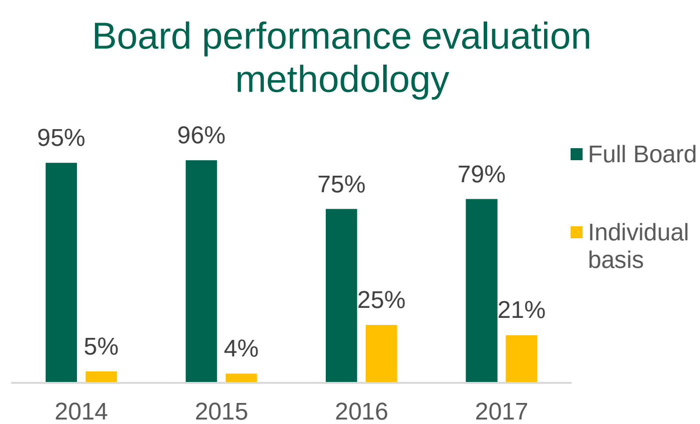


Board performance evaluation

67% of organizations have a formal policy for board performance evaluation that includes written objectives, processes and reports. Compared to 80% of organizations reporting a formal board performance evaluation process in 2016, this trend has decreased back down to 2015 levels.



From 2014 to 2015, the dominant practice was to conduct a board performance evaluation for the full board, which was implemented by 95% to 96% of organizations at the time. In 2017, the percentage of organizations conducting the board performance evaluation for the full board has decreased to 79%. On the other hand, the number of organizations conducting the board performance evaluation on an individual basis increased to 25% and 21% for 2016 and 2017, respectively.



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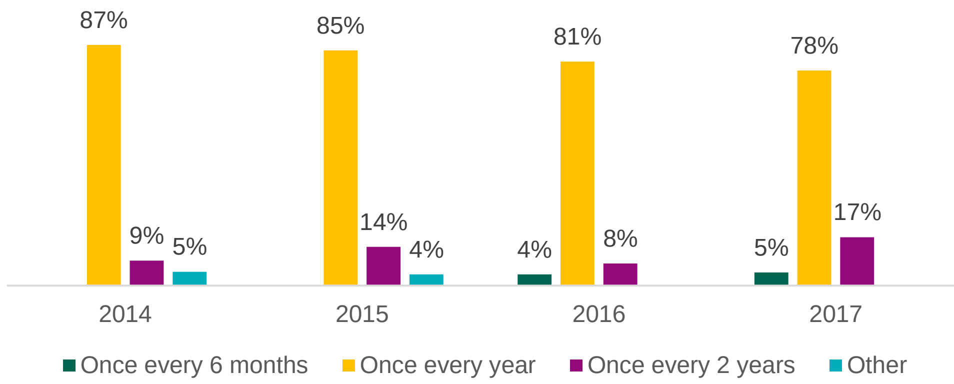
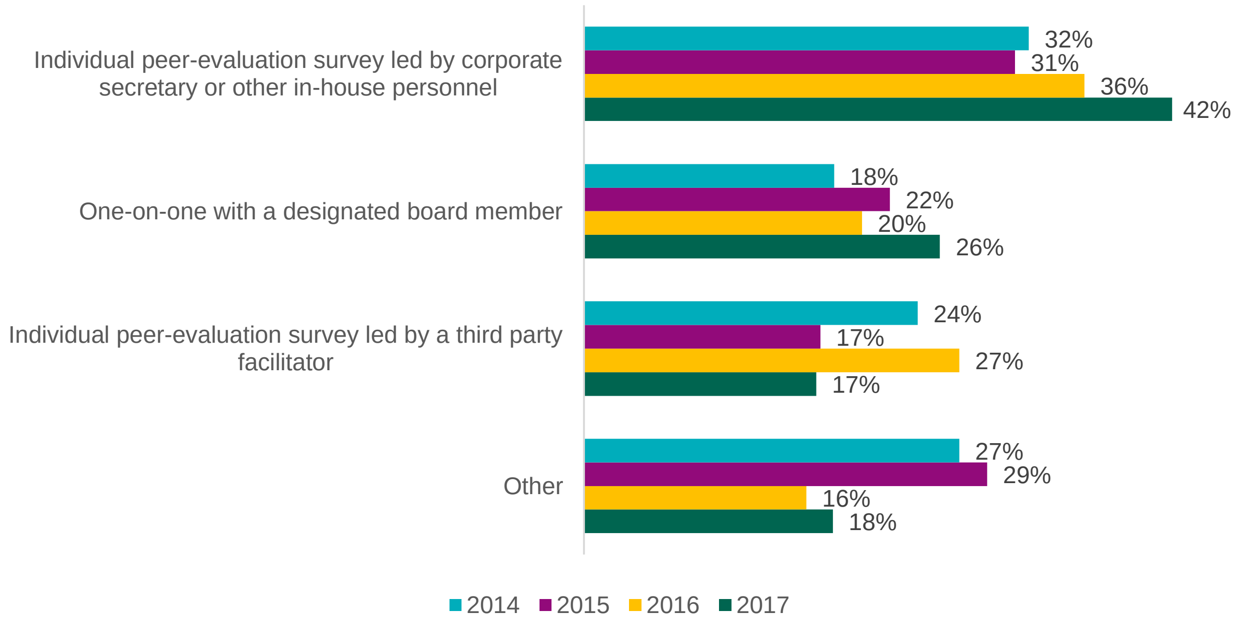
From 2014 to 2017, the most common frequency of board evaluation continues to be once per year, with approximately 80% of organizations reporting this frequency each year. However, the data shows a decreasing trend, as the once per year frequency has decreased from 87% to 78% over the past four years. Performing the board evaluation once every two years shows an increasing trend, increasing from 9% of organizations in 2014 to 17% of organizations in 2017.

Frequency of board evaluation



In 2017, conducting an individual peer-evaluation survey led by the corporate secretary or other in-house personnel was the most common director performance evaluation methodology. The second most common practice was conducting a one-on-one evaluation with a designated board member. Performing one-on-one evaluations with a designated board member has had an upward trend from 2014 to 2017, reflecting the comprehensiveness and benefits of this evaluation methodology.

Director evaluation methodology



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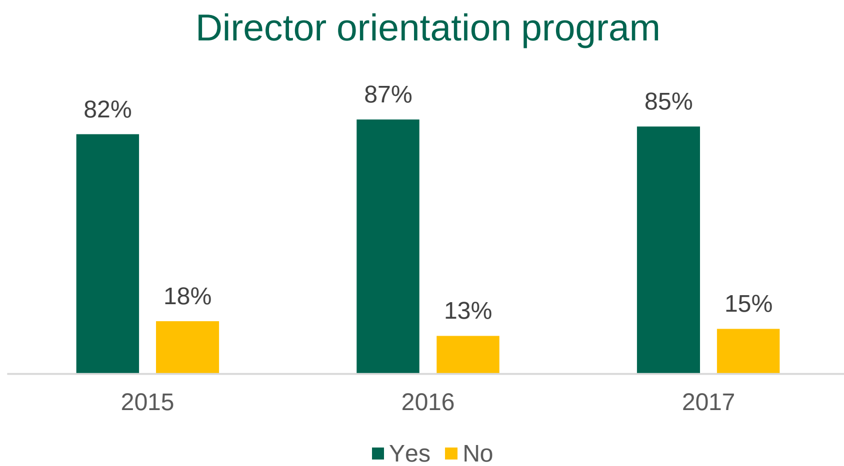
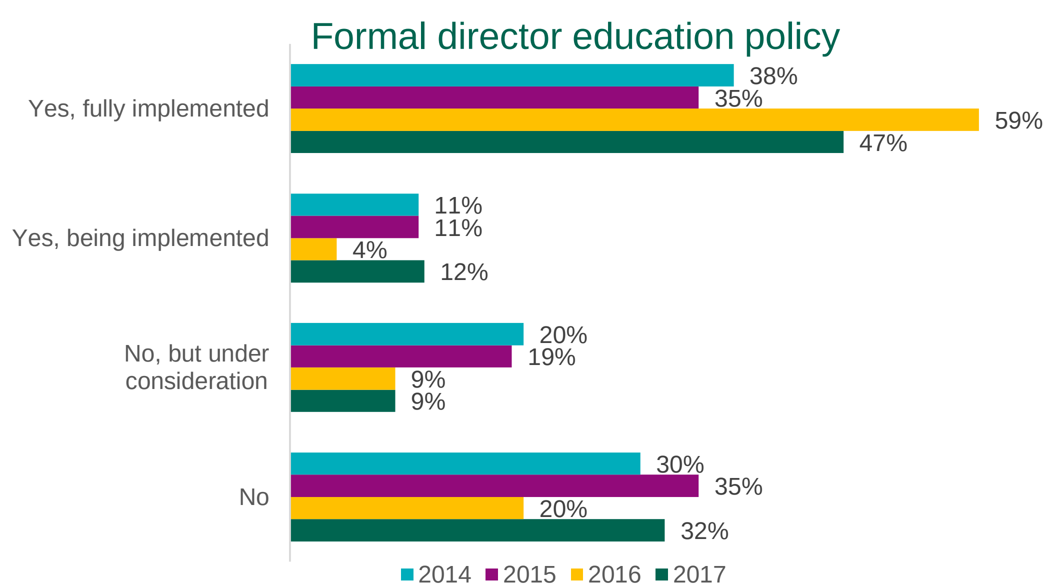
Notably, in publicly traded organizations, one-on-one evaluations with a designated board member is the most common evaluation methodology. This suggests that company type could be a strong predictor of the approach boards take to evaluate their director's performance.

Director orientation and education

In 2017, 85% of organizations reported having a formal orientation program for new directors that includes written objectives, processes and reports. Since 2015, the trend has remained fairly consistent with the large majority of organizations reporting a formal orientation program for new directors in place.



Almost half of the participating organizations reported having a fully implemented formal director education policy characterized by written objectives, processes and reports. This number has decreased since 2016, where 59% of organizations had a formal director education policy in place. Consequently, organizations who responded either 'no, but under consideration' or 'no' increased from 29% in 2016 to 41% in 2017.



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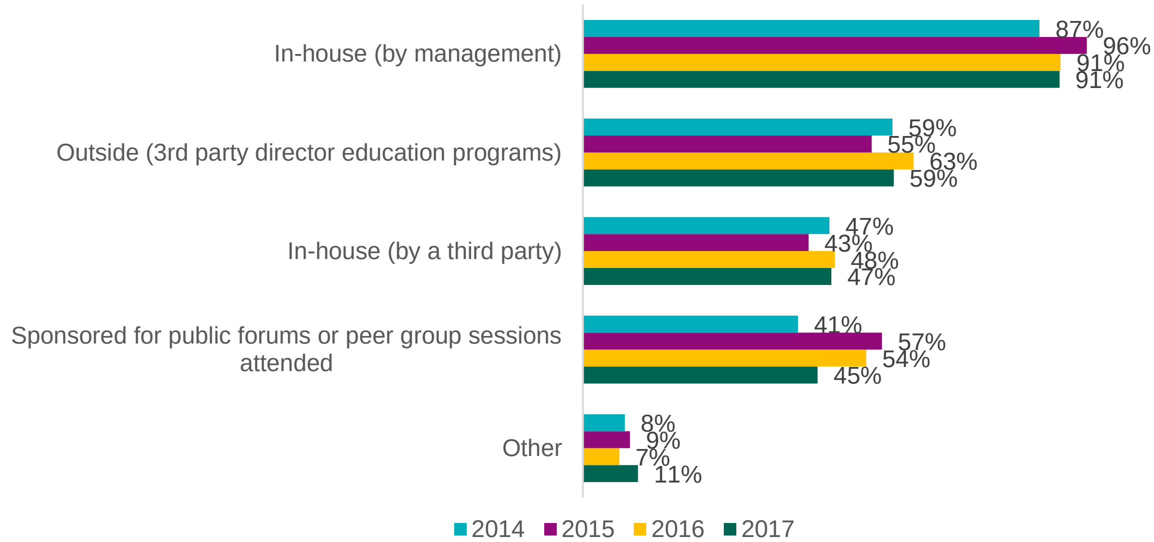
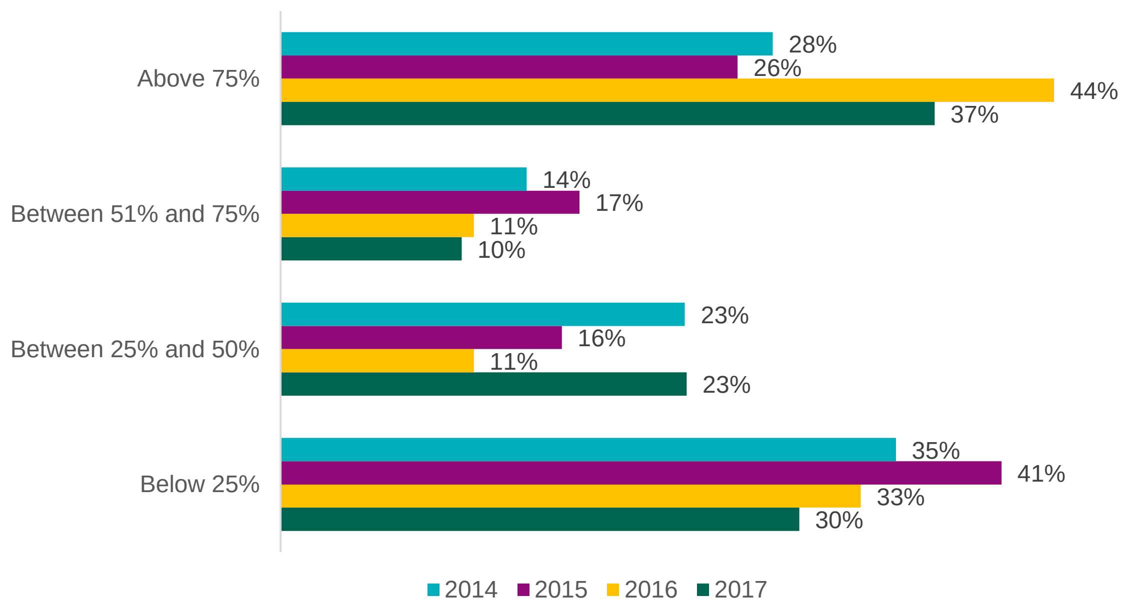
In 2017, the top three methodologies used by organizations to educate their board directors are in-house education by management, outside education by a third party director education program and in-house education by a third party. The least common selection has changed from in-house education by a third party in 2016 to sponsored public forums or peer group sessions. Common 'other' responses include conferences and external training opportunities.

Director education programs



Thirty-seven percent of organizations have had over 75% of their directors attend education programs over the past year. This number has decreased slightly from 2016, but is still a much higher level than 2014 and 2015, where just one in four organizations had over 75% of directors attend education programs.

Directors attending education programs



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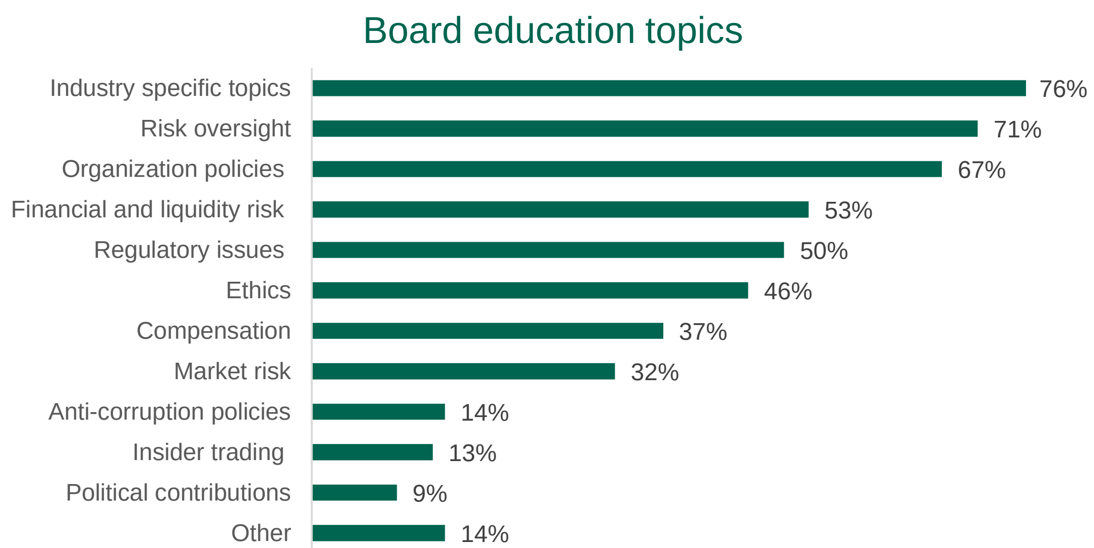
Directors from publicly traded organizations seem to attend the education programs more often compared to directors from non-publicly traded organizations. Almost half of the publicly traded organizations who responded to the survey have had over three-quarters of their directors attend director education programs in the last year.

The most common board education topics that are provided within organizations to new and existing directors include industry specific topics, risk oversight and organization policies.



When this trend is analyzed within publicly traded compared to non-publicly traded organizations, regulatory issues replace organizational policies as the third most common board education topic for publicly traded organizations.

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Appendix

2017 Corporate governance best practices survey questionnaire

I. Introduction

The Governance Professionals of Canada (GPC) and Korn Ferry Hay Group thank you for taking the time to complete this survey. Your responses will help us in examining the current corporate governance landscape as well as provide insights on the leading practices implemented across organizations.

Additionally, it will serve as a tool in assessing entries in each of the categories for nominations in the GPC Excellence in Governance Awards program. Winners of the awards will be announced at the GPC Excellence in Governance Awards Gala at the Carlu in Toronto on November 2, 2017.

This survey should take about 25-35 minutes of your time. If at any point, you choose to leave the survey, your most recent pages of responses will be automatically saved. To return and view your responses, please click on the survey link on the invite sent to your email address.

Once the survey has closed and the data have been analyzed, all participants will receive the comprehensive '2017 Corporate governance best practices survey' report, which will be published in August 2017, and complimentary registration to the following '2017 Corporate governance best practices survey' webinar.

Please note that confidentiality is our priority. This survey is being administered by Hay Group using a survey system provided by a third party, SurveyMonkey. Any information you submit as part of this survey will be collected by SurveyMonkey and processed by Hay Group on behalf of GPC. Please click here for the privacy policy of SurveyMonkey. By continuing with this survey, you consent to the transfer of your information to SurveyMonkey and Hay Group and the related privacy policies. For Hay Group's privacy policy, please click here. Finally, all responses will be submitted directly to Hay Group and no individual participant data will be presented in the report.

If you have any questions about the survey, please contact Rishima Kathuria at rishima.kathuria@kornferry.com.

In order to progress through this survey, please use the following navigation buttons

- Click the 'next' button to continue to the next page.
- Click the 'previous' button to return to the previous page.
- Click the 'done' button to submit your survey.

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II. Background

1. Contact Information:
    - Name:
    - Job title:
    - Company:
    - Mailing address:
    - City:
    - Province:
    - Postal code:
    - Email address:
    - Phone number:
2. Industry sector: (Please select among the options).
    - Consumer (e.g. FMCG, retail, hospitality).
    - Financial (e.g. bank, investments, insurance, private equity).
    - Industrial (e.g. manufacturing, energy, mining, infrastructure, utilities).
    - Life Science (e.g. biotech, pharmaceutical).
    - Technology (e.g. software, hardware, digital).
    - Professional services (e.g. legal services, accounting services).
    - Broader public services (e.g. government, not-for-profit, transit).
3. Company type: (Please select among the options).
    - Publicly traded.
    - Privately held.
    - Not-for-profit.
    - Crown corporation.
    - Other (please specify).
4. Total number of employees: (Please select among the options).
    - 0-500.
    - 501-1000.
    - 1001- 5,000.
    - 5,001-10,000.
    - 10,001-100,000.
    - Greater than 100,000.
5. Under which category does your total annual revenue fall under:
    - Less than $100 million.
    - $100 to $249 million.
    - $250 to $499 million.
    - $500 to $999 million.
    - $1 billion or more.

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III. Corporate governance overview

1. In your opinion, what is the most significant corporate governance issue facing your organization right now? (Select up to 3 options that apply).

    - Amount of disclosure.
    - Financial reporting.
    - Dynamic regulation compliance and its impact on business.
    - Board diversity.
    - CEO succession planning.
    - CEO performance / evaluation.
    - Executive bench strength and succession.
    - Independent board leadership.
    - Executive compensation.
    - Shareholder interaction.
    - Crisis readiness.
    - Development of conflict management culture.
    - Risk management and oversight.
    - Subsidiary governance.
    - Corporate sustainability.
    - Cyber risk.
    - Other (please specify).
    - No Issue.

2. By level of importance, please rank the top 3 issues for your board (with 1 being the highest):

    - Crisis management / planning.
    - Developing human capital.
    - Executive compensation.
    - Information technology issues.
    - Regulatory compliance.
    - Risk management.
    - Strategic planning.
    - Succession planning.
    - Not applicable.

3. How do you perceive the impact of corporate governance codes and legislation introduced over the past few years? (Select only one answer).

    - Positive.
    - Negative / room for improvement.
    - Neutral.

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4. Has the increased prevalence of corporate governance legislation resulted in an increased use of third-party consultants? (Select only one answer).
   - Yes.
   - No.
   - Not applicable.
5. How often does your board review the continued viability of the organization's strategy? (Select only one answer) **(Strategy question #1).**
   - At every board meeting.
   - At least six months.
   - Once per year.
   - Every two years.
   - Other (please specify).

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IV. Corporate sustainability governance

1. Does your organization have a formal sustainability policy in place? (Select only one answer).
   - Yes, fully implemented.
   - Yes, being implemented.
   - No, but under consideration.
   - No.

2. How often is your corporate sustainability policy reviewed? (Select only one answer).
   - At least every six months.
   - Annually.
   - Once every two years.
   - As needed.
   - Never.
   - Not applicable.

3. Choose the sustainability initiatives that have been implemented in your organization. (Select all that apply).
   - Improving energy efficiency.
   - Cutting emissions or pollutants.
   - Improving environment around facilities.
   - Enhancing impact on local communities.
   - Going paperless in the workplace.
   - Green standards in product specification.
   - Other (please specify).
   - Not applicable.

4. How often does the board assess management's performance on sustainability initiatives? (Select only one answer).
   - At least every six months.
   - Annually.
   - Once every two years.
   - As needed.
   - Never.
   - Not applicable.

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V. Compensation communication

1. Does your organization discuss executive compensation in disclosure material?

   - Yes, in great details.
   - Yes, high level only.
   - No, but under consideration.
   - No and not planning to disclose.
   - Not applicable (no disclosure required).

2. Who is involved in the writing of your organization's executive compensation disclosure document?

   - President.
   - Head of HR.
   - Human resources / compensation committee.
   - Finance.
   - Other ___________________
   - Not applicable.

3. Which stakeholder groups have access to your organization's executive compensation disclosure document? Select all that apply.

   - Board of directors.
   - Executive management team.
   - Employees of the organization.
   - Shareholders.
   - General public.
   - Not applicable.

4. Do you post your organization's executive compensation disclosure document on your company's website?

   - Yes.
   - No, available upon request only.
   - No.
   - Not applicable.

5. Do your stakeholders perceive the language in your organization's executive compensation disclosure document to be clear and concise?

   - Yes.
   - Yes, compared to disclosure documents in other organizations.
   - Unsure, have never conducted a survey to determine stakeholder's perception.
   - Not applicable.

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6. If you answered yes to the previous question, is someone from the communication department involved in developing the executive compensation disclosure document?
   - Yes, provides assistance with utilization of plain language.
   - Yes, only provides assistance for the document layout.
   - No, but under consideration.
   - No.
   - Not applicable.
7. In which ways does your organization's executive compensation disclosure document explain how pay is linked to performance? Select all that apply.
   - Corporate and business unit performance against targets (financial and / or non-financial).
   - Individual performance against targets.
   - How performance affects the compensation of individual executives.
   - None of the above.
   - Not applicable.
8. Does your organization's executive compensation disclosure document contain a section(s) or subsection(s) describing how compensation is linked to the following? Select all that apply.
   - Company strategy.
   - Creating long-term shareholder value.
   - Managing risk.
   - Not applicable.
9. Does your organization's executive compensation disclosure document include a description of the compensation decision-making process?
   - Yes, outlines a formal process and clearly defined roles.
   - Yes, outlines a formal process.
   - Yes, a general description provided.
   - No.
   - Not applicable.
10. Does your organization's executive compensation disclosure document include a description of the board's discretion in making compensation adjustments?
    - Yes, outlines a formal process.
    - Yes, a general description provided.
    - No description provided.
    - Our board does not have discretion in making compensation adjustments.
    - Not applicable.
11. Have you ever been criticized by a financial journalist for lack of transparency on financial disclosure?
    - Yes.
    - No.

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VI. Enterprise risk management oversight and governance

1. Does your organization have a formal risk policy in place (i.e. risk governance model, segregated and distinct functional responsibilities for risk management, written goals and reports)? (Select only one answer).
   - Yes, fully implemented.
   - Yes, being implemented.
   - No, but under consideration.
   - No.

2. Who is primarily accountable for enterprise risk oversight and governance? (Select only one answer).
   - Board.
   - Board + standing committee(s).
   - Management.

3. Other than the full board, do you have a separate risk committee (or equivalent) of the board primarily responsible for risk oversight and governance? (Select only one answer).
   - Yes, ___________committee (e.g. safety & environment committee).
   - No, it is included in the audit committee.
   - No, it is under the full board.

4. At the board / committee level, what are the accountabilities for risks? (Select all that apply).
   - Oversee the risk management infrastructure.
   - Develop and advise risk strategy.
   - Develop risk appetite framework.
   - Monitor risks (e.g. compliance, funding, capital).
   - Review risk assessments and evaluate risk exposures.
   - Coordinates with other standing committees for risk oversight.
   - Direct and support management on risks.
   - Consult external risk experts in different work streams.
   - Other ______________________
   - Not applicable.

5. Within the committee of the board responsible for risk, other than the industry expert, what percentage of members have the requisite expertise in enterprise risk management? (Select only one answer).
   - 5% to 10%.
   - 11% to 15%.
   - 16% to 20%.
   - 21% to 30%.
   - 31% +.

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6. What is the overall effectiveness of the board's risk oversight process? (Select only one answer).

    - Highly effective.
    - Fairly effective.
    - Needs some improvements.
    - Needs significant improvements.
    - Not effective at all.

7. What are the top three barriers in your risk oversight process? (Select the top three that apply).

    - Lack of understanding of risks by board members.
    - Lack of understanding of risks by management.
    - Enterprise risk management is not perceived as valuable or as a priority.
    - Organization culture is not supportive.
    - Lack of clarity, definition and agreement about enterprise risk management philosophy.
    - Gap in risk reporting (e.g. methodologies, data, tracking system).
    - Misalignment of risk appetite framework between the board and management.
    - Other ____________________

8. Does your organization discuss risk oversight / management in disclosure material? (Select only one answer).

    - Yes, in great details.
    - Yes, in high level only.
    - No, but under consideration.
    - No and not planning to disclose.
    - Not applicable (no disclosure is required).

9. Do you have a risk committee (or equivalent) at the management level? (Select only one answer).

    - Yes, one committee for the overall enterprise.
    - Yes, various committees for different major businesses.
    - No, but under consideration.
    - No.

10. Is a chief risk officer or an equivalent senior risk officer role present in your organization? (Select only one answer).

    - Yes.
    - No.
    - Not applicable.

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11. Does your organization have a defined risk appetite and risk tolerance framework? (Select only one answer).

- Yes, reviewed annually.
- Yes, reviewed biennially.
- Yes, reviewed as needed.
- No.

12. Which of the following types of risks are perceived as most critical current to your organization? (Select the top 3 that apply).

- Governance risk.
- Compensation risk.
- Compliance-related risk.
- Operational risk.
- Reputational risk.
- Strategy risk.
- Financial risk.
- Financial reporting risk.
- People risk.
- Cyber / technological / IT risk.
- Environmental risk.
- Other (please specify).
- Not applicable.

13. How often does the board/committee receive the following types of information in the monitoring process? Please select the most appropriate for each type of information.

Information	Quarterly	Semi-Annual	Annual	Biennial	Ad-hoc	Not published
Report on top risks in the enterprise and business units (e.g. CRO report)						
Summary of emerging risks and trends						
Gap and effectiveness report (identified risks vs. actions on mitigation)						
Scenario analysis / stress tests						

14. Has your organization implemented a formal whistleblower policy? (Select only one answer).

- Yes.
- No.
- Not applicable.

15. Do you have an employee business conduct and ethics policy in place? (Select only one answer).

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

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16. Does your organization have a board-approved crisis management plan and written policy in place? (Select only one answer).

- Yes.
- No.
- Not applicable.

17. Does the compensation committee hold a joint meeting with any of the following committees for handling various common issues? (Select all that apply).

- No joint meeting between committees.
- Yes, risk committee (or equivalent).
- Yes, governance committee.
- Yes, audit committee.
- Yes, other committee ___________________

18. Does the compensation committee have any joint / overlap membership with any of the following committees for handling various common issues? (Select all that apply).

- No joint membership between committees.
- Yes, risk committee (or equivalent).
- Yes, governance committee.
- Yes, audit committee.
- Yes, other committee ___________________

19. Is the performance metric framework at the business unit (or division) level aligned with that at the enterprise (corporate) level? (Select only one answer).

- Yes, very coherent.
- No, based on decentralized approaches.
- Not applicable (i.e. no divisions).

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VII. Engagement by a governance team

1. Which stakeholder groups have interacted with your organization over the past year? (Select all that apply).

   - Institutional investors.
   - Analysts.
   - Regulators.
   - Proxy advisory firms.
   - Media.
   - Retail shareholders.
   - Other (please specify).

2. How does your board interact with shareholders? (Select only one answer).

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

3. How many times has your board participated in communicating substantive issues to various stakeholders such as shareholders, analysts etc. in the past year? (Select only one answer).

   - 0-2 times.
   - 3-6 times.
   - 7+ times.
   - Not applicable.

4. How effective is your communication with institutional shareholders (electronic filing and voting etc.)? (Select only one answer).

   - Very effective, we have zero complaints.
   - Effective, we get few complaints.
   - Could be improved, we have considerable complaints.
   - Significant improvement needed, unmanageable number of complaints.
   - Not applicable.

5. Has the role of the Investor relations officer (IRO) become more important due to changing rules and regulations? (Select only one answer).

   - Completely agree.
   - Neutral.
   - Completely disagree.

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6. Is the board completely cognizant of the roles and responsibilities of the Investor relations officer and does it seek the IRO's advice on related matters? (Select only one answer).
   - Completely agree.
   - Neutral.
   - Completely disagree.

7. How often do the independent directors meet *in-camera*?
   - Every meeting.
   - Every second meeting.
   - On an ad-hoc basis.
   - Not Applicable.

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VIII. Boardroom diversity

1. Does your organization have a formal board diversity (i.e. gender, age, and ethnicity) policy in place? (Select only one answer).

   - Yes, fully implemented.
   - Yes, being implemented.
   - No, but under consideration.
   - No.

2. If you answered yes to Question 1, which of the following topics does your organization address in their formal diversity policy? (Select all that apply).

   - Gender.
   - Age.
   - Ethnicity.
   - No formal board diversity policy.

3. Does your organization have a formal board recruitment (nomination and election) policy in place? (Select only one answer).

   - Yes, fully implemented.
   - Yes, being implemented.
   - No, but under consideration.
   - No.

4. Has your organization adopted a <u>written</u> policy relating to the identification and nomination of women directors? (Select only one answer).

   - Yes.
   - No.

5. Do you currently have any women directors in your board? (Select only one answer).

   - Yes, please indicate number of women directors ______
   - No.

6. Do you have a target percentage (policy) of women directors in your board? (Select only one answer).

   - Yes, target % _______
   - No, however a policy is currently being developed.
   - No.

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7. If target percentage of women is not currently met, do you have a deadline (in years) to fulfil the target percentage? (Select only one answer).

    - We already meet the target.
    - Yes, we have set a deadline: please indicate number of years ___
    - No, policy is currently being developed.
    - No.

8. Do you currently have directors who are non-Canadian? (Select only one answer).

    - Yes, please indicate number of non-Canadian directors ______
    - No.

9. If you answered yes to Question 8, where are they from? (Select all that apply).

    - United States.
    - North or South America (not including United States or Canada).
    - Europe.
    - Asia.
    - Australia / New Zealand.
    - Africa.
    - No non-Canadian directors within our organization.

10. Are there members of a visible minority on your board? (Select only one answer).

    - Yes, please indicate number of visible minorities ______
    - No.

11. What are the ages of your directors?

    - Youngest age ______
    - Oldest age ______
    - Average age ______

12. Do you have policy of a maximum term for directors? (Select only one answer).

    - Yes, please indicate number of years ____
    - No, policy is currently developed.
    - No.

13. What is the typical tenure of your board members? (Select only one answer).

    - Less than 3 years.
    - 3-5 years.
    - 5-7 years.
    - Over 7 years.
    - Not available.

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14. Does your organization have formal restrictions for the number of boards on which a director can serve? (Select only one answer).

- Yes, please indicate number of boards _______
- No.

15. Please indicate the number of <u>other</u> boards each of your directors serve on (on average). (Select only one answer).

- 0.
- 1.
- 2-3.
- 4-5.
- Over 5.

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IX. Subsidiary governance

1. Does your organization's significant subsidiaries generally have separate boards of directors?
   - Yes.
   - No.
   - Not applicable (no subsidiaries) – please skip to the next section.

2. Are there common directors on the boards of the subsidiaries and the parent company?
   - Yes.
   - No.
   - Not applicable.

3. How often does the parent company's board discuss oversight of the business and risks of the subsidiary?
   - Every meeting.
   - Every second meeting.
   - On an ad-hoc basis.
   - Never.
   - Not applicable.

4. Does your organization have a written subsidiary governance framework?
   - Yes.
   - No.
   - Not applicable.

5. Are your organization's formal board mandates and position descriptions adopted at the subsidiary level?
   - Yes.
   - No.

6. How is subsidiary governance coordinated within your organization?
   - From one central location.
   - From multiple, local jurisdictions.
   - Hybrid approach – both centralized and decentralized.
   - Not applicable.

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7. Is there a formal orientation / on-boarding program (i.e. written objectives, process and reports) for new directors of the subsidiary board?

    - Yes.
    - No.

8. Does your organization have a director continuing education program in place for subsidiary directors?

    - Yes.
    - No.

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X. Effective board and committee operations

1. How many board committees do you have? Please indicate number of committees.

   ____

2. Please select the topics your board committees focus on. (Select all that apply).

   - Audit.
   - Finance.
   - Compensation / human resource.
   - Nomination.
   - Governance.
   - Risk.
   - Social responsibility / sustainability (may include environment).
   - Safety / health / reliability (may include environment).
   - Reserve.
   - Pension.
   - Investment.
   - Other.

3. What was the frequency of board meetings (whether live or via teleconference) in the last full fiscal year? (Select only one answer).

   - 0-2 times.
   - 3-6 times.
   - 7-10 times.
   - >10 times.

4. Please specify how your organization distributes board materials. (Select all that apply).

   - Through mailing of hardcopies.
   - In-person at board meetings.
   - Through secured email.
   - Through an internal or external board portal.
   - Using tablet devices / other wireless communication devices.

5. For the purpose of making pay decisions, how would you best describe the performance evaluation process for senior executives? (Select all that apply).

   - Largely discretionary by the board.
   - Based purely on financial measures tied to last year's performance.
   - Uses a balanced scorecard approach (financial, operational, people, customer).
   - Includes a formal 360-degree leadership assessment.
   - Includes development objectives to support the CEO improve his / her performance.
   - No performance evaluation process in place.

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6. How often does the CEO evaluation happen? (Select only one answer) **(Strategy question #2).**
   - Once every 6 months.
   - Once every year.
   - Once every 2 years.
   - As needed.
   - Others (please specify).

7. How often does your organization review its executive compensation policy? (Select only one answer) **(Strategy question #3).**
   - At least every 6 months.
   - Annually.
   - Once every 2 years.
   - Only if there is a specific development requiring to do so.
   - We have never reviewed our executive compensation policy.

8. How effective has your executive compensation program been thus far in terms of motivating, retaining and achieving desired performance? (Select only one answer). **(Strategy question #4).**
   - Very effective.
   - Mostly effective.
   - Somewhat effective.
   - Not effective.

9. Does your organization have a formal CEO succession planning process for leadership continuity; i.e., policy, written objectives and reports? (Select only one answer).
   - Yes, fully implemented.
   - Yes, being implemented.
   - No, but under consideration.
   - No.
   - Not applicable.

10. How would you describe your CEO succession planning process? (Select all that apply).
    - Emergency replacement plan for the CEO.
    - Forward-looking CEO role profile aligned to the organization's strategic direction.
    - Systematic process to identify internal CEO succession talent bench.
    - Systematic process to identify executive succession talent (direct reports to CEO).
    - Regular scan of external CEO talent in the market / industry.
    - Formal, comprehensive assessment of CEO succession candidates.
    - Leadership development program to ensure leadership continuity.
    - Not applicable.

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11. Does your organization have a formal (i.e. written objectives, process and reports) policy for board performance evaluation? (Select only one answer).

   - Yes.
   - No.

12. Is the board performance evaluation conducted for the full board as a whole or on an individual basis? (Select only one answer).

   - Full board.
   - Individual basis.
   - Not applicable.

13. How often does the board evaluation take place? (Select only one answer).

   - Once every 6 months.
   - Once every year.
   - Once every 2 years.
   - Not applicable.

14. Have you had a third party agency evaluate the board's effectiveness in the last three years? (Select only one answer).

   - Yes.
   - No.

15. How are your directors evaluated? (Select only one answer).

   - Individual peer-evaluation survey led by corporate secretary or other in-house personnel.
   - Individual peer-evaluation survey led by a third-party facilitator.
   - One-on-one with a designated board member.
   - Others (please specify).
   - Not applicable.

16. Is there a formal orientation / on-boarding program (i.e. written objectives, process and reports) for new directors? (Select only one answer).

   - Yes.
   - No.

17. Does your organization have a formal (i.e. written objectives, process and reports) director education policy? (Select only one answer).

   - Yes, fully implemented.
   - Yes, being implemented.
   - No, but under consideration.
   - No.

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18. What methods are used within your organization to educate board directors? (Select all that apply).
    - In-house (by management).
    - In-house (by a third party).
    - Outside (third-party director education programs).
    - Sponsored for public forums or peer group sessions attended.
    - Other (please specify).
    - Not applicable.

19. What percentage of directors have attended education programs over the past year? (Select only one answer).
    - Below 25%.
    - Between 25% and 50%.
    - Between 51% and 75%.
    - Above 75%.

20. Have the presence of director education programs resulted in better decision-making in the boardroom? (Select only one answer).
    - Yes.
    - No.

21. Which of the board education topics are provided by your organization for your new and existing directors? (Select all that apply).
    - Industry specific topics.
    - Insider trading.
    - Organization policies.
    - Risk oversight.
    - Compensation.
    - Regulatory issues.
    - Ethics.
    - Financial and liquidity risk.
    - Anti-corruption policies.
    - Market risk.
    - Political contributions.
    - Other (please specify).
    - Not applicable.

22. What changes do you foresee with regard to corporate governance best practices for 2017?

23. Additional comments/input:

We thank you for participating and look forward to your continued support! Please contact Rishima Kathuria at rishima.kathuria@kornferry.com for further information.

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