



CLARKSON
Centre for Board Effectiveness

Clarkson Centre Governance Monitor: Majority Voting

Funded by



**Compiled by David Comrie
December 20, 2010**

Director Election Process

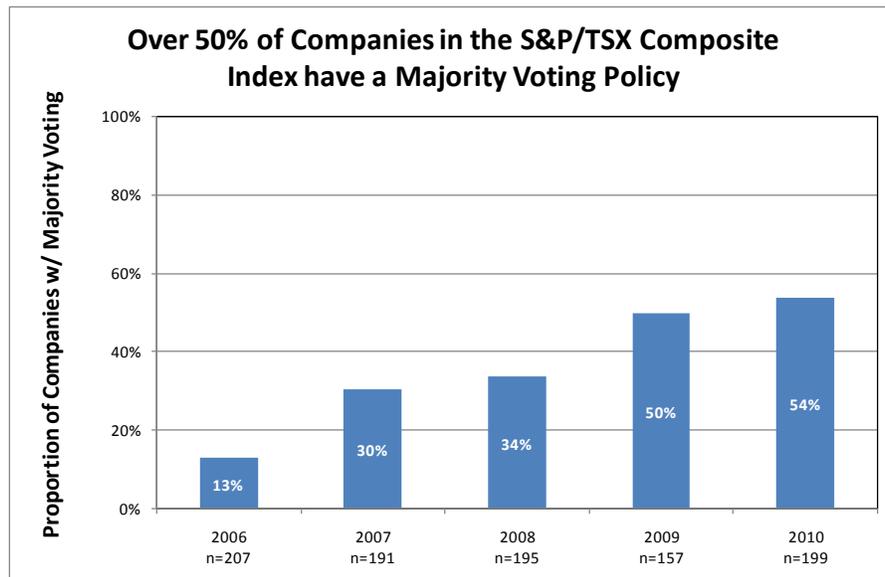
Director elections in Canadian companies are counter-intuitive from a democratic perspective. The legal requirement for companies is that shareholders be able to vote “For” or “Withhold” for directors. Withholding a vote for a director does not count as a vote against, so ultimately all it takes is a single “For” vote to elect a director. Presumably if a director owns any shares and is standing for re-election, that director can vote “For” and that is enough to elect him or her for another year, even if all the other shareholders vote “Withhold”.

What is Majority Voting?

Starting in 2004 several companies took it upon themselves to implement a majority voting policy in order to improve shareholder rights, a corporate governance practice that has received heavy support from organizations such as the Canadian Coalition for Good Governance and the Ontario Teachers’ Pension Plan. Typically Majority Voting policies treat “Withheld” votes as votes against the director. If a director should receive a majority of votes against, he/she must immediately submit their resignation to the board. The board considers the submission for resignation and can choose to reject or accept it; regardless, they must disclose an explanation for their decision to the shareholders, generally within 90 days of the shareholder meeting at which the director received the majority “Withhold” votes.

While there is some contention over whether or not the acceptance of the resignation should ultimately be a board decision or automatic once a director receives a majority of “Withheld” votes, we must understand that this initiative is designed to empower the shareholders and that is a positive step forward.

Adoption of Majority Voting

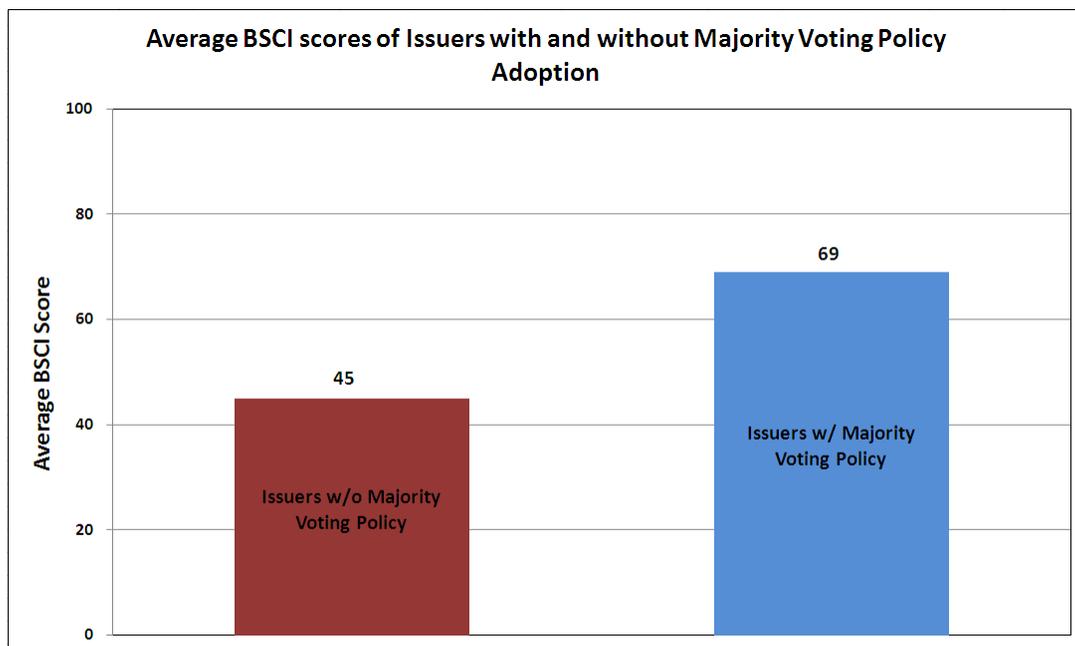




The adoption of Majority Voting in Canada at S&P/TSX Composite companies has increased annually since 2006. In 2010 there are 106 companies out of 199 with the policy in place, an approximate 400% increase from 2006. However, there are still a large number of issuers who have yet to adopt, but they are now in the minority and can expect shareholders to exert pressure on them to adopt a majority voting policy.

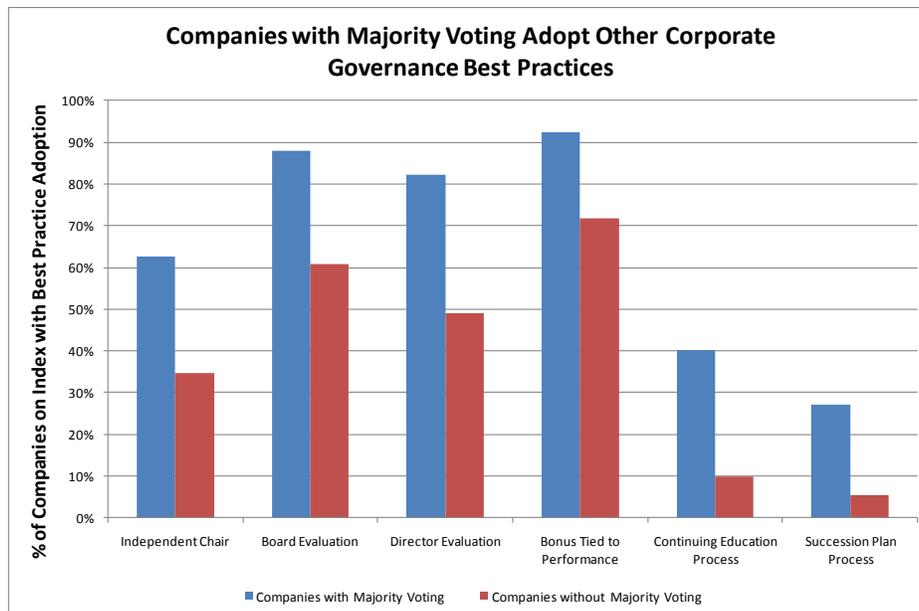
Majority Voting Linked to Overall Good Governance

Research indicates that companies who have adopted a majority voting policy are also much more likely to have also adopted other corporate governance best practices. In 2010, the average score for companies with a majority voting policy was *69/100* on the Clarkson Centre's (CCBE) Board Shareholder Confidence Index (BSCI) versus an average score of *45/100* for companies without.





Companies with majority voting scored higher on a number of key corporate governance best practices measured by the BSCI. It is evident that these issuers see majority voting as a necessary component of good governance.



Transparency of Voting Results

This year, the CCBE also collected data on the report of voting results for each index listed company. Of the 106 companies that had adopted a majority voting policy, about 85% had chosen to disclose detailed voting results, providing election results for each individual director. Furthermore, in keeping with the trend illustrated in this report, 58% of the companies that have not adopted a majority voting policy provided much less transparency in their voting results.

Going Forward

Majority voting empowers shareholders by providing them with a clearer voice in who they would like to have overseeing their investment. Many companies that have adopted a majority voting policy have shown their commitment to good corporate governance by adopting best practices in many other areas. CCBE expects to see this trend continue with more and more companies adopting Majority Voting in the years to come. Those who do not adopt will soon be conspicuous in their refusal. The next step is to improve disclosure in the voting results report, detailing how shareholders votes are being cast by including the number of votes “For” and the number of votes “Withheld” for each director.

