Overboarding Revisited:

The unique history and uncertain future of busy directors on the TSX Index

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The Clarkson Centre for Board Effectiveness (CCBE) collects data to support analyses of corporate governance practices, including the *Globe and Mail*'s annual ranking of S&P/TSX Composite Index (TSX Index) corporations, "Board Games". In 2004 and 2006, the CCBE examined the phenomenon of overboarding: directors holding four, five, or more board memberships. Expecting a negative impact on corporate governance when TSX Index board members are burdened for time and attention, we unexpectedly discovered that corporations with busy directors outperform their peers on a variety of governance metrics. We shared our findings in two open access reports[i]. More than a decade later, we're taking another look at overboarding.

Recently, the topic has garnered renewed energy in academic and industry publications; authors have written about both the declining networks of interlocking corporate directors[ii] (a trend we too have observed in our data) as well as the negative associations of overboarding[iii]. In early 2017, proxy advisory service provider ISS officially recommended that shareholders withhold votes for directors who sit on more than four corporate boards[iv]. The decision marked a necessary institutional response to both an overall decrease in multiple memberships across stock indices, and increased demands made by corporations on their directors to fulfill board duties. At the CCBE, we also changed our criteria for deducting points from corporations with overboarded directors, lowering the previous limit of five or more, to four or more memberships.

Overboarding is a top-of-mind issue for institutional investors and policies can be stricter than those of proxy advisors. For instance, Alberta Investment Management Corporation (AIMCo) has a more nuanced policy with specific and more limiting guidelines for the board chair and audit committee chair. They will also review other situations where a director's external commitments might affect their ability to deliver quality work.[v]

After fifteen years of analyzing corporate governance practices, the CCBE continues to approach overboarding with caution, as demonstrated in the scoring change described above and implemented in 2017. Our annual Board Shareholder Confidence Index Methodology summarizes how we score companies on their governance practices. In the 15th edition, published December 2016, we explained why excessive board memberships are worthy of concern and evaluation: a board member must allow for enough time to dedicate to their board, in order to succeed as a director and ensure thoughtful stewardship of the corporation to which they were elected. A perceived risk emerges when a director appears to have too many obligations, such as through numerous directorships.

In recent years, we have also seen the hourly commitments for board work increase, to include both committee meetings as well as work conducted beyond the scope of official duties. The National Association of Corporate Directors, a US-based independent organization made up corporate board members, discovered through its 2016-2017 Public Company Governance Survey that—of the 631 publicly listed corporations surveyed—annual director time commitment was 245 hours on average[vi], up from 191 hours in

2005[vii]. The CCBE's decision to penalize companies for nominating directors with four or more board memberships (restricted from the previous five or more), reflects the changing demands on corporate directors, including the expectation that directors give more time to their board duties.

However, in 2004, we also uncovered surprising facets about the corporate governance practices of companies with overboarded directors. At the time, 16 directors sat on five or more TSX Index boards. We dubbed this group the "Elite 16"; the combined wealth of the companies represented amounted to half of the Index's market cap (at the time), even as the number of companies accounted for only a quarter of all constituents. A previously unnoticed network of intersecting directorships also emerged to us from the group, suggesting influential connections that fostered information sharing. We visualized those relationships by mapping them in the form of a web, an "Elite Network"; 14 of the 16 individuals held board memberships at the same corporation as another director in the group.

Table 1: Overboarded Directors on the TSX Index in 2004

DIRECTOR NAME	# OF TSX INDEX SEATS	COMPANY TICKERS[viii]
Brian F. MacNeill	7	DFS, PCA, SCC, T, TD, WFT, WTO
Jack L. Cockwell	6	ACM.NV.A, BPO, FL, FPS, NRD, NBD
Hon. F. J. McKenna	6	BMO, CGS, FNX, NRD, SC, ZEN
David P. O'Brien	6	ECA, FHR, N, MOL.A, RY, TA
Rt. Hon. D. F. Mazankowski	5	ACO.NV.X, GWO, IGM, POW.SV, PWF
Charles A. Baillie	5	BLD, CNR, WN, IQW, T
André Bérard,	5	BCE, BBD.SV.B, NRD, SAP, VAS
John E. Cleghorn	5	CP, FTT, MOL.A, NT, SNC
Yves L. Fortier	5	AL, HBC, NT, NCX, RY
Peter C. Godsoe	5	ABX, FHR, OCX.SV, RCI.NV.B, SBY
Oyvind Hushovd	5	CCO, GBU, IMN, LIM, WTO
J. Spencer Lanthier	5	EME, ITP, TS.NV.B, X, ZL
J. M. Edward Newall	5	AL, CP, MFI, NCX, RY
Ronald W. Osborne	5	FSH.SV, SHC, ST.SV.A, SLF, TS.NV.B
J. Robert S. Prichard	5	BMO, FSH.SV, WN, OCX.SV, TS.NV.B
Lawrence G. Tapp	5	ATA, CCL.NV.B, HKY, TLM, WCS.A

When we published our second report two years later, reviewing the interlocking networks of directors across corporate Canada, only five held five or more memberships. Expanding our scope to reflect the change, we began noting how many directors sat on four or more boards, and drew out a total of 22 board members. As in 2004, a unique network emerged once more; 19 directors sat on the same board as another member of the group.

We also observed that networks created by director interlocks facilitated information sharing on topics—and subsequent implementation of related practices—including acquisition processes, anti-defense strategies, and committee independence. For example, 84% of TSX Index companies in 2004 with overboarded directors had majority independent boards, compared with 59% of companies with no directors in the Elite Network. In another instance, 58% of corporations in the Elite Network held board evaluations, compared with 37% of corporations without any overboarded directors. The proportions remained relatively stable for the next two years.

The reviews of 2004 and 2006 data suggested that multiple memberships can positively propagate information sharing among board members, ultimately driving corporate reform in Canada. That conclusion was recently upheld by legal scholars Barzuza and Curtis, who argue that "a growing body of evidence points to interlocks as having a significant role in governance propagation and evolution" (2015, page 1)[ix]. The co-authors define interlocking as instances in which directors hold more than one corporate directorship.

Table 2: Comparing the scores of companies in the Elite Network with all TSX Index Companies

YEAR OF DATA COLLECTION	AVERAGE SCORE OF ALL TSX INDEX COMPANIES	AVERAGE SCORE OF COMPANIES WITH NO ELITE NETWORK DIRECTORS	AVERAGE SCORE OF COMPANIES WITH ELITE NETWORK DIRECTORS
2004	69	63.9	72.5
2006	70	68.8	72.6
2017	73	72	76

Table 2 shows that in both 2004 and 2006, the combined average scores of companies with overboarded directors were higher than companies without busy board members. Our scoring criteria varies each year, so direct comparisons between the results in the same column are not always useful or even possible. However, our most recent data set, collected in 2017, shows the same persisting pattern: companies with busy board members score slightly higher, on average, than corporations without overboarded directors.

And yet, concurrently, the size and financial clout of the Elite Network has weakened. In 2017, only two directors on the TSX Index sat on five or more boards. 16 directors held four or more memberships on the boards of 46 unique companies, or 18.7% of the 246 companies listed on the Index as of September 1, 2017. Both the total number of overboarded directors, and the number of companies they represent, has dropped since 2006. Comparable activities have been noticed on other major indices. For example, Wall Street Journal editor Joann S. Lublin reported in 2016 that 5% of directors on the S&P 500 held four or more board seats, compared with 27% in 2005[x].

Table 3: Overboarded directors on the TSX Index in 2017

DIRECTOR NAME	NUMBER OF TSX DIRECTORSHIPS	COMPANY TICKERS[xi]
Marcel R. Coutu	5	BAM.A, ENB, GWO, IGM, POW
Gary Albert Doer	5	ABX, GWO, IGM, POW, PWF
Catherine (Kay) Best	4	ALA, BAD, CNQ, SPB
John A. Brussa	4	BTE, CR, JE, TOG
Jacynthe Côté	4	FTT, RY, SU, TCL.A
Gillian (Jill) H. Denham	4	CP, KXS, MSI, NA
André Desmarais	4	GWO, IGM, POW, PWF
Paul Desmarais Jr.	4	GWO, IGM, POW, PWF
Michael S. Hanley	4	DOO, IAG, PJC.A, SCL
Robert B. Hodgins	4	ALA, ERF, GTE, MEG
Isabelle Marcoux	4	POW, RCI.B, TCL.A, WN
Margaret A. McKenzie	4	BNP, ECA, IPL, PSK
Jeffrey Orr	4	GWO, IGM, POW, PWF
Robert L. Phillips	4	CNR, CWB, MDA, WFT
Robert S. Prichard	4	ABX, BMO, ONEX, WN
Katharine B. Stevenson	4	CAE, CM, CPX, OTEX

We've also seen a narrowing difference between the average scores of Elite Network corporations and non-Elite Network corporations; from 8.6 points in 2004, to 4 points in 2017. Proportional market cap has decreased, too. In 2006, companies with directors in the Elite Network represented 63% of the index's total market cap, sliding 27% to the most recent calculation (see *Table 4*). Although the total dollar amount has nearly doubled (before accounting for inflation), the Network's monetary influence has diminished significantly over companies outside the Network.

Table 4: Comparing market cap of companies in the Elite Network with all TSX Index companies[xii]

YEAR OF DATA COLLECTION	MARKET CAP OF COMPANIES ON THE TSX INDEX	MARKET CAP OF COMPANIES IN THE ELITE NETWORK	NUMBER OF ELITE DIRECTORS[xiii]	MARKET CAP OF COMPANIES IN THE ELITE NETWORK AS A PERCENTAGE OF THE TSX INDEX TOTAL MARKET CAP
2004	$768 billion	$437 billion	16	51%
2006	$1.43 trillion	$900 billion	22	63%
2017	$2.32 trillion	$839 billion	16	36%

Elite networks are dwindling; fewer directors are shouldering multiple memberships—likely due to increased scrutiny and workloads—and the monetary influence of the companies they represent continues to decrease. Overboarded directors are not a guarantee of successful corporate governance; they should only pursue multiple memberships if they can fulfill their duties. However, at the CCBE, we've also established a beneficial relationship between the presence of overboarded directors and the implementation of effective corporate governance practices across the Elite Network of the TSX Index. What happens when influential, information sharing networks forged through overboarding weaken? We are encouraged to see the average scores of companies outside the Elite Network continue to verge upon the scores of companies populated with their overboarded peers (see *Table 2*). The statistic suggests that the benefits of overboarding may have peaked in the early to mid-2000s. While the Network may have usefully pushed effective practices among its members at the time—including committee independence and board evaluations—these practices have become commonly adopted as standard processes among a greater percentage of boards. The positive impact of overboarding on measurable corporate governance practices has become more difficult to argue with conviction, as boards with no elite directors have been drawing near to the scores of elite peers for the last decade. Furthermore, the increased time commitment required for director appointments means that overboarded directors risk compromising their effectiveness on each board. The expected losses are less apparent, but important to consider; dwindling interlocks may negatively affect the nuanced aspects of effective decision making that elude quantitative analysis, including conflict resolution strategies, leadership styles, communication methods, and other integral aspects of successful group–based decision making.

The Clarkson Centre for Board Effectiveness (CCBE) at the Rotman School of Management, University of Toronto, is Canada's leading independent corporate governance research body. CCBE's mission is to create practical tools and insights to improve the effectiveness of boards of directors in all sectors. CCBE's research focuses on effective disclosure, adoption of formal governance processes, pay for performance analysis and more.

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[i] See Timothy J. Rowley and Matt Fullbrook (2004), "Canada's Corporate Elite: The Gatekeepers of Good Governance", retrieved from the Clarkson Centre website: http://www.rotman.utoronto.ca/ FacultyAndResearch/ResearchCentres/ClarksonCentreforBoardEffectiveness/CCBEpublications; See also Timothy J. Rowley and David Comrie (2006), "The 2006 Canadian Elite Directors Continue to Drive Governance Improvement", retrieved from the Clarkson Centre website: http://www.rotman.utoronto.ca/ FacultyAndResearch/ResearchCentres/ClarksonCentreforBoardEffectiveness/CCBEpublications

[ii] See Johan S. G. Chu and Gerald F. Davis, "Who Killed the Inner Circle? The Decline of the American Corporate Interlock Network," *American Journal of Sociology* 122, no. 3 (November 2016): 714-754.

[iii] See Jeremy C. Kress, "Board to Death: How Busy Directors Could Cause the Next Financial Crisis," Ross School of Business Working Paper No. 1370 (June 2017)

[iv] See Institutional Shareholder Services (January 12, 2017), "Canada Proxy Voting Guidelines for TSX-Listed Companies: 2017 Benchmark Policy Recommendations". Retrieved from the ISS Governance website at https://www.issgovernance.com/file/policy/2017-canada-tsx-voting-guidelines.pdf

[v] See Alberta Investment Management Corporation (January 2018), "Proxy Voting Guidelines & Corporate Governance Principles". Retrieved from the AIMCo website at: https://www.aimco.alberta.ca/DesktopModules/AIMCoWhitepaper/Whitepapers/Proxy%20Voting%20Guidelines%20January%2011,%202018%20FINAL.pdf

[vi] See National Association of Corporate Directors (2016), "2016-2017 NACD Public Company Governance Survey: Executive Summary", Retrieved from https://www.nacdonline.org/files/2016–2017%20NACD%20Public%20Company%20Governance%20Survey%20Executive%20Summary.pdf

[vii] See Information Inc. (2016), "How many board seats are too many?" Press abstract, retrieved from National Association of Corporate Directors website: https://www.nacdonline.org/Resources/RSSDetail.cfm?RSSID=184318

[viii] ABX (Barrick Gold Corporation), ACM.NV.A (Astral Media Inc.), ACO.NV.X (Atco Ltd.), AL (Alcan Aluminium Ltd.), ATA (ATS Automation Tooling Systems Inc.), BBD.SV.B (Bombardier Inc.), BCE (BCE Inc.), BLD (Ballard power Systems), BMO (Bank of Montreal), BPO (Brookfield Office Properties Inc.), CCL.NV.B (CCL Industries Inc.), CCO (Cameco Corporation), CGS (Canwest Global Communications), CNR (Canadian National Railway Company), CP (Canadian Pacific Railway Ltd.), DFS (Dofasco Inc.), ECA (Encana Corporation), EMA (Emerca Incorporated), EME (Emergis), FHR (Fairmont Hotels & Resorts), FL (Falconbridge Ltd.), FNX (FNX Mining Co.), FPS (Fraser Papers Inc.), FSH (Four Seasons Hotels), FTT (Finning International), GBU (Gabriel Resources), GWO (Great-West Lifeco Inc.), HBC (Hudson's Bay Co.), HKY (Husky Inject), IGM (IGM Financial Inc.), IMN (Inmet Mining Corp), IQW (Quebecor World Inc.), ITP (Intertape Polymer Group), LIM (Lionore Mining), MFI (Maple Leaf Foods), MOL.A (Molson Inc.), N (Inco), NBD (Norbord Inc.), NCX (Nova Corp.), NRD (Nord Resources Corp.), NT (Nortel Networks), OCX.SV (Onex Corporation), PCA (Petro-Canada), POW.SV (Power Corporation of Canada), TS.NV.B (Torstar Corporation), PWF (Power Financial), RCI (Rogers Communications Inc.), RY (Royal Bank of Canada), SAP (Saputo Inc.), SBY (Sobeys Inc.), SC (Shoppers Drug Mart), SCC (Sears Canada), SHC (Shell Canada), SNC (SNC-Lavalin Group), ST.SV.A (St. Lawrence Cement Group Inc.), T (Telus Corp), TA (Transalta Utility), TD (Toronto-Dominion Bank), TLM (Talisman Energy), TS.NV.B (Torstar Corporation), VAS (Vasogen), WCS.A (Wescast Industries Inc.), WFT (West Fraser Timber Co.), WN (George Weston Limited), WTO (Western Oil Sands Inc.), X (TMX Group Ltd.), ZEN (Zenon Environmental Inc.), ZL (Zarlink Semiconductor)

[ix] See Michael Barzuza and Quinn Curtis, "Board Interlocks and Corporate Governance," *Delaware Journal of Corporate Law* 39, no.3 (2015), 669-701.

[x] See Joann. S. Lublin (January 20, 2016), “Three, Four, Five? How Many Board Seats Are Too Many?” Retrieved from the Wall Street Journal website: https://www.wsj.com/articles/three-four-five-how-many-board-seats-are-too-many-1453342763

[xi] ABX (Barrick Gold Corporation), ALA (AltaGas Ltd.), BAD (Badger Daylighting Inc.), BAM.A (Brookfield Asset Management), BMO (Bank of Montreal), BNP (Bonavista Energy Corporation), BTE (Baytex Energy Corporation), CAE (CAE Inc.), CM (Canadian Imperial Bank of Commerce), CNQ (Canadian Natural Resourced Limited), CNR (Canadian National Railway Company), CP (Canadian Pacific Railway Ltd.), CPX (Capital Power Corporation), CR (Crew Energy Inc.), CWB (Canadian Western Bank), DOO (BRP Inc.), ENB (Enbridge Inc.), ERF (Enerplus Corporation), FTT (Finning International Inc.), GTE (Gran Tierra Energy Inc.), GWO (Great-West Lifeco Inc.), IAG (Industrial Alliance Insurance and Financial Services (Inc.), IGM (IGM Financial), IPL (Inter Pipeline Ltd.), JE (Just Energy Group Inc.), KXS (Kinaxis Inc.), MDA (MacDonald, Dettwiler and Associates Ltd.), MEG (MEG Energy Corp.), MSI (Morneau Shepell Inc.), NA (National Bank of Canada), ONEX (ONEX Corporation), OTEX (OpenText Corporation), PJC.A (Jean Coutu Group (PJC) Inc.), POW (Power Corporation of Canada), PSK (PrairieSky Royalty), PWF (Power Financial Corporation), RY (Royal Bank of Canada), SCL (ShawCor Ltd.), SPB (Superior Plus Corp)., SU (Suncor Energy Ltd.), TCL.A (Transcontinental Inc), TOG (TORC Oil & Gas Ltd.), WFT (West Fraser Timber Co. Ltd.), WN (George Weston Limited)

[xii] Dollar amounts are in CAD

[xiii] As previously discussed, eligibility for the Elite Network required five or more memberships in 2004; following our refinement of the criteria in 2006, Elite Network members since then have had four or more memberships.