Clarkson Centre-PricewaterhouseCoopers 2009 Directors Survey in collaboration with the Institute of Corporate Directors

CLARKSON
Centre for Board Effectiveness

INSTITUTE
OF CORPORATE
DIRECTORS

PRICEWATERHOUSECOOPERS

Foreword

Over the past decade, boards of directors have experienced an unprecedented increase in pressure and scrutiny from external stakeholders. High profile corporate collapses in the early 2000s and the resulting expectation of improved governance and oversight have put the spotlight on boards in all sectors. In Canada, these changes have given rise to greater focus on governance practices.

In our continued effort to help directors be effective and strategic in the boardroom, PricewaterhouseCoopers (PwC) and the Institute of Corporate Directors (ICD) retained the Clarkson Centre for Board Effectiveness (CCBE) to conduct a survey of recent directors' experience.

The goal of this survey was to understand the current challenges facing Canadian boards and their impact on board evolution, comparing the strengths of today's directors to those of five years ago. Since many companies have experienced significant challenges throughout the recent economic crisis, we expected the impact on boards might have been considerable. However, our survey results show that no fundamental shifts have occurred, rather today's boards are continuing to press for change in the same areas that they have in the past.

Areas where the most improvements have been noted include:

- Boardroom realities are beginning to catch up to directors' expectations in the areas of full board/management information sharing and boardroom culture of inquiry.
- Directors have also indicated significant confidence in the effectiveness of their chairs and boardroom decision-making processes. This evolution has taken place regardless of size or industry and is now being felt more dramatically in the not-for-profit and crown sectors, where governance scrutiny has historically been less significant.
- Directors are increasingly embracing the full breadth of their responsibilities.

However, change is slow and confidence has declined in three key areas, including meeting structure and time allocation, board composition and continuing education. While governance evolution has begun to touch on these areas of concern, more needs to be achieved in order to meet directors' expectations:

- Directors want to spend more time on strategic planning and discussion and less time on operational oversight.
- The demand for sophisticated directors is increasing but the processes used to identify new directors is lagging.
- Many organizations have no formal approach to continuing education for directors and for some others, continuing education is not yet on the radar.

This report examines some of these gaps and provides insight into the challenges that Canadian directors face in overcoming them.

This report has been published by PricewaterhouseCoopers. We thank the participating directors, the Institute of Corporate Directors and the Clarkson Centre for Board Effectiveness for their involvement and support.

David Forster
Leader, DirectorConnect Program; Managing Partner, GTA

Mike Harris
Leader, Corporate Governance Services

Brenda Eprile
Leader, National Risk

PricewaterhouseCoopers LLP

Methodology

In the spring of 2009, 429 directors from diverse sectors and industries completed a survey developed by the CCBE and PwC in collaboration with the ICD. The survey asked participants to provide qualitative and quantitative feedback on their experiences as a director in seven key areas:

1. Decision-making
2. Board information
3. Board culture
4. Chair effectiveness
5. Time allocation and meeting structure
6. Board composition
7. Continuing education

Survey responses were anonymous except in cases where participants volunteered to participate in follow-up interviews. Analysis of the survey data was undertaken by the CCBE immediately following the close of the survey. In July 2009, eight survey participants were interviewed by the CCBE and asked to provide personal insight into trends and issues highlighted by the analysis. This study summarizes the findings from the survey data and interviews.

Key findings

> “Having a debate over a proposal from management can be very difficult. Often, the best process is to ask as many questions as you want and then go in camera.”
>
> President of a Canadian private company

Directors are gaining more expertise

As expectations placed on boards evolve, individual directors are becoming more focused on their responsibilities. Time spent in the boardroom has increased dramatically in recent years, and as the spotlight shifts toward new challenges such as risk management and executive compensation, the scope of directors’ necessary expertise is growing. As a result, Canadian directors are working to remain educated and effectively contribute their own expertise and skills to the oversight of their organizations.

New achievements in director effectiveness

Board effectiveness is often assessed by measuring quantifiable factors such as director and committee independence and option dilution. These criteria, although critical metrics of an effective functioning board, do not tell the whole story of what truly goes on inside the boardroom. Boards are now focusing more on the effectiveness of their processes and meetings, and have demonstrated in our study that this work is now paying off. Director confidence in the following key areas highlights the success that today’s boards have had in adding more value in the boardroom.

Decision-making

For Canadian boards, the past 10 years have seen a general shift in board/management interaction. Many executive teams are relying more than ever on their boards for expertise and insights, particularly when faced with critical decisions. Our interviews show that this is because managers feel that directors are better equipped than ever—in skills and culture—to contribute to company decisions without crossing the board/management line. This has been a welcome change for boards, who feel that they are now able to contribute more constructively to the decision-making process. Chairs are playing a valuable role in ensuring that the board is sufficiently engaged and, as a result, directors are increasingly clear about their responsibilities and confident that they are able to undertake this role effectively. However, it remains a challenge for some boards to debate proposals in the presence of the CEO or other managers.

This tension can be a result of boardroom processes. Our study shows that many CEOs take a defensive role during the decision-making process, making it difficult for directors to propose dissenting opinions. Overall, however, directors feel increasingly empowered and confident that they can provide a valuable point of view. Most importantly, the majority of boards feel that their opinions are being heard clearer than ever.

> “When you’re management, you’re mom and dad. When you’re a director, you’re a grandparent—you don’t take the kids home.”
>
> President of a Canadian private company

Board information

The board/management information gap has long been a concern for directors. Most directors spend less than 20 hours per month working on any given board, while most executives spend in excess of eight hours per day with the organization.

Managers attempt to bridge this gap by providing timely and complete information packages to the board in between meetings while providing important updates as necessary. Directors in all sectors feel that the information they are receiving is informative and pertinent, and that they are receiving it with sufficient time to prepare adequately for meetings. As a result, directors feel that they are well-prepared for meetings and are able to contribute meaningfully to discussions.

But one concern remains, indicating that the information gap has not closed completely. Most directors pointed out that when important decisions are at hand in the boardroom, their board often defers to management’s expertise. This indicates that although significant improvement has been made to board information, directors continue to feel under-informed in critical situations.

Board culture

Canadian directors are demonstrating very high confidence in their board culture and its impact on their effectiveness. Board meetings are characterized by open and respectful discussions where all participants are given equal opportunity to participate. Lines of communication between directors as well as between boards and management are efficient, and directors feel that they have enough exposure to management to adequately understand management culture and organizational specifics. In addition, most directors are well prepared for board meetings, creating an efficient and trustful atmosphere.

Directors are spending more time interacting with management both inside and outside of board meetings compared to five years ago. This is a result of management’s increasing reliance on boards for input. Some directors, however, are concerned that this change has negatively impacted their ability to operate independently. Overall, boards are confident that they are able to provide valuable oversight without conflict.

> "I don't like the word 'strong' as an adjective for a chair; dominance is not a critical success factor. Rather, it's the chair's responsibility to ensure everybody is heard and that there is a balance."
>
> Charles Levine, Chair of several Canadian public companies

Chair effectiveness

Boards across Canada are looking to their chairs to act as a reliable interface between the board and management, as well as to set and fulfill effective meeting agendas. Interviews with survey participants revealed that the desired skill set for an effective chair pertains mainly to culture and character, rather than experience.

The most cited characteristics contributing to chair effectiveness include:

- Patient listener
- Leadership, but must view him/herself as a leader among equals
- Strong understanding of the business
- Willing to take time to get to know each director's strengths and weaknesses

A majority of Canadian directors feel that their chairs are undertaking their roles effectively and embodying the characteristics needed to provide leadership at the board level.

Canadian boards continue to face challenges

As expectations placed on boards evolve and the financial climate continues to alter the boardroom environment, individual directors have become more focused on their responsibilities.

Time spent in the boardroom has increased dramatically in recent years, and as the spotlight shifts toward risk management and executive compensation, the scope of directors' necessary expertise is growing. As a result, directors are working to remain educated and effectively contribute their own expertise and skills to the oversight of their organizations. But despite significant efforts by boards and managers to stay ahead of the curve, change in many areas is slow. The results of our study highlight the many strengths of today's directors, but also indicate that there is work to be done.

Time allocation and meeting structure

Allocation of time during board meetings has changed significantly in the past five years. Some directors cite high profile corporate scandals as a major influence, while others feel that evolution of relationships between boards and management are the cause. Most likely, the changes in boardroom focus are a product of numerous factors resulting from a changing marketplace, scrutiny from stakeholders and an increased professionalization of the board's role. While directors have indicated a significant increase in time spent on strategy, risk management and compliance in recent years, they still feel that further adjustment is necessary in order to maximize the board's value. Ideally, directors want to spend more time on strategic planning and discussion and less time on operational oversight.

Figure 1
Time allocation: How boards currently allocate their time at board meetings

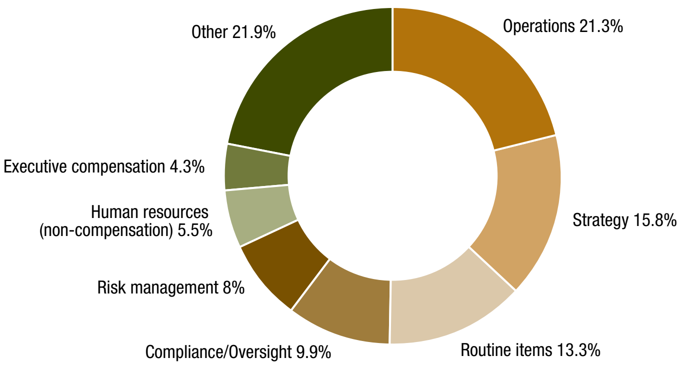
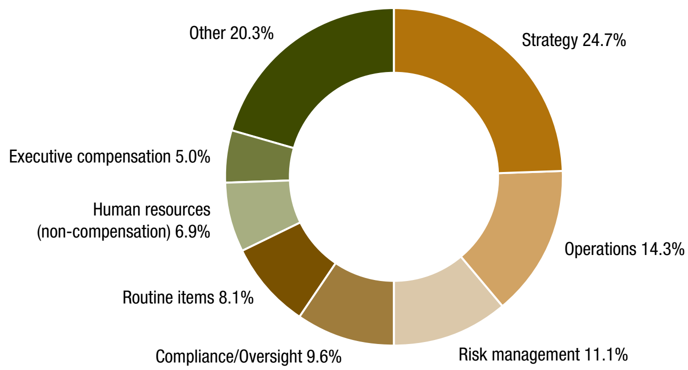


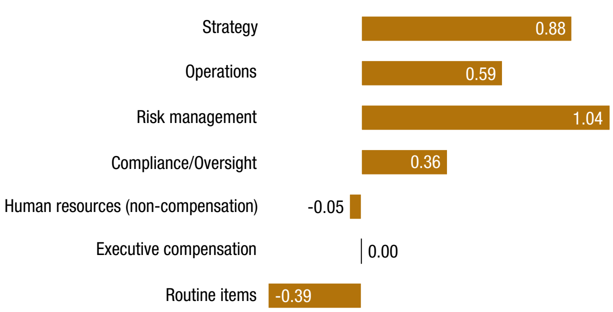
Figure 2
Time allocation: How directors want board meeting time to be allocated



Directors' inability to make changes to the agenda is sometimes a result of years of standardized board meetings. In these cases, the board as a whole is not involved in setting board meeting agendas—this is frequently the CEO's responsibility. Directors may find it difficult to change these routines, especially in times of organizational and economic difficulty. Many boards are starting to develop new processes to better engage in agenda setting and board meeting oversight, but are not yet able to allocate meeting time based on their own agendas.

Figure 3.1
Meeting structure: Impact of the economic crisis

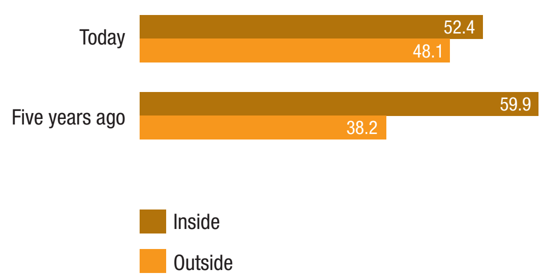
Boards in all sectors and industries have been affected by the uncertainty of the current economy. An increased focus on risk management in the boardroom has occurred in an attempt to understand what organizations can do to avoid additional risk.



NOTE: Number value indicates increase/decrease in time spent at board meetings. 2 is the maximum increase and -2 is the maximum decrease.

Figure 3.2
Meeting structure: More time is being spent outside the boardroom

A large majority of directors surveyed indicated that although the amount of time they commit to each board is increasing, the number of board meetings remains the same. The additional time is being spent outside of the boardroom.



"Many managers used to view boards as a necessary evil, but now the board represents a body of experience and knowledge that management needs to tap into. The board needs to find a way to give their knowledge to management without becoming overly involved in the company."

John Willson, former President/ CEO, Placer Dome Inc.

Board composition

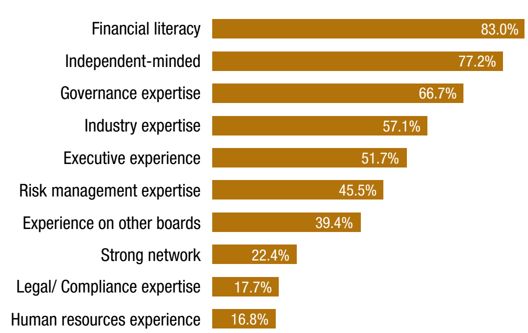
While boards' workloads have grown, the boards themselves have not. In all sectors, boards have indicated that in the past five years the number of directors has stayed static—partially a function of the feeling that their boards have the right number of directors, with only not-for-profit boards reporting slightly overpopulated boardrooms. However, turnover on boards is occurring. The average tenure of a director on a public board in Canada is under five years while a large majority of elections are annual. When new directors are recruited, they are expected to bring significant expertise to the table.

As boards increase focus on fulfilling their responsibilities, the need for well-educated and experienced directors is increasing. The profile of an effective director is a fine balance of specialized skills and nuanced personal characteristics. Financial literacy and independent-mindedness are far and above the most sought after skills, representing the need for both technical expertise and high-quality communication skills. With respect to financial literacy in particular, the implication here is not that all directors must be financial experts, but rather that financial expertise is an indispensible skill for the board as a whole. Combined with a strong understanding of the organization's strategy, these skills represent today's ideal director. These characteristics are becoming more important as, in many cases, the interface between the board and management is becoming more sophisticated. Executive teams now rely heavily on boards to provide unique perspectives and insight.

Although the search for effective directors is challenging, a large number of boards still lack a formal process for the identification of new candidates—65% of boards in all sectors use a separate nominating body to find suitable new directors, yet only 42% of boards have a formal nominating committee. A significant majority of boards rely heavily on information from their current board members during the nominating process. Although the demand for sophisticated directors is increasing, the processes used to identify new directors is lagging behind.

Figure 4

Board composition: Most important director skills



NOTE: Participants were asked to select the five board skills that they most value in a director. Percentages indicate the percentage of participants that selected each skill.

The most desirable board skills vary significantly with sector, size and industry

Although there is significant agreement among directors in different sectors and industries regarding the most important director skills, certain skills are far more important to some boards than they are to others. Our survey data shows that in some specific cases, the disparity between industries and sectors is quite great, indicating that effective board composition is not "one size fits all."

↑ = Above average ↓ = Below average

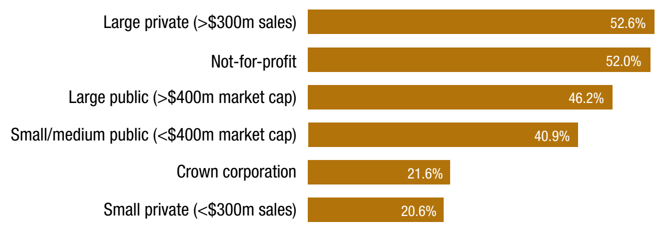
Industry expertise (overall: 57%) ↑ Energy: 82% ↑ Telecom: 83% ↑ Small private: 71%	**Strong network** (overall: 22%) ↓ Materials: 3% ↓ Large private: 5% ↓ Large public: 6% ↑ Not-for-profit: 35%
Executive experience (overall 51%) ↑ Energy: 71% ↑ Information technology: 70% ↑ Large public: 75% ↓ Utilities: 33%	**Risk management** (overall: 45%) ↑ Crown corporation: 62% ↑ Financials: 59% ↓ Materials: 29%

NOTE: Percentages indicate the percentage of survey participants who selected these skills as best defining an effective director.

Figure 5
Board composition: Most important director characteristics

NOTE: Participants were asked to allocate 100 points across several director characteristics. Allocating more points indicates that the characteristic better defines an effective director. Numbers indicate the average number of points allocated by a participant.

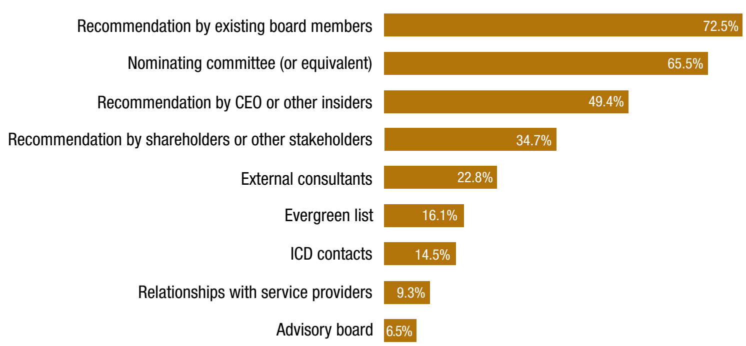
Figure 6
Board composition: In all sectors, at least half of all boards do not have a formal nominating committee



NOTE: Percentages represent the percentage of survey respondents from each sector that indicated their board has a formal nominating committee.

Figure 7
Board composition: How are boards finding new directors?

Although many boards do not have a formal nominating committee, a majority of boards still rely on an equivalent body to identify suitable new directors. Director recommendation is by far the most common method of director nomination.



NOTE: Percentages represent the percentage of survey participants who indicated that they use these particular methods to identify director candidates.

New directors and not-for-profit directors are unlikely to use the ICD to identify director candidates. However, large public boards are 30% more likely to keep an evergreen list of potential candidates and more than half of large public boards use external consultants. Less than 10% of not-for-profit boards use external consultants.

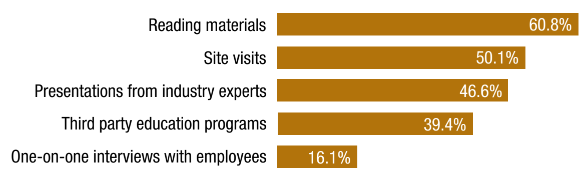
“Education is the key to moving away from long-standing problems at the board level. It gives legitimacy to the board’s decision-making abilities.”

Lynda Hessey, Chair, Ontario Problem Gambling Research Centre

Continuing education

Most boards are now encouraging directors to participate in a variety of director education opportunities. At many organizations, however, there are no formal requirements and for some others continuing education for directors is not yet on the radar. While a growing number of directors are taking initiative on their own accord, a majority of board members surveyed indicated that they have greatly increased their commitment to director education even in cases where their boards have not. Directors and executives are beginning to see education as a tool to help boards avoid common obstacles that have been historically difficult to navigate.

Figure 8
Continuing education: Current continuing education opportunities being offered by boards



NOTE: Percentage represents the percentage of survey participants that indicated their board provides these continuing education opportunities to directors.

Other continuing education opportunities offered:

- ICD membership
- Subscriptions to relevant journals/magazines
- Presentations from company experts
- Director orientation
- Conference/lecture attendance

Figure 9
Continuing education: Directors are committing more time to continuing education in an effort to keep up with growing responsibilities

In the past five years, my responsibilities as a director have changed significantly	In the past five years, my responsibilities as a director have increased in scope	I have to participate in continuing education in order to keep up with changes in my role as a director
0.9	1.1	1.0

NOTE: Number value indicates how strongly survey participants agree with the above statements. 2 is maximum agreement and -2 is maximum disagreement.

A total of 429 directors completed the survey. The sample of participants breaks down as follows:

Figure 10
Participant sample

Province	# Participants
Alberta	87
British Columbia	52
Manitoba	27
New Brunswick	2
Nova Scotia	11
Nunavut	1
Ontario	212
Prince Edward Island	2
Quebec	32
Saskatchewan	3

Gender	# Participants
Male	283
Female	146

Major Sector Index	# Participants
Consumer discretionary	54
Consumer staples	16
Energy	38
Financials	71
Healthcare	89
Industrials	36
Information technology	20
Materials	27
Telecommunications services	6
Utilities	9
Other	63

Sector	# Participants
Crown corporation	37
Large private (>$300m sales)	19
Large public (>$400m market cap)	65
Not-for-profit	179
Small private (<$300m sales)	63
Small/medium public (<$400m market cap)	66

Director for at least five years?	# Participants
Yes	278
No	52

Current chair	# Participants
Yes	93
No	332

Conclusion

In Canada, boards in all sectors have demonstrated a strong commitment to improving their effectiveness. In the boardroom, important progress has been made both structurally and culturally and as a result, boards are able to add more value than ever before. However, in some areas of good governance, there is a disconnect between directors' desires and reality, as many directors feel that they need to spend more time on directing their organization's strategy. Although boards are able to identify the skill sets they need, many still do not have formal director recruitment processes in place. While Canadian directors are eager to participate in continuing director education, many boards do not offer such opportunities.

Many of the important governance evolutions in the past decade have only occurred after the appearance of external influences. This study shows that directors face many challenges, and external pressure may be required in order for progress to be made.

Citations

Unless otherwise indicated, all data has been taken from the *Clarkson Centre-PricewaterhouseCoopers 2009 Directors Survey in collaboration with the Institute of Corporate Directors*. Quotations are anonymous until confirmed with the source. All quotations have been taken from interviews conducted with survey participants.

Participant sample

Invitations to complete the survey were sent by PwC to ICD members. The sample of invitees included current and former directors in the public, private, crown and not-for-profit sectors in all major industries.

Contact information

PricewaterhouseCoopers LLP

PwC DirectorConnect Leadership Team:

David Forster
Leader, DirectorConnect Program; Managing Partner, GTA
416 869 8722
david.forster@ca.pwc.com

Mike Harris
Leader, Corporate Governance Services
416 941 8256
mike.harris@ca.pwc.com

Brenda Eprile
Leader, National Risk
416 869 2349
brenda.j.eprile@ca.pwc.com

Head Office – Canadian firm
Royal Trust Tower, Toronto-Dominion Centre
77 King Street West, Suite 3000
Toronto, Ontario M5K 1G8

www.pwc.com/ca/en/directorconnect

Clarkson Centre for Business Ethics and Board Effectiveness

Matt Fullbrook
Manager
Clarkson Centre for Business Ethics and Board Effectiveness
149 College Street
Toronto, Ontario M5T 1P5
416 978 4930
matt.fullbrook@rotman.utoronto.ca

Institute of Corporate Directors

Vicki Jordan
Vice President, Marketing and Member Services
Institute of Corporate Directors
40 University Avenue, Suite 602
Toronto, Ontario M5J 1T1
416 593 7741 ext. 235
vjordan@icd.ca

The firms of the **PricewaterhouseCoopers** global network (www.pwc.com) provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. More than 154,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice. In Canada, PricewaterhouseCoopers LLP (www.pwc.com/ca) and its related entities have more than 5,200 partners and staff in offices across the country.

The **Clarkson Centre for Business Ethics and Board Effectiveness** (CCBE) is a corporate governance research and communications centre at the Rotman School of Management. Our mandate is to monitor corporate governance trends and to provide guidance to firms looking to improve their board effectiveness and disclosure.

The **Institute of Corporate Directors** (ICD) is a not-for-profit, member-based professional association representing Canadian directors and boards across the for-profit, not-for-profit, and government sectors. With more than 3,000 members and a network of nine chapters, the ICD promotes the professionalism and effectiveness of directors by providing professional development activities including director education and certification, and information and resources including a board placement service and networking opportunities.

www.pwc.com/ca/en/directorconnect