

PREPARING
YOUR 2023 PROXY:
EMERGING TOPICS
AND TRENDS FROM
THE TSX COMPOSITE
2022 PROXY REVIEW

BOARD EFFECTIVENESS

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HUGESSEN
CONSULTING

2022 Proxy Season Review: Board Effectiveness Practices

Canadian companies are increasing their focus on excellence in corporate governance. As regulators, institutional investors, and stakeholders at large increasingly monitor board effectiveness and governance practices, boards are facing more pressure than ever to raise their game with respect to the value they bring. As a result, boards across Canada are adopting and disclosing practices that lend themselves to high functioning boardrooms. However, the driver of good governance is not, nor should it be, external perception and disclosure. High performance organizations are led by high performing boards, and the board's internal desire to enable better decision making in the boardroom is, and should be, the key driver of board effectiveness practices.

Each year, Hugessen does a comprehensive review on the **TSX 60 Compensation Trends**. In 2022, **Hugessen's Board Effectiveness practice** conducted its inaugural review of the TSX Composite on Board Effectiveness Trends. While a review of proxy disclosure cannot assess a board's motivation, we can comfortably assert that the largest organizations in Canada have boards that are committed to reflecting on their practices, and regularly looking inward to assess how they can better their odds at making good choices for the organizations they serve.

Boards are becoming more robust in how they think about effectiveness. Beyond a dialogue on composition and diversity, they are increasingly evaluating where they spend their time, how they work together, and how they get the right perspectives into their boardrooms.



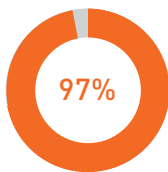
Introduction

In response to the increasing stakeholder focus on governance practices for organizations, Hugessen's Board Effectiveness practice conducted an inaugural review of the TSX Composite to identify corporate governance trends, particularly as they relate to Board Effectiveness and diversity. This article is intended to identify the practices and considerations that improve boards' effectiveness. This is particularly relevant now as companies look to draft their 2023 proxy circulars. The 2022 proxy research is complimented throughout with insights from [Hugessen's November 2022 annual Director Pulse Survey](#).

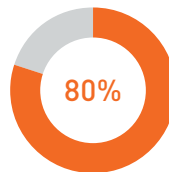
Summary of 2022 Board Effectiveness Practices from the TSX Composite



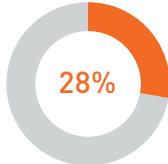
Board Evaluation



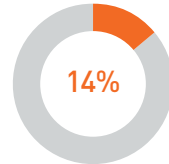
of companies provide **disclosure on their evaluation processes**



of companies use **questionnaires**, while **60% use interviews**



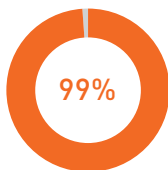
of companies use a **third party advisor**



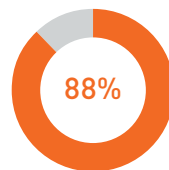
of companies disclose they include **management input** in the evaluation processes



Board Composition & Renewal

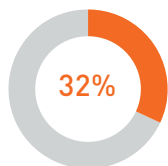


of companies **comment on their composition** (i.e., gender, age, visible minority, etc.)



of companies disclosed a **DE&I policy**

- **99%** of companies with a **DE&I policy** disclosed the policy applies to **women**
- **79%** of companies with a **DE&I policy** disclosed the policy applies to **visible minorities, BIPOC, or other**
- **72%** of companies have a **formal target** for the representation of **women** on the Board
- **18%** of companies have a **formal target** for the representation of **visible minorities, BIPOC, and other designated groups** on the Board



of boards have **age limits** and 28% of boards have **term limits**

Methodology

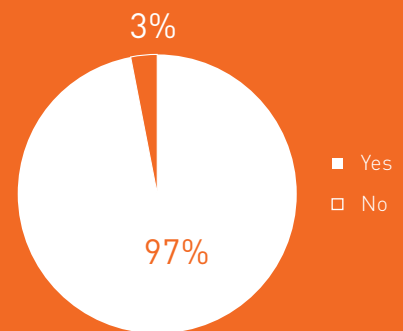
- All data is based on publicly disclosed information obtained through 2022 Company Proxy Circulars.
- Data was collected from the proxy circulars for all 2022 constituents of the TSX Composite.
- At the time of data collection, there were approximately 230 companies included in the TSX Composite.
- Data represents the disclosure of Board Evaluation processes, DE&I policies, and board renewal mechanisms.
- For data summary purposes, all "No" responses indicate that board practices were not disclosed.
- Where applicable, Hugessen's TSX Composite and **TSX 60 findings** have been contrasted with public sources on the Fortune 100.
- The **2022 Fall Hugessen Director Pulse** was an open opinion survey conducted in November 2022, and was completed by 66 Canadian directors who serve on a wide range of boards with respect to ownership, industry, geography, and company size. A more fulsome synthesis of the survey results can be found on our **website**.



Board Evaluations - Disclosure

Increased disclosure is an expectation in corporate governance. **Nearly all of the TSX Composite disclose information regarding their Board Effectiveness practice.**

Does the Company disclose information regarding their Board Evaluation process?



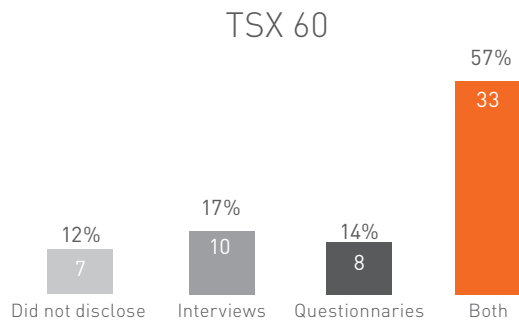
Director Pulse Survey Insights

1 72% of boards conduct board evaluations annually.

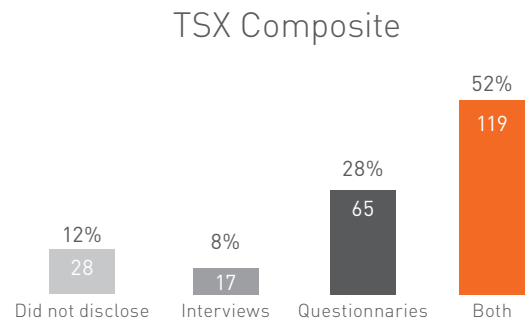
2 15% of boards conduct board evaluations every 2 years.

Board Evaluations - Process and Discovery

Boards are increasingly using interviews to support their Board Evaluations. Understanding context and qualitative perspectives is increasingly considered a better practice. The prevalence of interviews among the TSX 60 cohort, relative to the TSX Composite, suggests that the larger-capped players in the Canadian market are leading in the practice of using interviews in Board Evaluations.



74% of TSX 60 companies use interviews as part of their Board Evaluations



60% of TSX Composite companies use interviews as part of their Board Evaluations

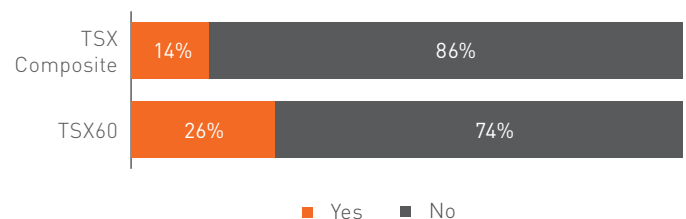


Upward feedback from management is trending, and is more prevalent among the TSX 60 companies.

Over 25% of the TSX 60 companies use management feedback, meanwhile 14% of the TSX Composite use upward management feedback.

Among this 14%, nearly half of the Boards within the TSX Composite that include management feedback are from the TSX 60, indicating that this practice is being initiated by the largest companies.

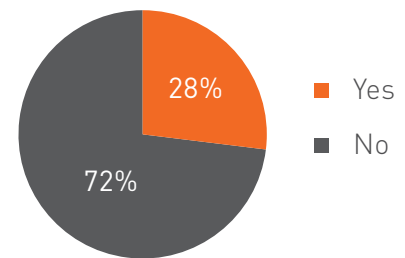
Boards that included management input in their Board Evaluation



Use of Third Parties

Effective Board Evaluations require both time and resources from the Board to generate insightful outcomes. That said, boards are increasingly engaging 3rd parties to drive efficiency with use of their time, identify better practices from other organizations, and increase confidentiality all yielding better outcomes for the Board.

TSX Composite
Usage of 3rd Party Service Provider



Director Pulse Survey Insights



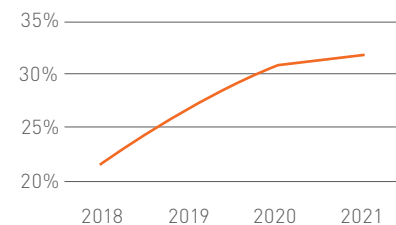
NEARLY
2 in 3

Directors find value in having a third party support their evaluations.

Among the Fortune 100, there is a trending increase in the number of companies that use 3rd parties each year. Last year, 32% disclosed the use of a 3rd party service provider.¹

In Canada, this practice is somewhat less common, with a prevalence of ~28% among the TSX Composite.

Fortune 100
Usage of 3rd Party Service Provider



Board Evaluation Results and Actions

Among the TSX Composite, nearly half of the Boards disclosed the areas assessed in their Board Evaluations. Guided by the trend in the Fortune 100, we expect to see increased disclosure of Board Evaluation topics in the future.

Only 14% of the TSX Composite disclosed actions resulting from their Board Evaluation. Presumably more than 14% of Board Evaluations resulted in actionable changes, however, a recent study by PwC found that 28% of Board Evaluations result in inaction.²

Disclosure of results and actions enable boards to demonstrate their commitment to increased effectiveness and can foster increased confidence from stakeholders, particularly with the focus on the “G” of ESG.

Disclosure of Board Evaluation Themes and Topics





Board Composition, Renewal and Diversity, Equity & Inclusion

Diversity on boards extends beyond gender representation. While targets and actions have been put in place to foster more women on boards, policies are expanding to other underrepresented groups. ~80% of boards on the TSX Composite have diversity policies that are inclusive of visible minorities, BIPOC, and other designated groups.

The majority (99%) of the TSX Composite tracks and proactively discloses the composition of their Board from a DE&I perspective. 88% of boards have a diversity policy that includes gender diversity.

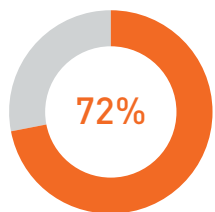
Director Pulse Survey Insights



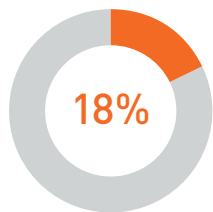
OVER 1/3

of Directors indicate that their Board is only “somewhat” well positioned as it relates to diversity of perspective to oversee the strategy for the organization.

Board Diversity Targets



Gender Diversity
The majority of boards have a formal target for gender representation.



Visible Minorities
18% of boards have a formal target for the representation of visible minorities, BIPOC, and other designated groups.

There has been a sustained focus on increasing the representation of women on boards that is becoming a “table stakes” expectation from shareholders. We are now starting to see a shift in focus to including other designated groups in the diversity targets of boards.

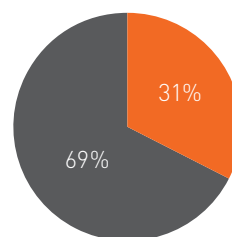


Board Composition & Renewal – Age & Term Limits

Despite recent dialogue on board renewal, there appears to be a decreasing prevalence of age and term limits for boards. While some boards are increasing their retirement age limit, others are getting rid of them entirely. Age and term limits were introduced as tools to foster refreshment of a board. They are well-intended instruments to help boards foster renewal and thus help them remain relevant, engaged, and high performing. However, they impose an arbitrary perspective on whether a Director is still able to add value to the organization and risk “timing out” a Director who is still able to contribute value. Boards will want to be mindful that, as with any arbitrary rule, term and age limits can be blunt instrument in board renewal. As an alternative, boards can regularly engage in candid conversations about performance with Directors. This can be done by way of peer feedback, and benefits from courageous leadership from Board Chairs and Nominating Committees in having honest conversations about Directors’ contributions.

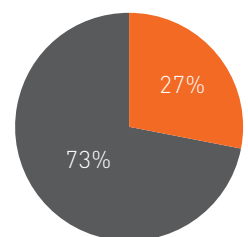
Among those who have board age limits, the median age limit is 75. Among those who set board term limits, the median timeframe is 12 years.

Boards with
Age Limits



■ Yes ■ No

Boards with
Term Limits



■ Yes ■ No



2022 TSX Composite Board Effectiveness Trends

Disclosure of Board Effectiveness practices continues to increase and is expected from both the investor community and the broader stakeholder network. As companies prepare their 2023 proxy disclosure, and consider how they will structure their board practices for coming year, this will be an important consideration. The benefits of good governance practices goes far beyond satisfying stakeholders through good disclosure; sound board effectiveness practices enable boards to create conditions that better their odds at success.

About Hugessen's Board Effectiveness Advisory Services

Hugessen's **Board Effectiveness practice** is on a mission to help boards make better choices for future generations. We are experienced at guiding boards as they conduct their **Board Evaluations**, ensuring that all voices are heard, and the evaluation process leads to actionable results. Our Board Effectiveness practice can help boards to determine priorities to focus on, leading to higher performing teams and overall, more impactful corporate governance that drives corporate performance.



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References

¹ EY Center for board Matters: **How boards are strengthening their self-assessments and related disclosures**, November 2021

² PwC, **2021 Annual Corporate Directors Survey**, October 2021