



SHIFTING FROM BOARD ASSESSMENT TO BOARD DEVELOPMENT

2023 PROXY REVIEW OF THE TSX COMPOSITE

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Canadian Board effectiveness practices continue to evolve

Shareholders expect Board's to self-reflect, take actions for improvement, and report transparently on their governance practices. The largest companies, perhaps subject to heightened scrutiny, are at the forefront of adopting and exemplifying these practices. Yet, the evolution in Board Effectiveness practices should not solely be motivated by shareholder expectations; rather, it should stem from the intrinsic motivation of Boards to excel and enhance the value they provide.

Key Trends in Canadian Board Effectiveness Practices

- ☑ With few exceptions, Canadian large-cap Boards are conducting Board Evaluations
- ☑ Disclosure on Board Effectiveness activities is expanding to meet shareholder expectations of governance practices
- ☑ The use of 3rd parties in the Board Evaluation process is gaining momentum in both Canada and the U.S
- ☑ Interviews generate richer perspectives than surveys; this practice is widely used by the largest issuers in the TSX Composite
- ☑ Approximately 1/5 Boards have asked Management for upward feedback in the past 2 years
- ☑ The prevalence of quantitative Board diversity targets is increasing for both gender-related and other forms of diversity
- ☑ Age and term limits are becoming less prevalent, Boards are seeking to find alternatives that drive renewal



Shifting from Board Assessment to Board Development: 2023 Proxy Review on the TSX Composite

Over the past year, Boards in Canada have simultaneously been navigating four transformations: climate, geopolitical, digital, and social. The world surrounding business is changing constantly – and rapidly. The definition of stakeholders is fundamentally being questioned, and the role of the Board is transforming. Expectations of Boards and Directors in Canada are increasing, and Boards are increasingly challenged to focus and prioritize their efforts. How are Boards doing it? What are Boards doing to govern themselves and ensure they are at the top of their game?

In this second edition review of Canadian marketplace Board practices, we see members of the 2023 TSX Composite maintain their commitment to augmenting Board performance. In February, Hugessen released the inaugural review of **2022 Board Effectiveness practices** of the TSX Composite exploring the Board Effectiveness activities and policies of the TSX Composite Companies through the lens of their annual proxy disclosures. Canada's largest Boards continue to be intentional about cultivating conditions that enable better decision making.

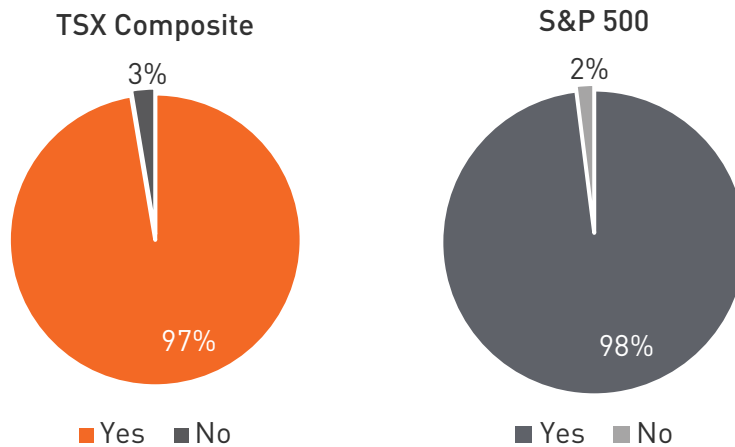
While Board Evaluations are a table stakes corporate governance practice for TSX Composite constituents, there continues to be room to shift from assessment to development. As the external social dialogue on diversity evolves, Boards too are expanding their definition of diversity. The ingredients of a high performing Board reach beyond individual director experience and skill: the cohesion of a diverse group levels up Board performance. Boards continue to reflect inward, continue to augment their disclosure, and are seeking to translate Board performance into Company success.



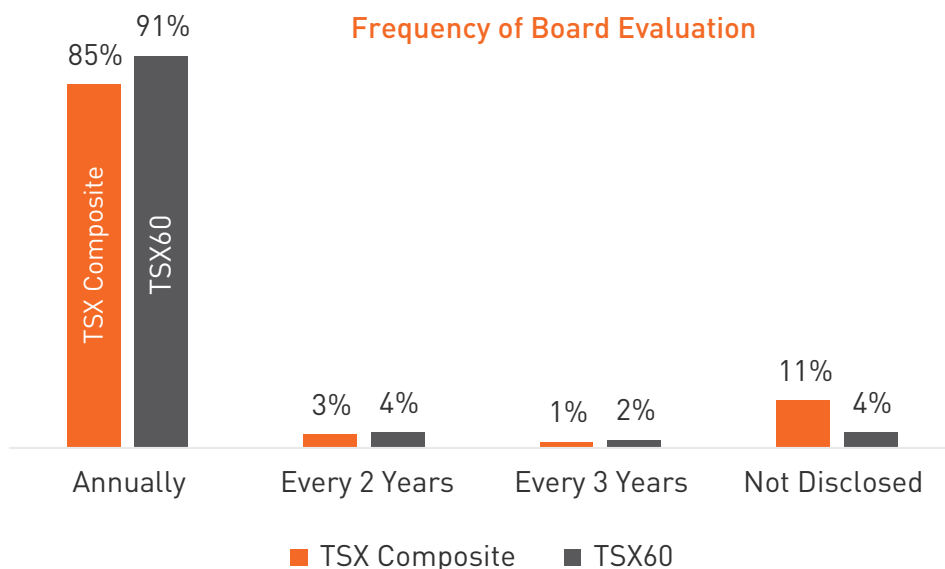
Board Evaluations are table stakes

Among large-issuers in Canadian and U.S. markets, regular reviews of Board performance are embedded governance practices. While the disclosure of Board Evaluation practices cannot be equated with high performance, it may indicate a commitment to continuous improvement in organizational governance. Most Boards undertake their Board Evaluations annually, with TSX60 Boards being even more inclined to do so.

Does the Company disclose information regarding their Board Evaluation process?



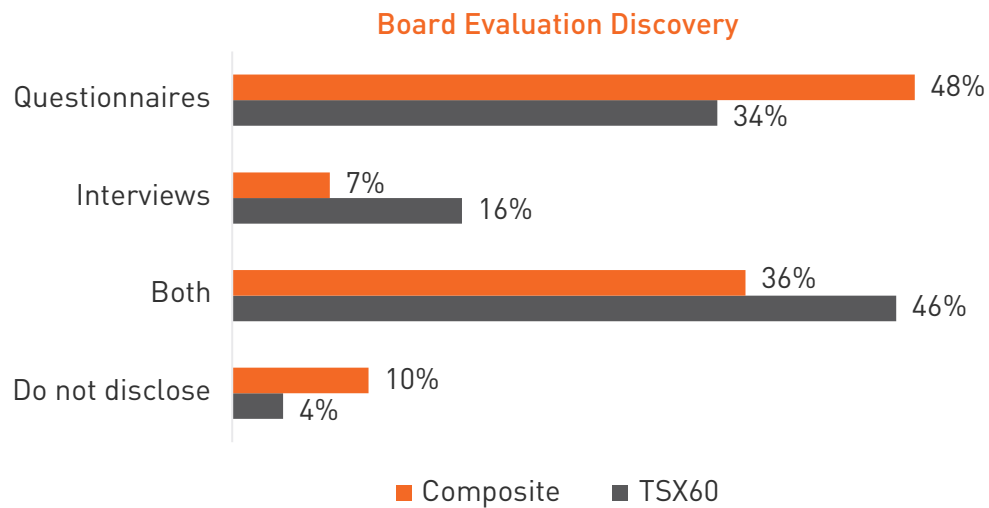
Frequency of Board Evaluation



The larger issuers among the TSX Composite appear to conduct Board Evaluations more frequently than other issuers

Surveys assess performance; interviews augment performance

As the focus of Board Evaluations shifts from assessment to development, Boards are increasingly using interviews to gain more nuanced insights. Many Boards continue to use questionnaires as part of their Board Evaluations. Questionnaires are useful for understanding the current state and providing insight to year-over-year progress. Interviews enable reflection, feedback, and dialogue: key tenets of generating improved outcomes. Interviews enable Directors to engage on what could be done differently.



TSX60 companies incorporate interviews in their Board Evaluations more often than the broader TSX Composite. This may indicate that, as experienced Directors of Canada's largest companies, they understand that the reflection and dialogue cultivated through Director interviews increase the quality of their Board Evaluations, and the subsequent action items resulting from the Evaluation.



Management input bolsters leadership alignment

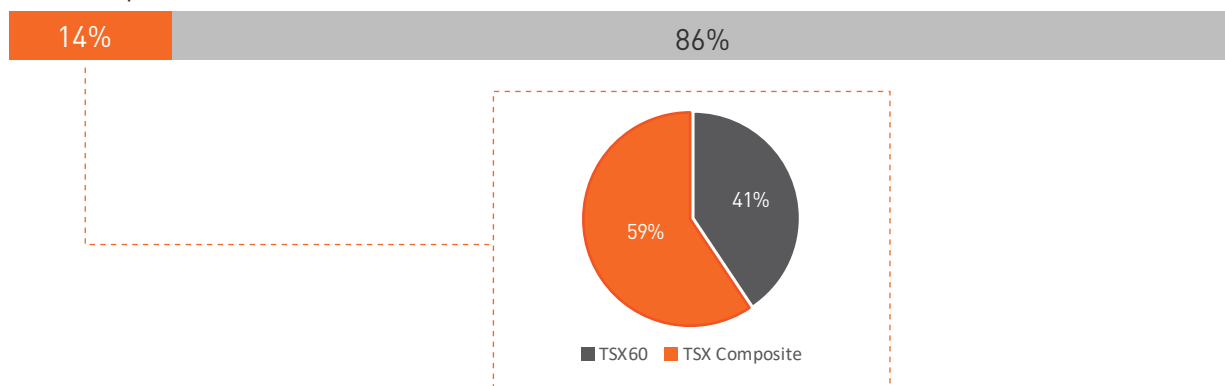
The working relationship of the Board and Management is key to a productive and value-adding Board. Feedback from Management is a useful tool to determine the value that the Board is contributing.

Over 95% of TSX Composite Boards regularly review Board and Director performance. In contrast, 14% asked for Management input. This practice continues to be led by the largest companies in Canada: nearly half of the companies within the TSX Composite that include Management feedback are constituents of the TSX60.

The prevalence of this practice has remained constant year-over-year at 14%. However, over the last two years collectively, 21% of Boards have solicited Management feedback indicating that some Boards do it every two to three years.

Boards that included Management input in their Board Evaluation

TSX Composite



TSX Composite 2-year Cumulative

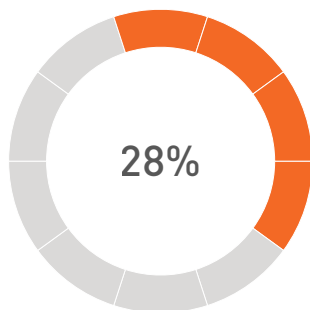


- Included Management feedback
- Did not include Management feedback

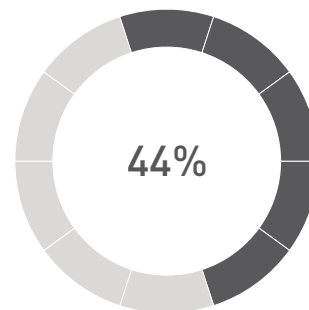
3rd Party service providers advise on Board development

Boards are increasingly engaging 3rd parties service providers in their Board Evaluations. In addition to leveraging Directors' time and/or granting Management more time for focus on operational priorities, enlisting the services of a facilitator fosters objectivity and ensures confidentiality throughout the process. Experienced Board performance advisors offer knowledge of better practices, helping the shift the focus from *assessment* to *development*. In 2022, ~25% of TSX Composite Boards disclosed the use of 3rd parties with TSX60 entities being more likely engage 3rd party support.

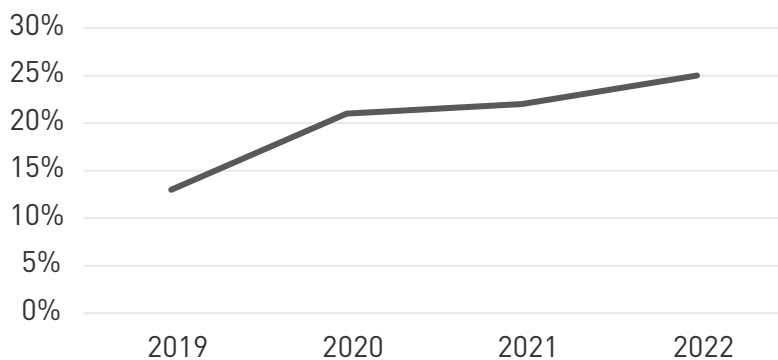
TSX Composite
Usage of 3rd Party Service Provider



TSX60
Usage of 3rd Party Service Provider



S&P 500
Usage of 3rd Party Services Provider



More S&P 500 companies are engaging 3rd party support each year. Since 2019, the disclosed use of a 3rd party service provider has nearly doubled (from 12% to 25%).¹

Disclosing Board development actions

Effective Board Evaluations drive alignment, commitment, and action. One of the key aspects of moving from Board assessment to Board development is a forward-looking focus. Each year, the Board has the opportunity to align on changes it will take in response to the findings of its Board evaluation.

Uniting Directors on Board action items can not only drive performance but also increases shareholder confidence. Proxy Circulars today are increasingly becoming vehicles for both shareholder and broader market communication. Issuers are transparently disclosing their changes in governance and Board Effectiveness activities in their annual proxies.

Examples of actions disclosed in 2023

Earlier distribution
of materials

Increase information
sharing from
Management on key
strategic areas

Increased site visits

More frequent
touchpoints with
Management

Committee Chair and
Management to
discuss key topics
prior to full-Committee
meetings

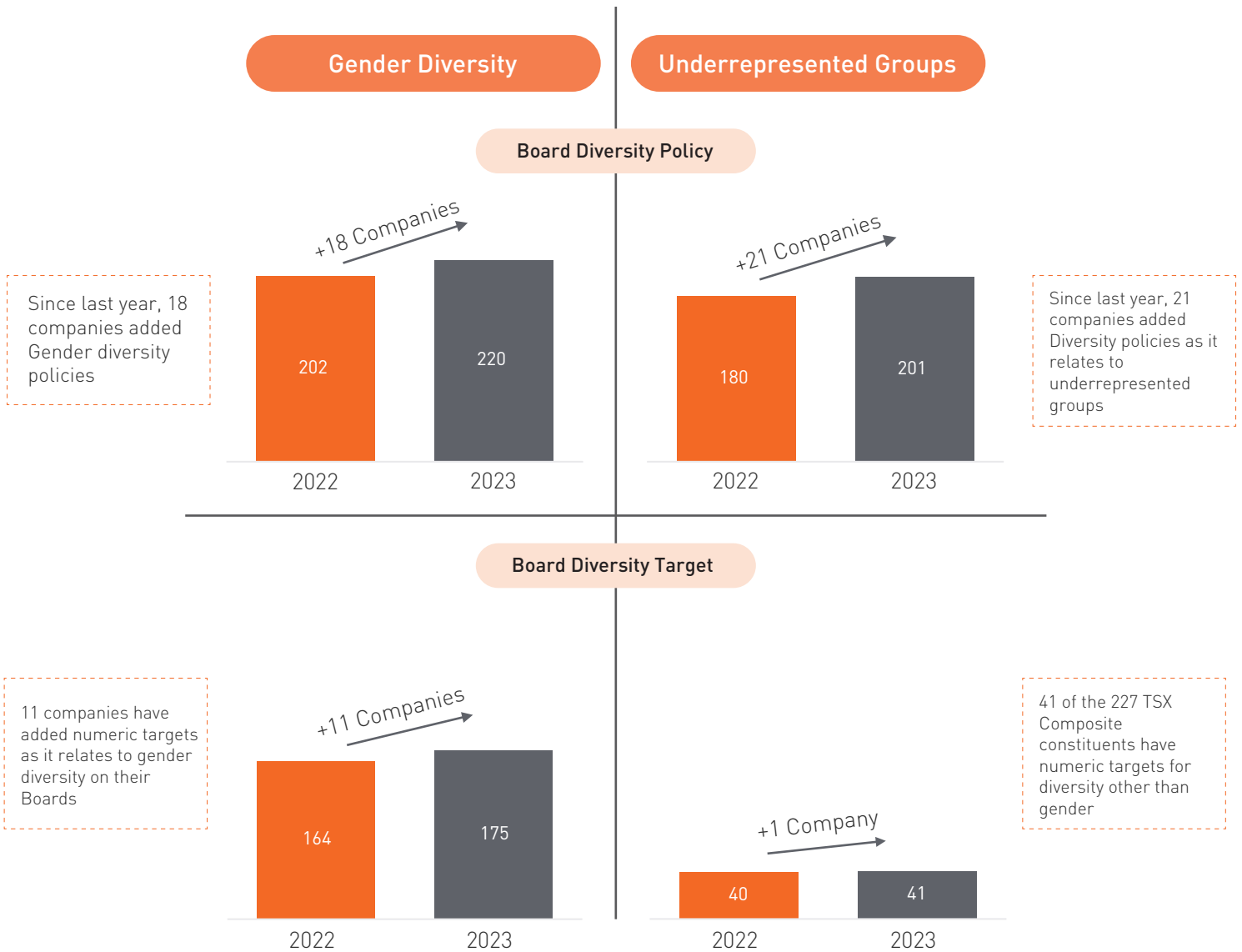
Identification of
focused areas for
strategy sessions

Formation of
special strategic
Committee

Conduct educational
sessions on key
topics (i.e., climate
governance)

Specific areas of
competency when
recruiting for the
director pipeline

Diversity definitions and targets expand in 2023



Policy vs. Target?

- A Board Diversity policy is a statement that outlines a commitment, a consideration, a philosophy, and/or a set of actions warranted to drive diversity on the Board
- Diversity Targets are measurable numeric commitments to achieve or maintain a certain degree of representation

For many years in the pursuit of getting more women on Boards, most measures of diversity were related to gender; 97% of TSX Composite Boards have policies on gender representation. In 2023, other forms of diversity became more prevalent in disclosures.

Over the past year, there was significant increase in Board diversity policies that include diverse groups such as ethnic, racial and persons with a disability. 89% of the TSX Composite now has a policy that includes extended definitions of diversity.

Other definitions of diversity include: visible minorities (including racial and ethnic), cultural background, 2SLGBTQ+, and persons with a disability

2024 Proxy Advisor Policy Update

Starting in 2024, ISS will recommend voting withhold for the Nominating Chair if there are **no racially and/or ethnically diverse** members on the Board. Exceptions will be made if “the Board makes a firm public commitment to appoint at least one racial and/or ethnic diverse member at or prior to the next AGM”.²

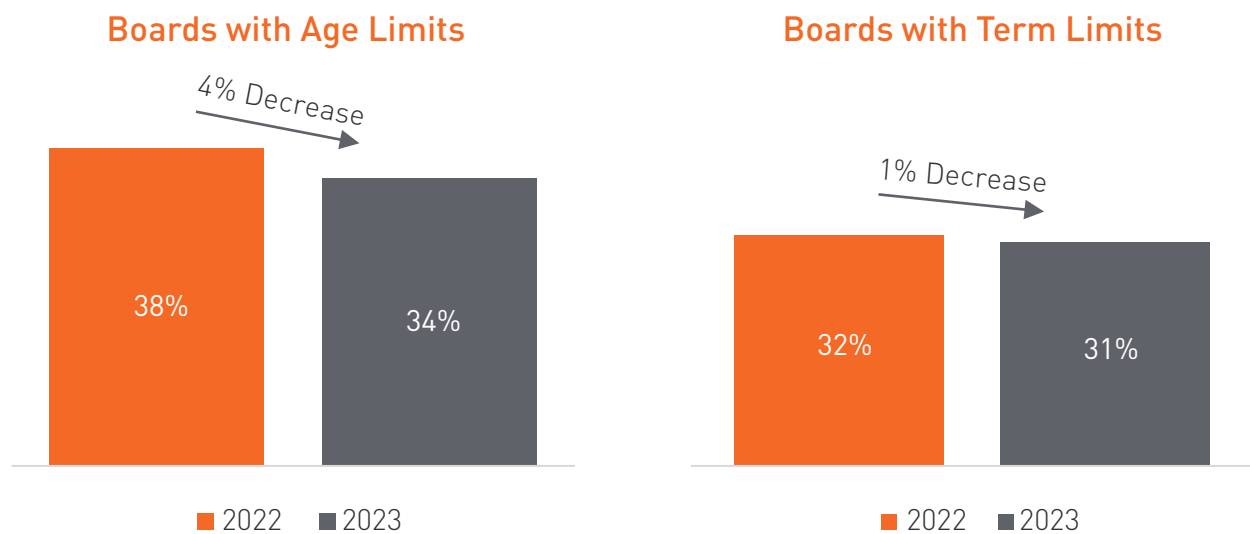
As Boards move to align with shareholder expectations, we expect to see an increase in the number of targets related to racial/ethnic diversity, similar to the previous increase in gender diversity targets when proxy advisors implemented comparable voting policies for gender representation.

ISS defines racial and/or ethnic diversity as: Aboriginal Peoples (persons who are Indigenous, Inuit or Métis) and members of visible minorities (persons, other than Aboriginal peoples, who are non-Caucasian in race or non-white in colour)²

Performance should drive Director turnover, not age or tenure

Boards are increasingly shifting away from mandatory retirement tools such as age and term limits. Age and term limits are increasingly viewed as “blunt-instruments” for renewal, and as a result most Boards maintain the ability to create exceptions to the policy.

According to a 2023 study by PwC, 45% of Directors believe that at least one Director on their Board should be replaced³. It will be important that the decrease in mandatory retirement is accompanied by an increase in transparent and ongoing review of director performance.



2023 TSX Composite Board Effectiveness Trends

By implementing more rigorous Board performance and development initiatives, the largest Boards in the Canadian market are fostering a culture in Boardrooms that enhances the quality of decision-making and leadership. For TSX Composite constituents, routine Board Evaluations have become an essential corporate governance practice.

As the focus of Board Evaluations becomes more focused on the value Boards are adding, Boards can make consistent strides in Board performance, ultimately translating into increased Company performance.

Methodology

- All data is based on publicly disclosed information obtained through 2023 Company Proxy Circulars.
- Data was collected from the Proxy Circulars of the for all 2023 constituents of the TSX Composite;
 - At the time of data collection, there were approximately 227 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” indicates that Board practices that were not disclosed
- Where applicable, Hugessen’s TSX Composite and **TSX 60 findings** have been contrasted with public sources on the Fortune 100 and S&P500
- With thanks to Amulay Chadha and Jenny Mun for research and analytical support

Reference

1. 2022 U.S. Spencer Stuart Board Index, 2021 U.S. Spencer Stuart Board Index, 2020 U.S. Spencer Stuart Board Index
2. ISS and Glass Lewis Update Guidelines for 2023 (Canada), ISS 2023 Canada Voting Guidelines for TSX Issuers
3. PwC’s 2023 Annual Corporate Directors Survey

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.



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