Second of Two Part Series on Corporate Governance,
Part 2 on Reform to Corporate Governance
Part 1 on the Rights of Retail and Activist Shareholders

Reform to Corporate Governance

Weekly CEO/Business Leader Poll by COMPAS in *Canadian Business* for Publication Week of March 26th, 2012

COMPAS Inc.
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1.0 Introduction

In this second of a two part series, we report the views of CEOs and business leaders on the COMPAS business panel with respect to governance practices and general orientations to corporate governance reform.

With a remarkable continuity from 2004, panelists today believe in a series of good governance practices. At the top, supported even more strongly today than eight years ago, is a belief that directors of public companies should own common stock instead of stock options so as to ensure that decisions are made on the basis of long-term interests, as shown in table 2.1.By overwhelming majorities, they also want

- directors to be required to report all future governance policies to shareholders and
- a majority of board members to be independent members, without a material interest in the company other than share ownership and directorship fees.

Panelists are somewhat divided in their general orientation for improving corporate governance and directors' ethics. Half of panelists want higher standards of corporate governance and ethical conduct in Canada without necessarily "a lot of specific rules." By contrast, a quarter want a U.S. style system of codified rules. Some of the latter want U.S. style rules but ones that are stronger than those adopted in the United States.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine.

2.0 Details

Table 2.1: Agreement with Various Good Governance Practices[1]
(7=agree strongly, 1, the opposite)

	MEAN	7	6	5	4	3	2	1	DNK
Require directors to own common stock instead of stock options, helping to ensure that decisions are made on the basis of long-term interests									
2012	5.7	29	35	20	9	1	2	1	2
2004	5.4	27	23	23	12	3	2	5	5
Require directors to report all future governance policies to shareholders									
2012	5.7	29	35	18	14	*[2]	2	*	2
2004	5.7	36	24	21	9	3	2	1	4
Require a majority of board members to be independent members, without a material interest in the company other than share ownership and directorship fees									
2012	5.0	21	24	20	12	7	8	5	4
2004	5.0	21	22	20	8	12	8	3	5
Change election rules so that minority shareholders can affect the election of some directors									
2012	4.5	10	21	19	16	13	9	5	7
2004	4.4	11	14	22	22	8	10	8	6
Give minority shareholders a greater say in approving takeover bids									
2012	4.1	11	12	17	20	15	16	6	4
2004	3.9	5	12	22	19	11	18	8	6

[1] Turning to minority shareholder rights, there are a number of different ways to protect minority shareholder rights. Using a 7 point scale where 7 means strongly agree and 1, the opposite, how would you rate the following… [RANDOMIZE] TRACKER.

[2] Denotes a cell that rounds to zero.

Table 2.2: Preferred Orientations (%)[3]

<table>
<tr><th></th><th>2012</th><th>2004</th></tr>
<tr><td>Canada should leave unchanged the current system for regulating corporate governance, outlining minimum standards of ethical conduct without a lot of specific rules</td><td>19</td><td>11</td></tr>
<tr><td>Canada needs to strengthen the system of corporate governance, raising minimum standards of ethical conduct for directors without a lot of specific rules</td><td>51</td><td>54</td></tr>
<tr><td>Canada should adopt a corporate governance system similar to that in the United States, with strictly codified rules for all director actions</td><td>12</td><td rowspan="2">33[4]</td></tr>
<tr><td>Canada should build on the U.S. corporate governance system but make our rules stronger</td><td>14</td></tr>
<tr><td>Don’t know</td><td>5</td><td>4</td></tr>
</table>

The following verbatim comments provide a nuanced sense of respondent opinion:

> It should be appreciated that the rules presently governing directors are already onerous. There is currently a view that being a corporate director is not what is was in the past. The fees do not reflect the responsibilities each has and, with the extensive roster of rules and regulation, D and O insurance becomes key in the decision to act as a director. Where there should be tightening up is in the enforcement of rules by the various government and investment bodies in cases of improper actions. Being an owner of shares in the corporation that a director sits on is laudable, but must be tempered against what they earn from that corporation and how large a holding would be required. That is a decision a

[3] Which of the following opinions is closest to your own? (%) [NO RANDOMIZATION] TRACKER.

[4] In 2004, the second of these two options was not offered.

director must make in investment terms both at a money and time level.

The difference between Canada and the US is that Canadian businessmen, generally have a higher level of integrity when it comes to business. The US need strict rules and lots of them to prevent abuse. Morally we all know what is right and what is wrong but our American counterparts will frequently do whatever they think they can get away with, if it enriches them personally. This is less of an issue in Canada. However, unless we get tough on corporate crime, we are only encouraging those who have the will to abuse their position and power.

Board governance is a tough one to legislate. Shareholders need to be more active in overseeing the people who oversee their investments.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted March 16 - 20, 2012. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=86 are deemed accurate to within approximate 10.6 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.