



Does good governance lead to good performance?

Proposed research initiative

Matt Fullbrook

Manager, Clarkson Centre for Board Effectiveness

Rotman School of Management

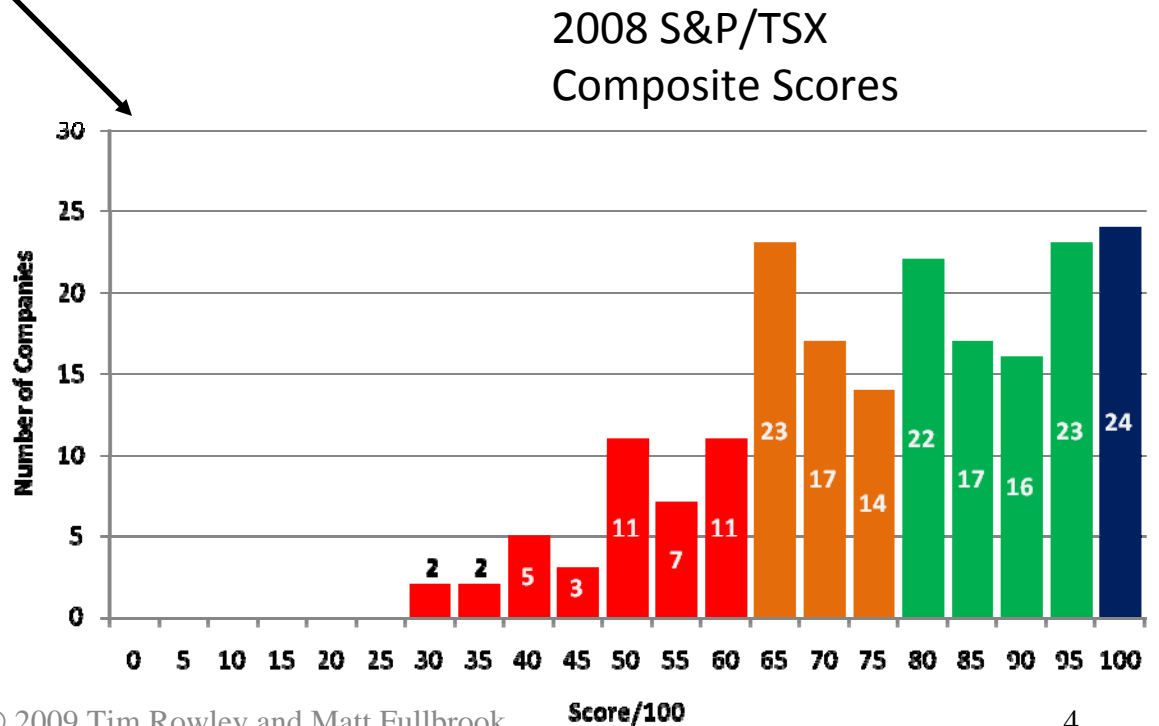
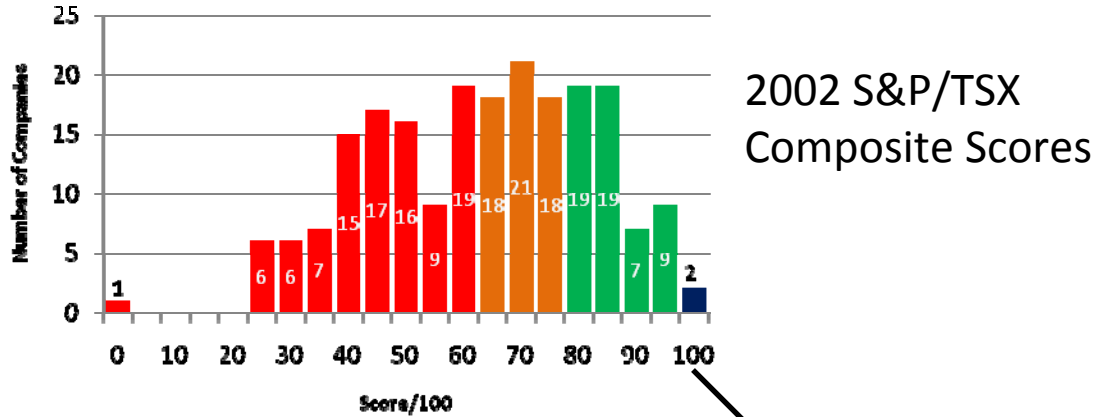
University of Toronto

- Monitoring
 - Board Effectiveness
 - Executive Compensation
 - Comparative Studies
- Curriculum Development
- Board/Director Surveys
- Academic studies

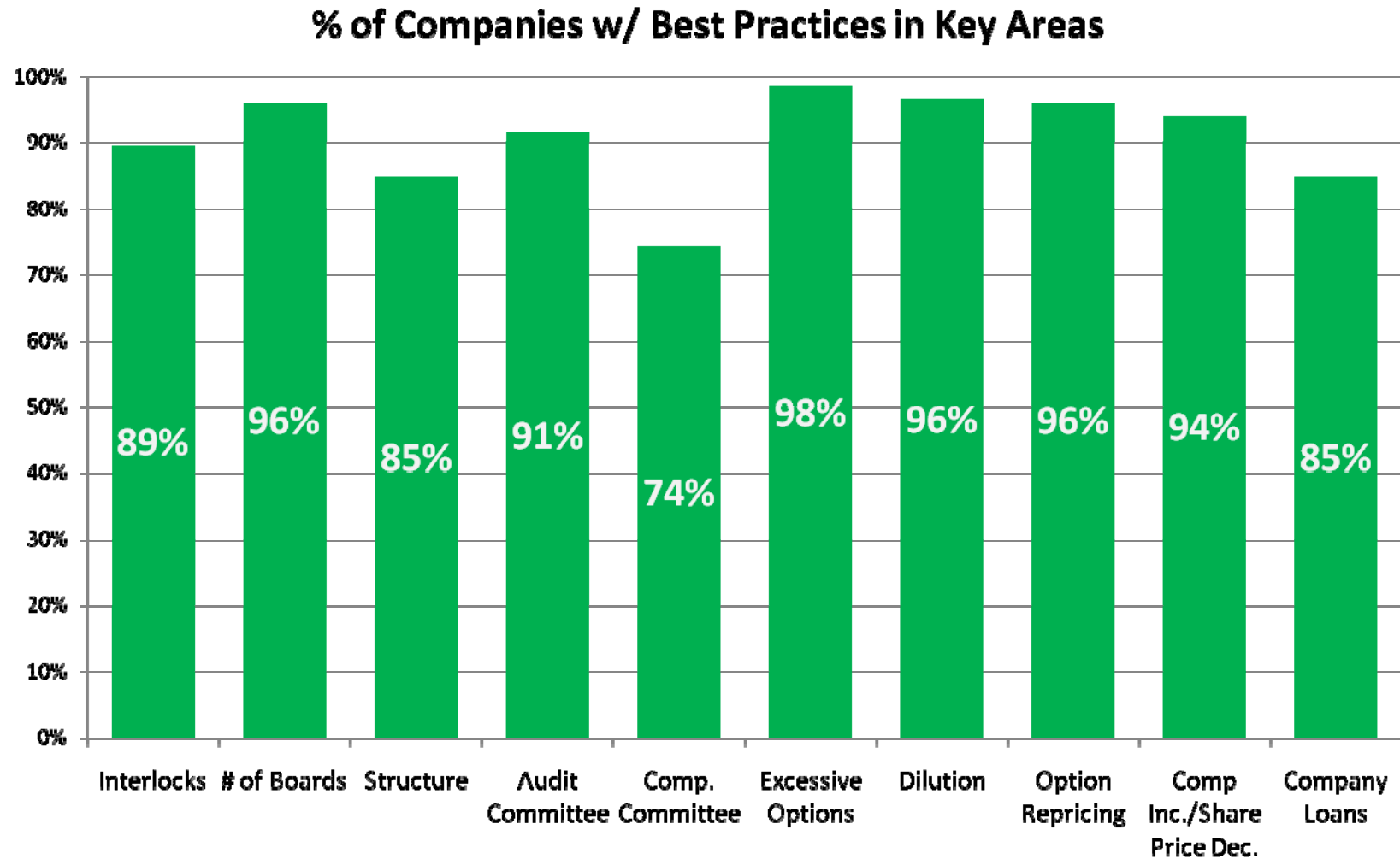


Monitoring Board Effectiveness

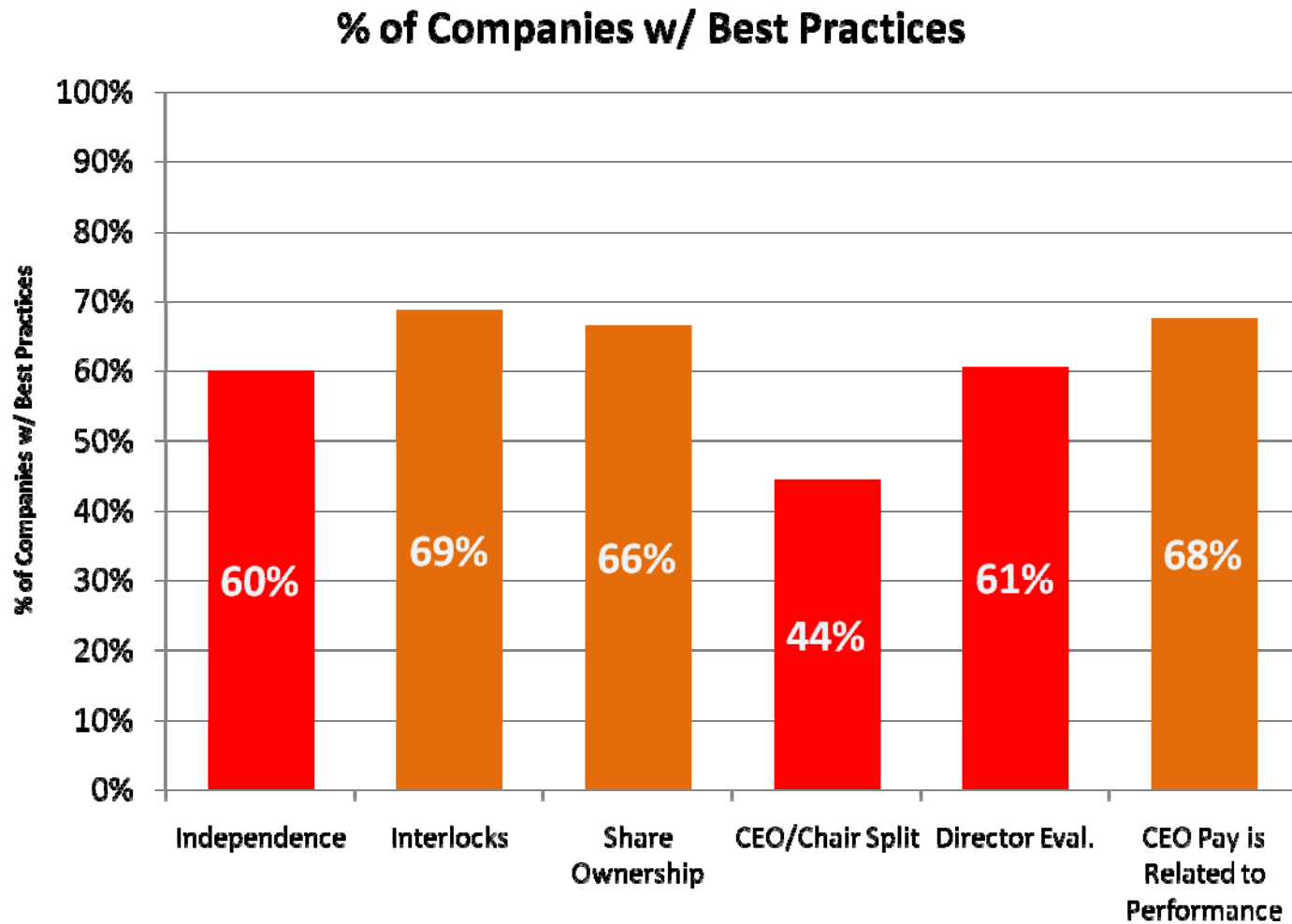
Corporate governance in Canada has improved significantly since the Clarkson Centre began to measure governance in 2002



There is widespread adoption of best practices in 10 key areas

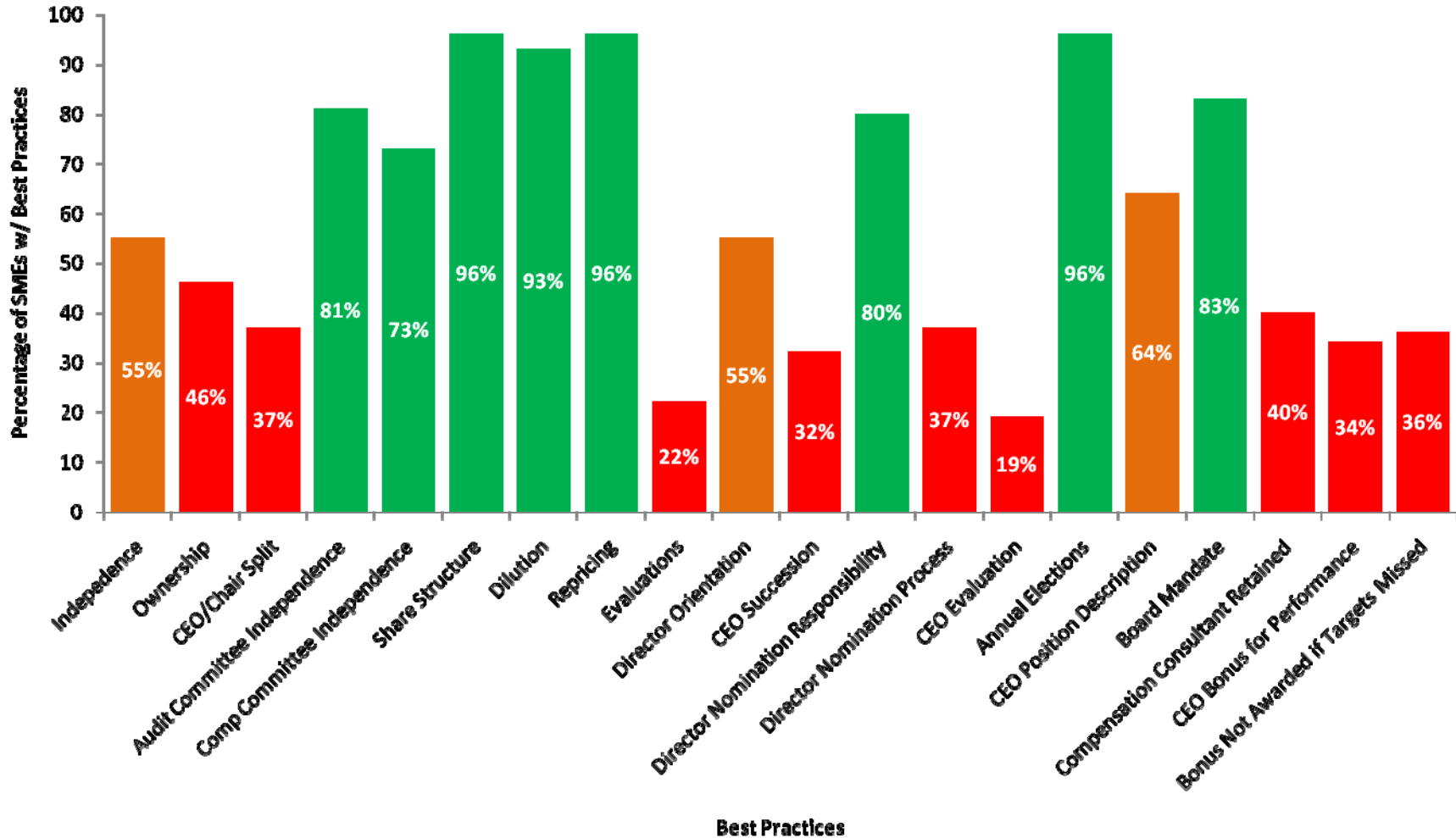


However, there is still room for improvement

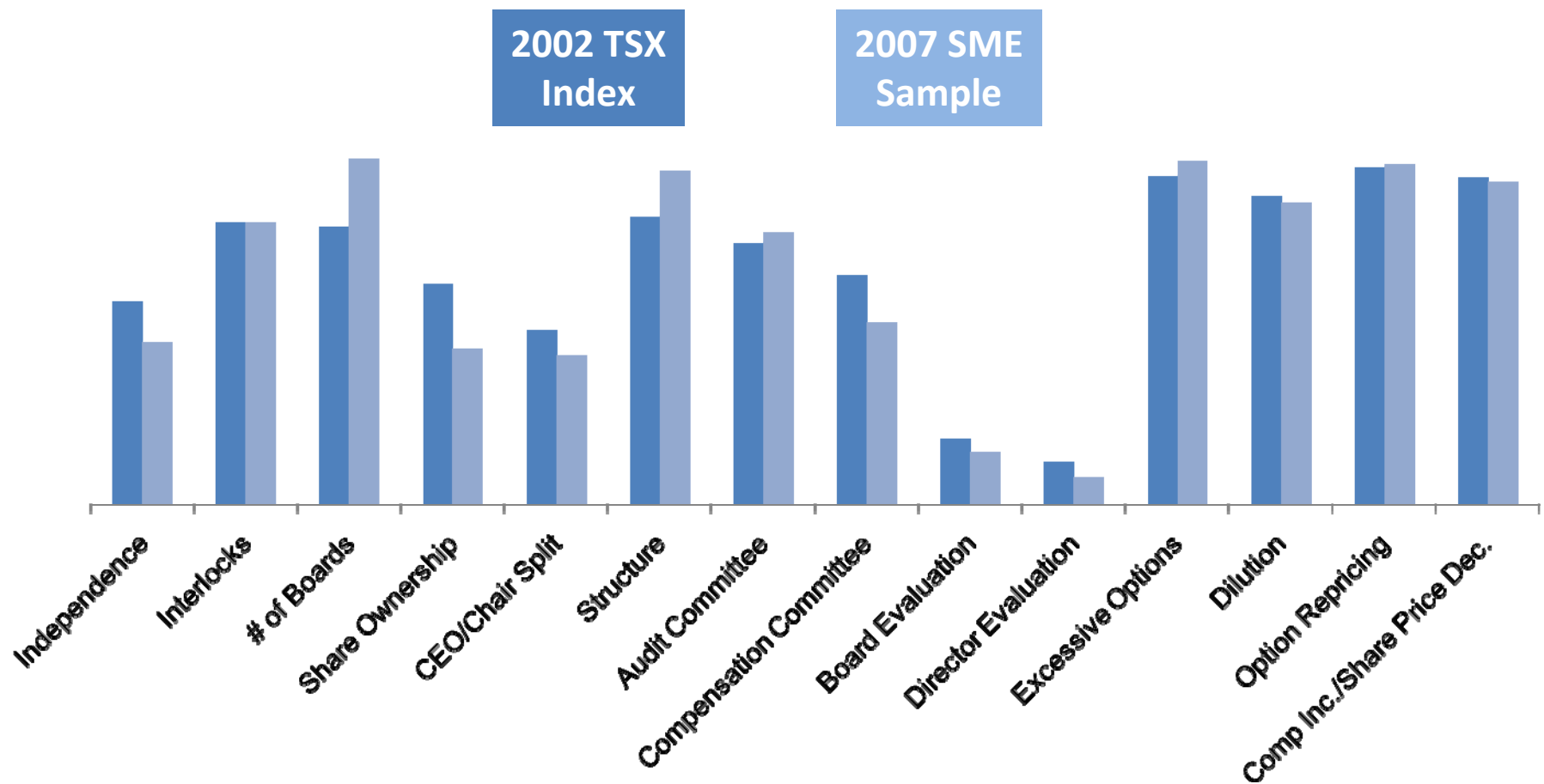


The Clarkson Centre has also started to look at Canadian Small- and Medium-Sized Enterprises (SMEs)

Governance in Canadian SMEs



In 2007, our first ever look at Canadian Small- and Medium-Sized Enterprises (SMEs) revealed that adoption of best practices by this group lags five years behind the TSX Index.

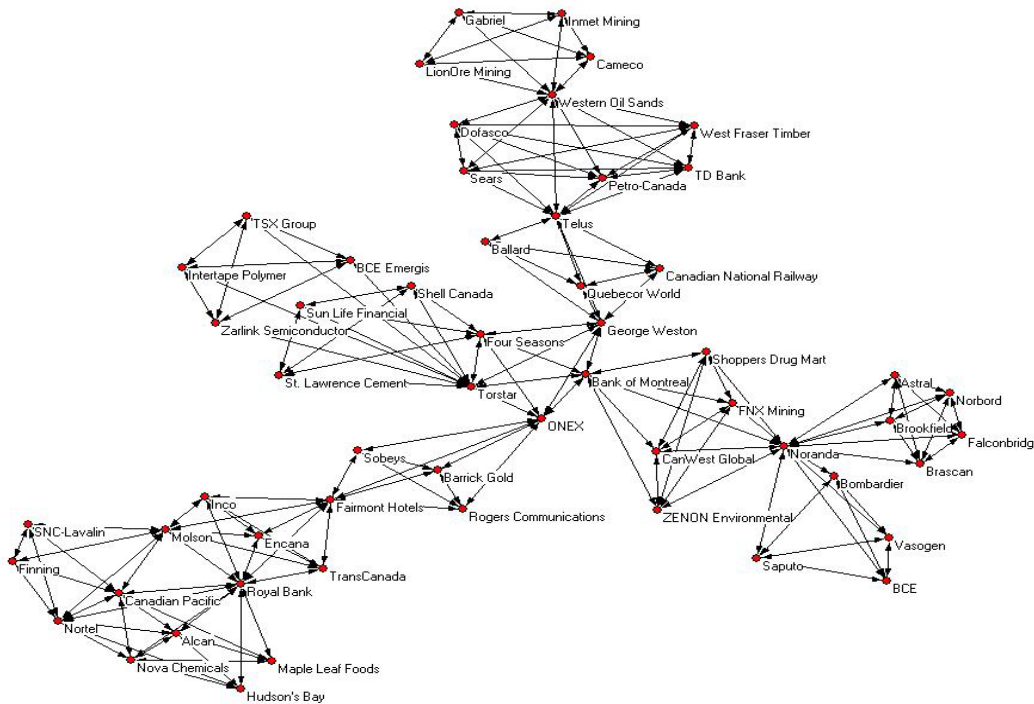


NOTE: Sample comprises 100 randomly selected public companies with market cap of \$400m or less

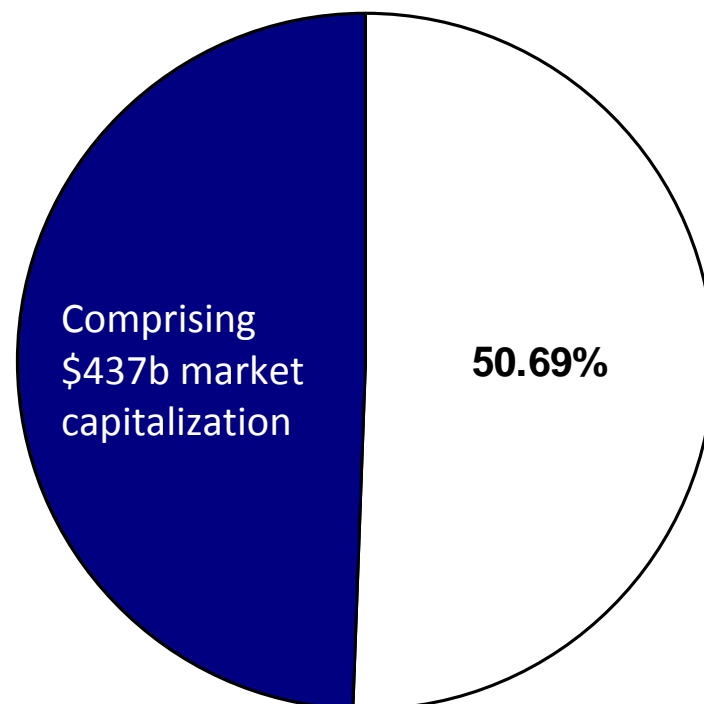
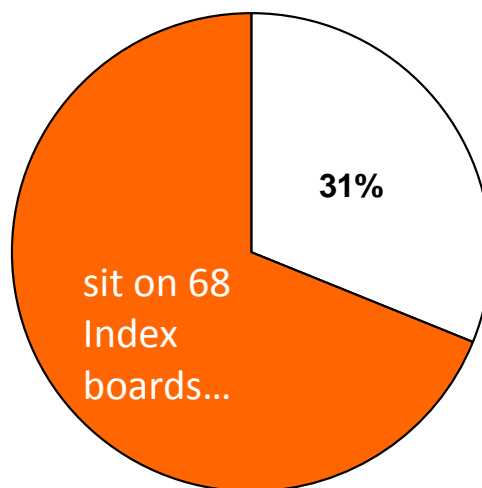
Director interlocks can also have a significant effect on governance behaviour. In 2004, we identified 16 highly influential Canadian directors, who we dubbed “Canada’s corporate elite”.

The Influence of the Elite is driven by three key factors:

1. They represent a **large number of companies**
2. They represent half of the **market cap** of the S&P/TSX Composite
3. They are **interconnected**

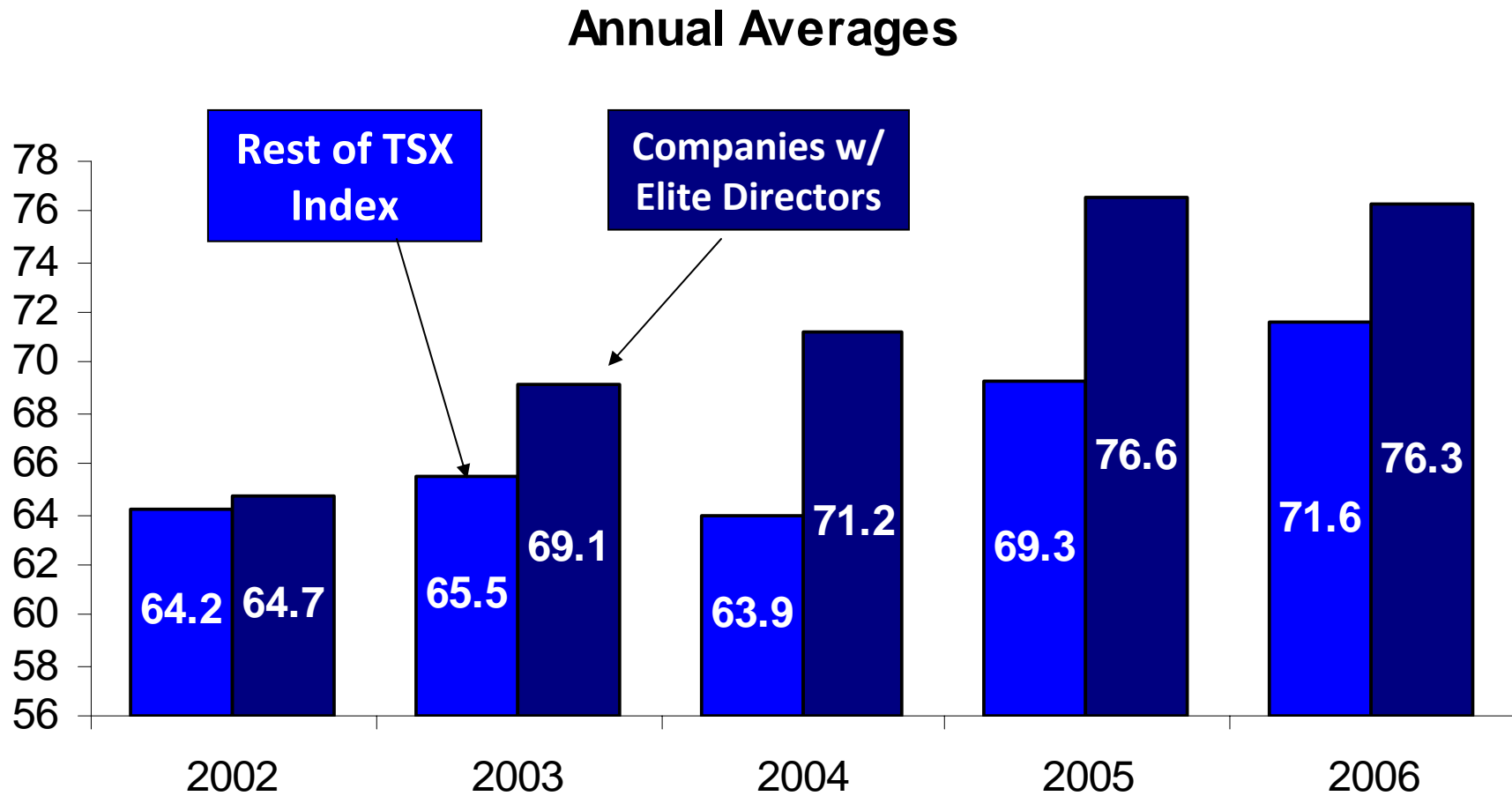


Collectively, this small group of 16 directors have disproportional influence in Canadian board rooms. They are the **Elite 16**.



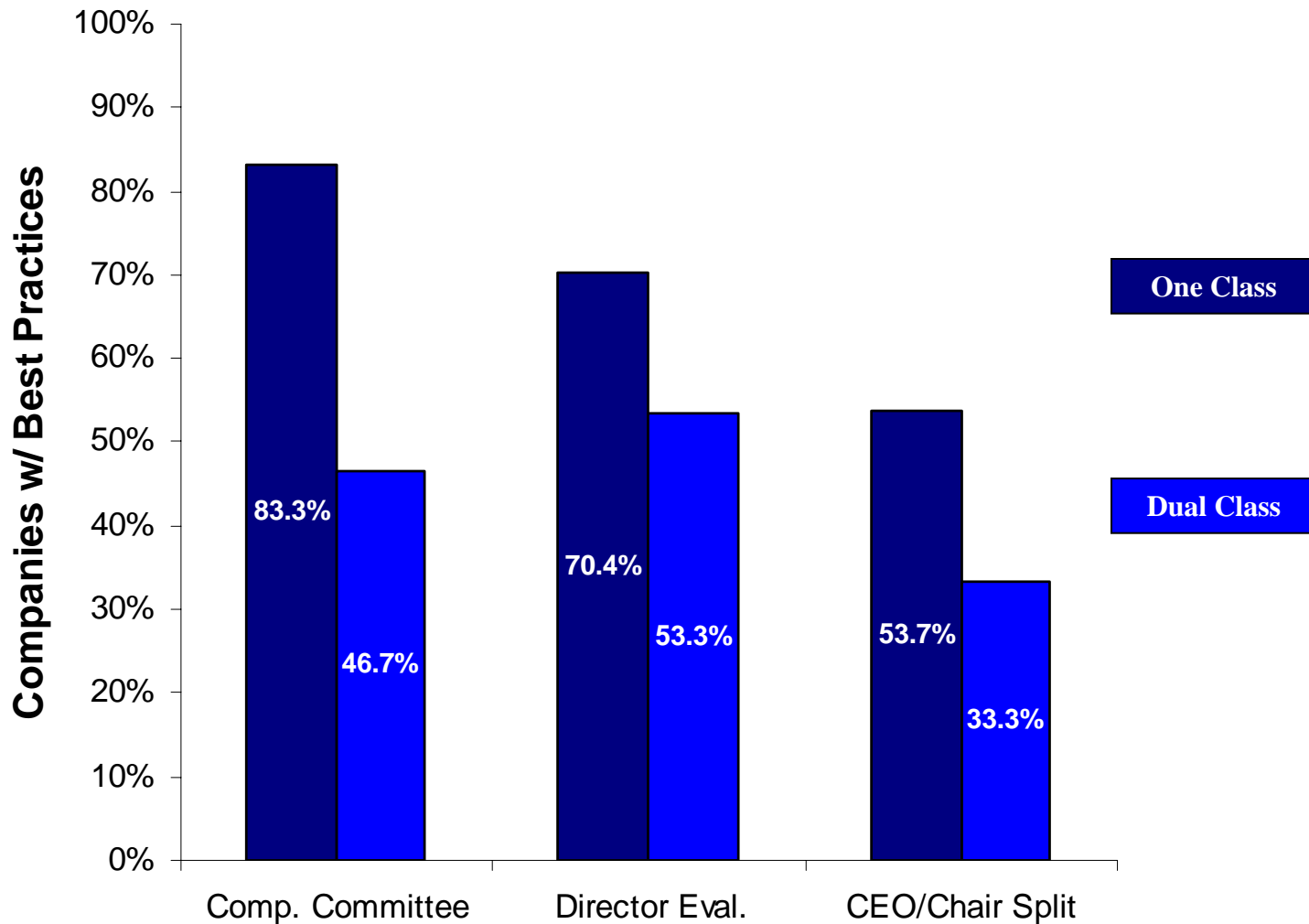
CONCLUSIONS:

1. Elite directors spread best practices effectively



CONCLUSIONS:

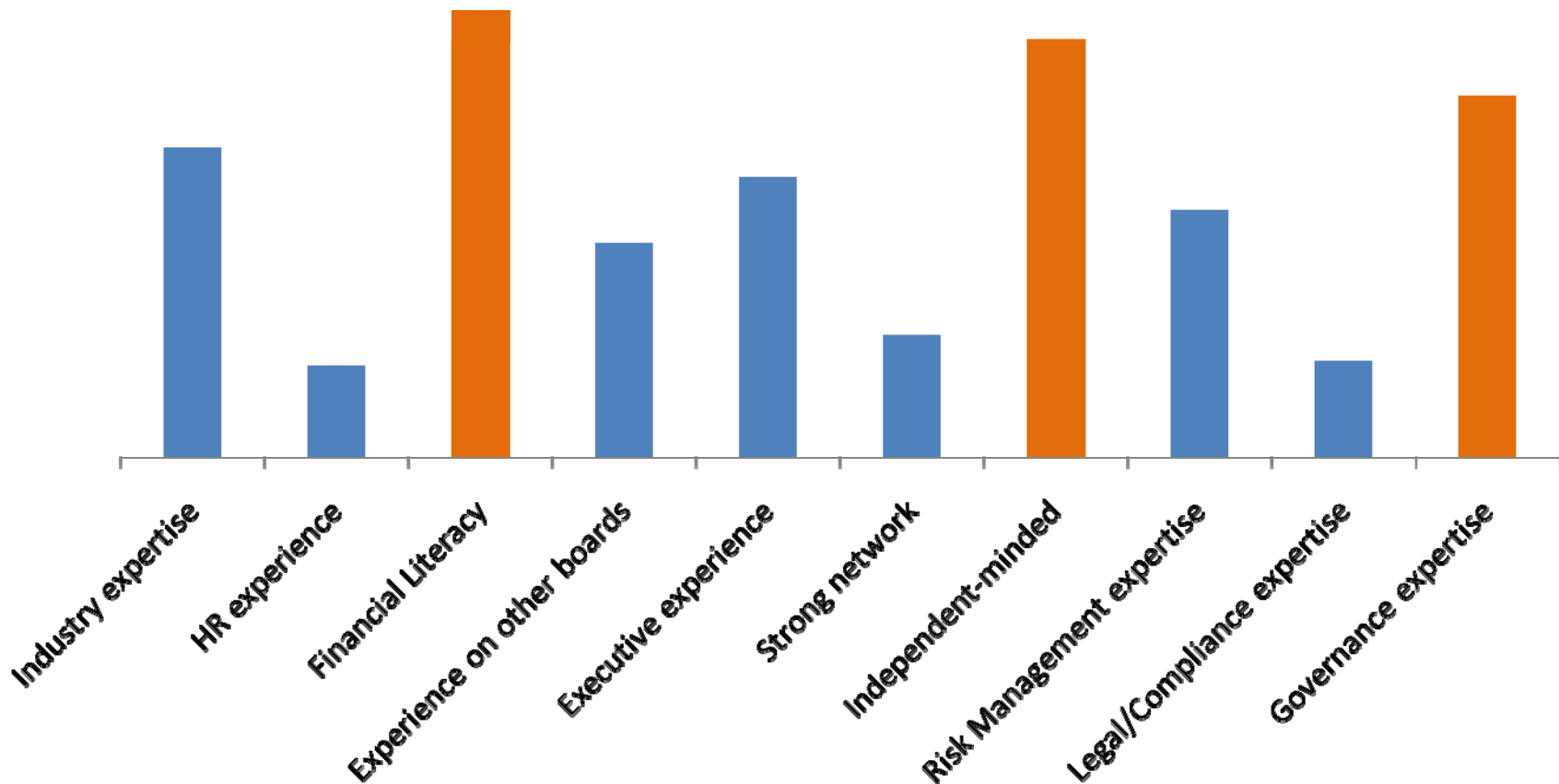
- Elite directors are less effective in dual class environments. Dual class and controlling shareholders often result in non-traditional governance structures





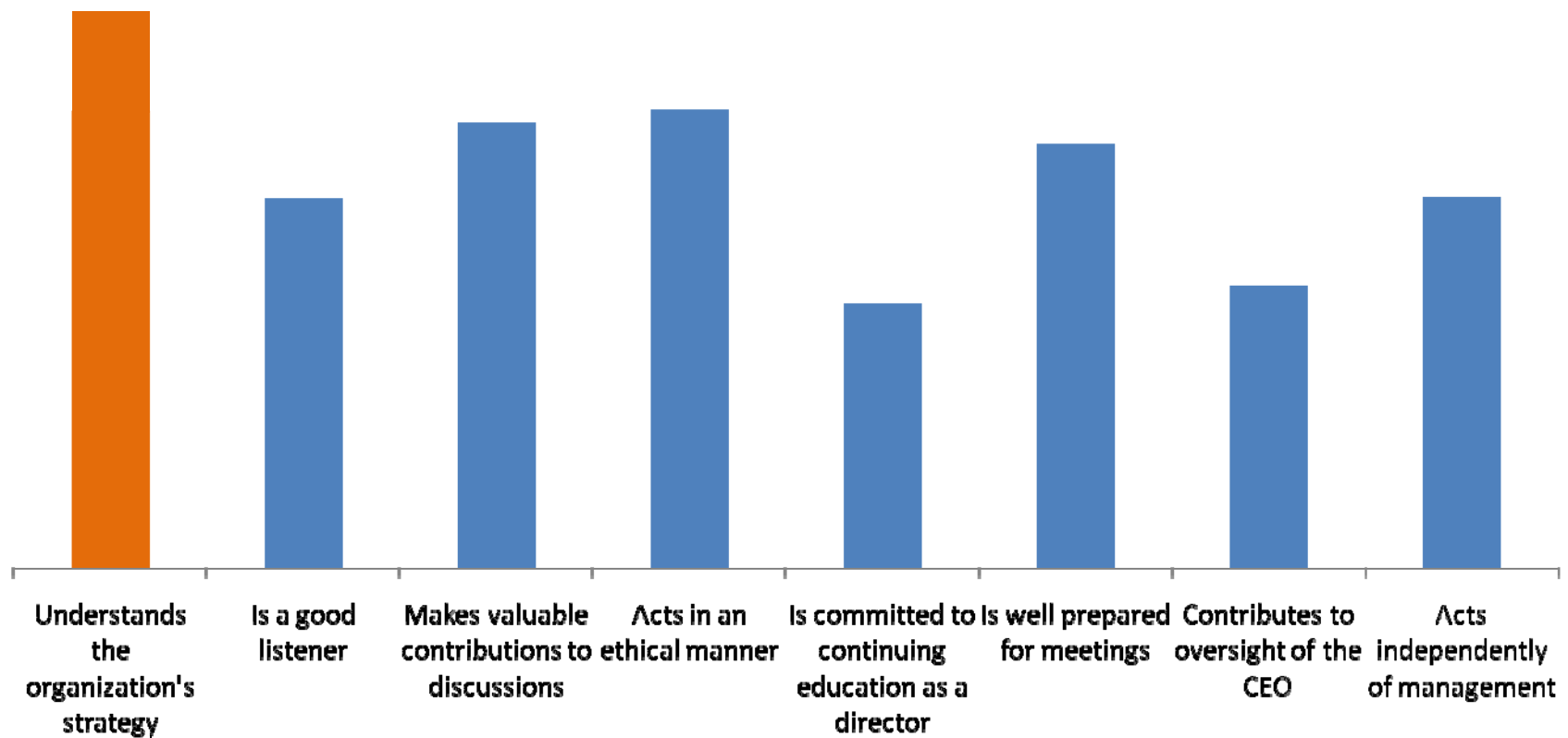
What makes an effective
director?

In all sectors and all industries, the most important director skills are financial literacy, independent-mindedness and governance



Source 2009 CCBE/PwC Director Survey

As for personal and behavioural characteristics, an understanding of the company's strategy is the most important



Source 2009 CCBE/PwC Director Survey

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What is the board's role?

Basic Types of Boards

1. Minimum Boards

Meet only to fulfill
statutory requirements

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4. Decision-making Boards

Set and authorize policy, management objectives, and implementation

5. Managing Board

Act like managers

On average, directors believe their obligation comprises four inter-related tasks

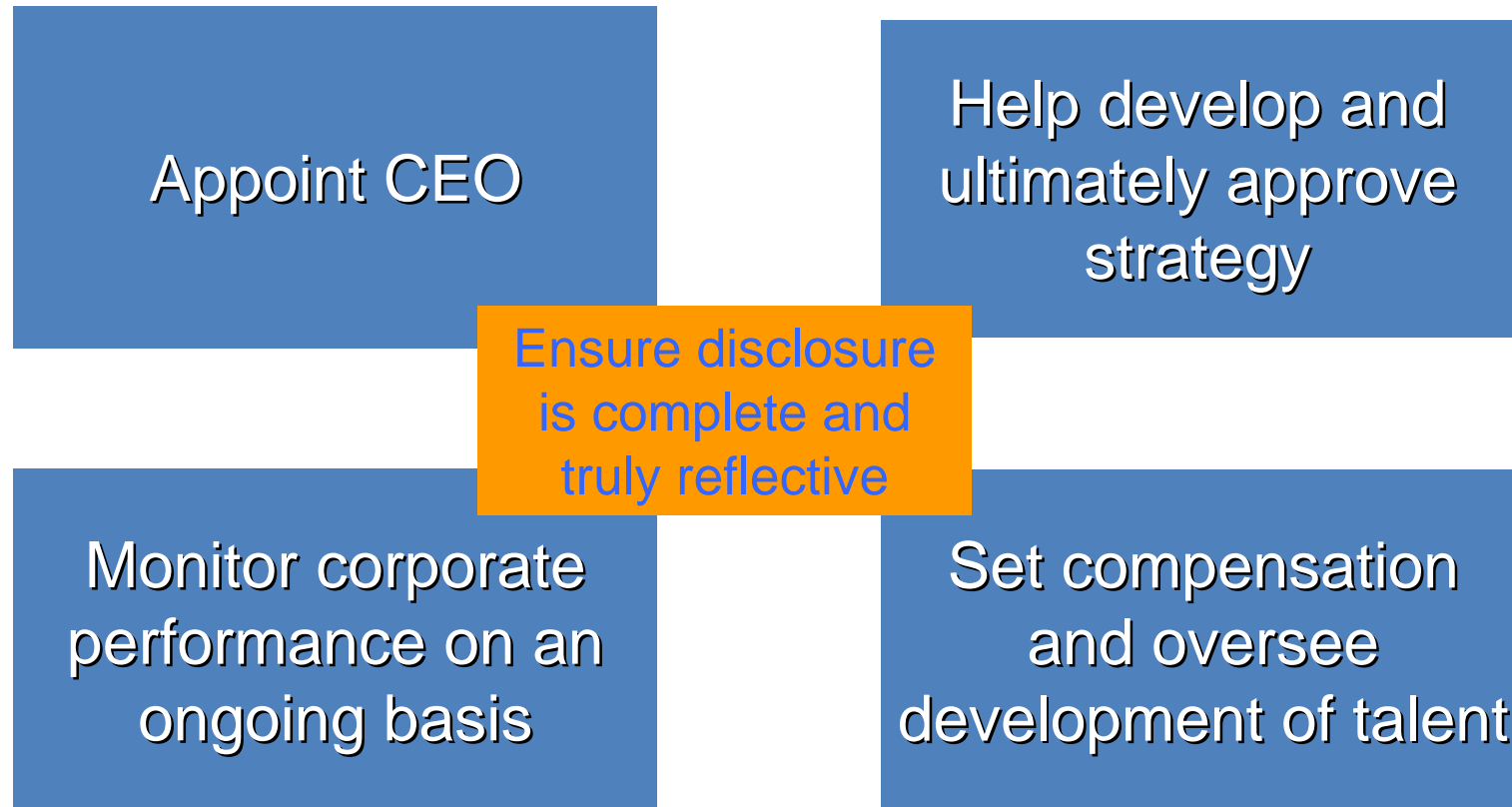
Appoint CEO

Help develop and ultimately approve strategy

Monitor corporate performance on an ongoing basis

Set compensation and oversee development of talent

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The Board/Director Challenge

Objective

Create/Protect
Value

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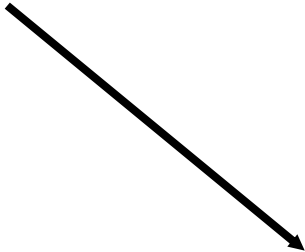
Tasks

Guiding Strategy

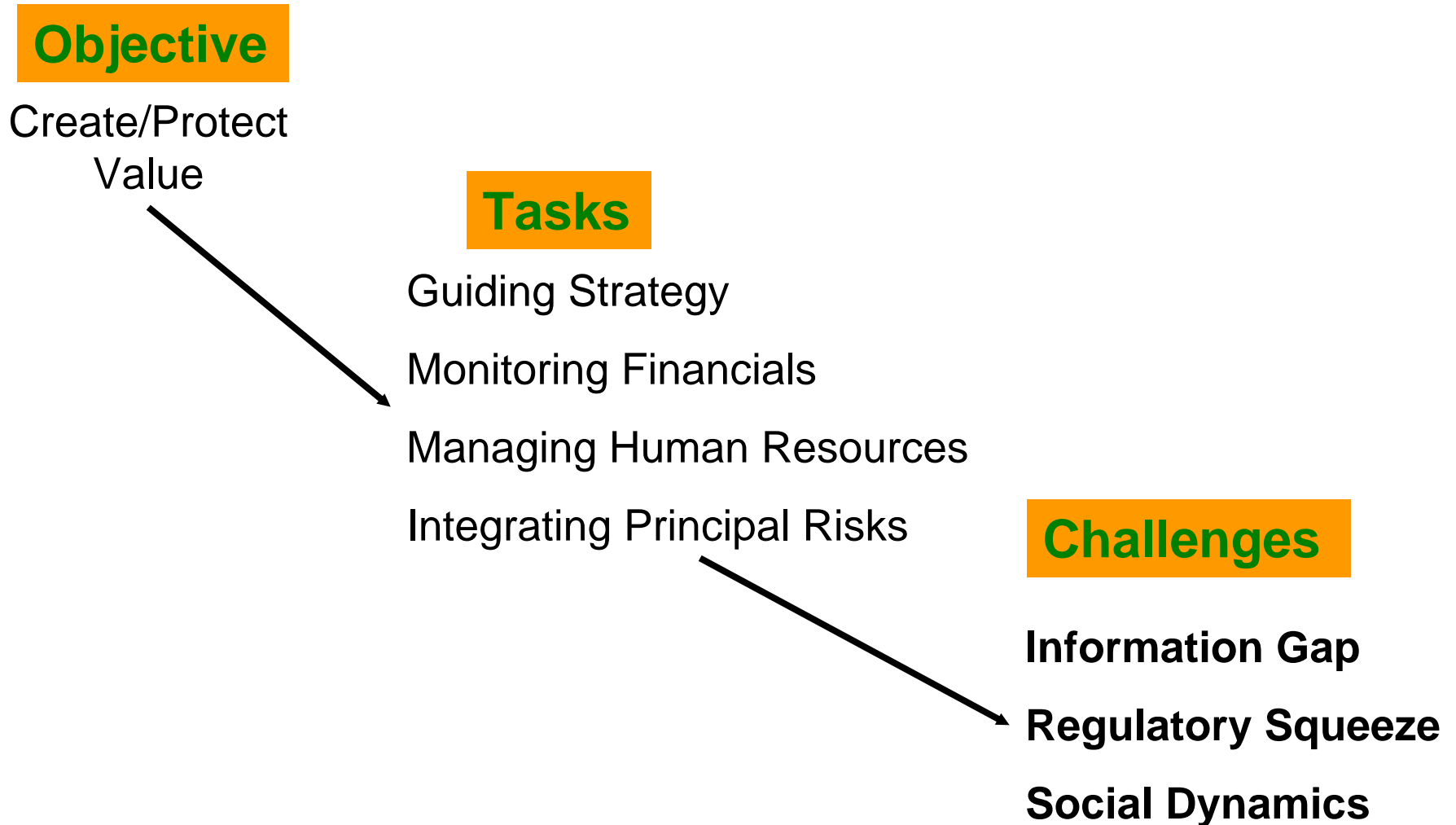
Monitoring Financials

Managing Human Resources

Integrating Principal Risks



The Board/Director Challenge





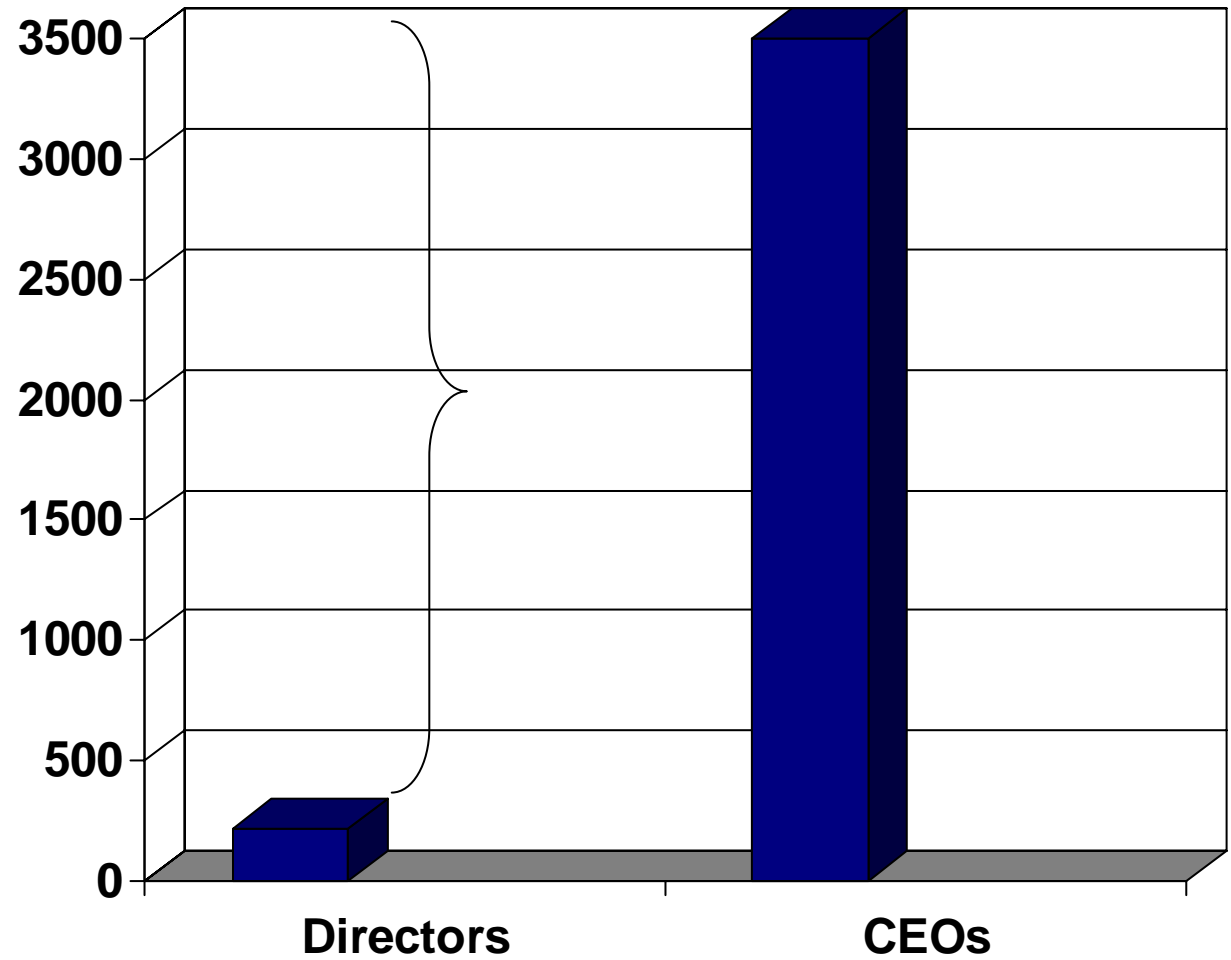
Information gap

Information Gap: Directors spend much less time thinking about the business

Yearly Work Hours



Director time study
~215 hr / year

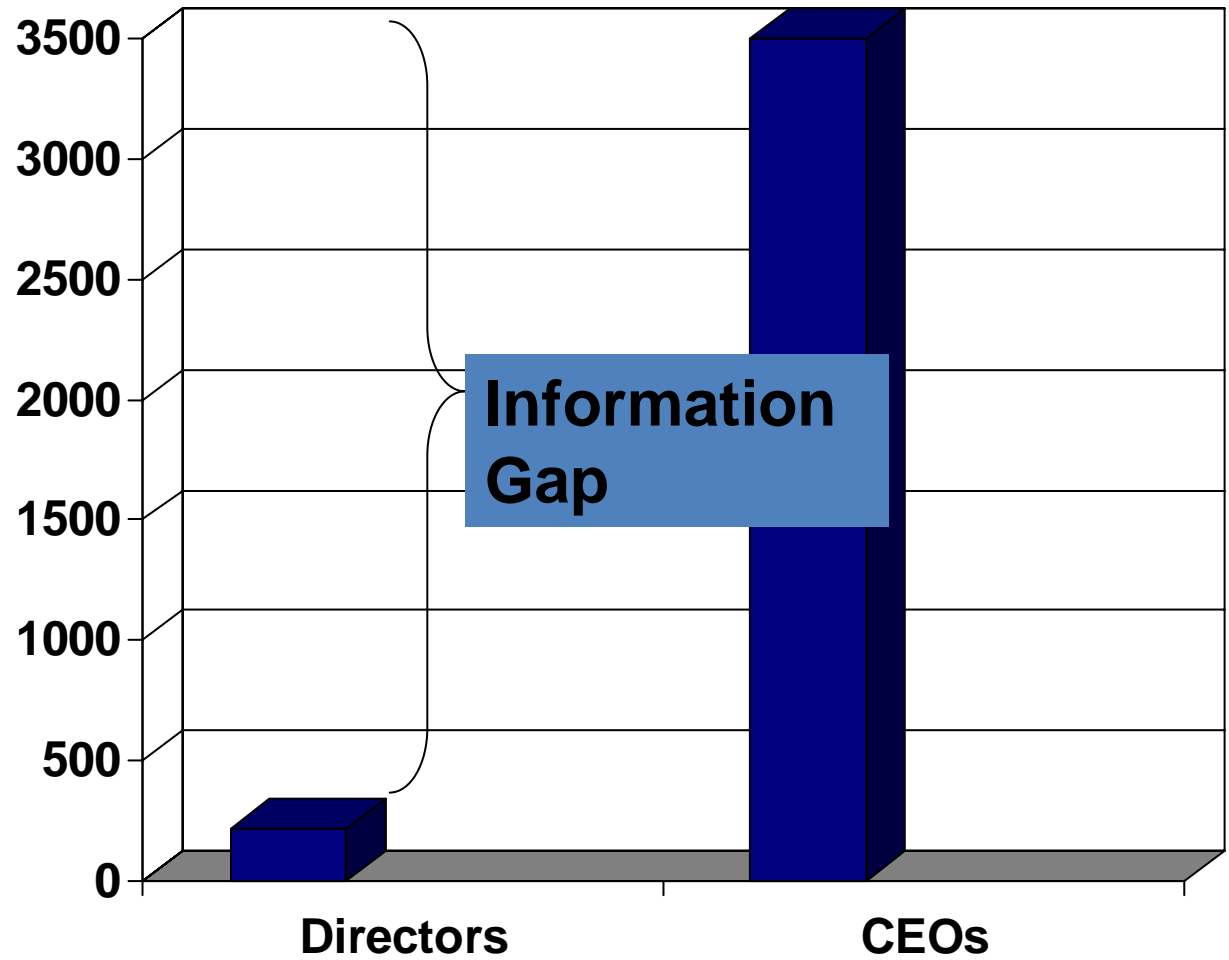


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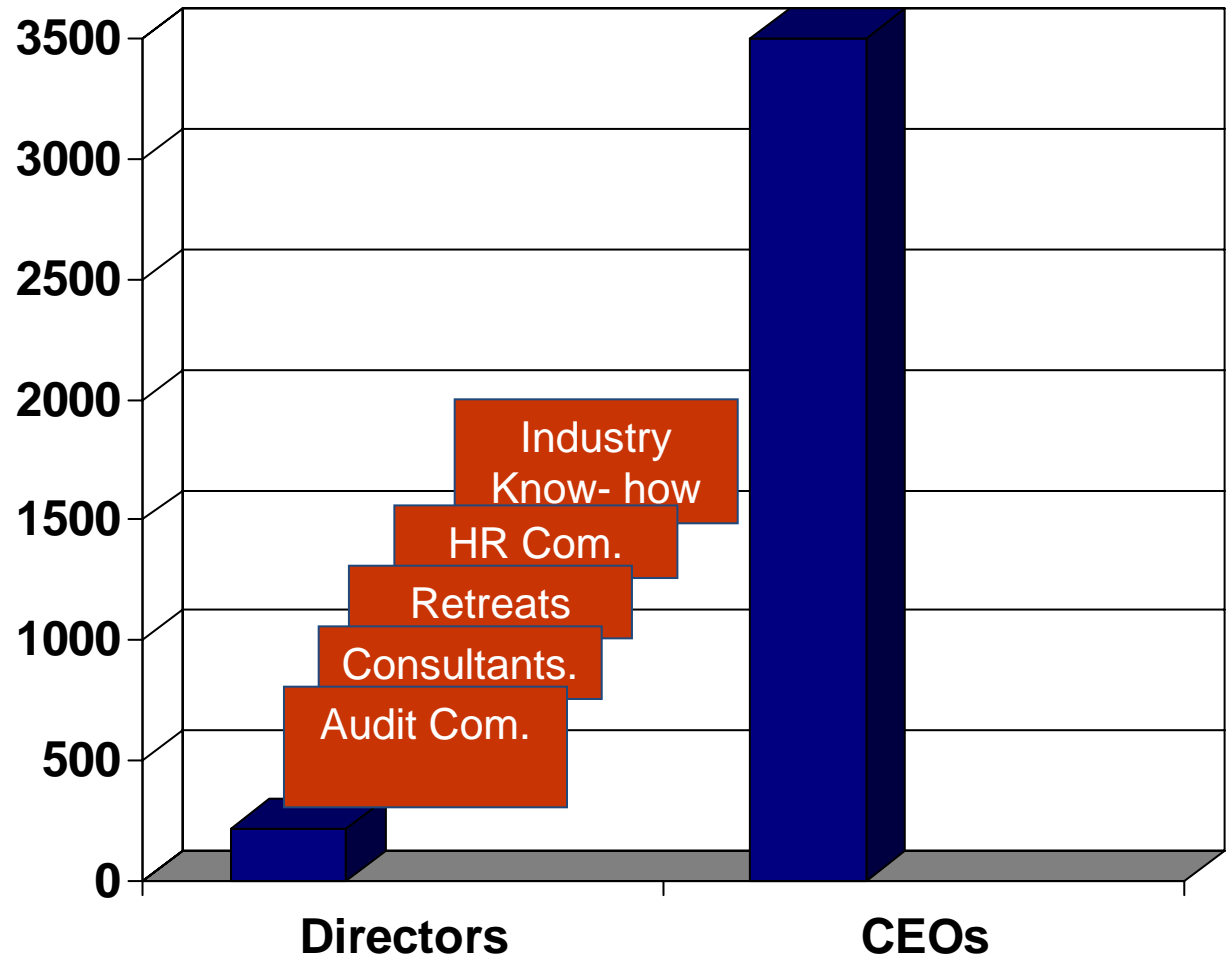


Information Gap: Board systems are designed to overcome the information and expertise abyss

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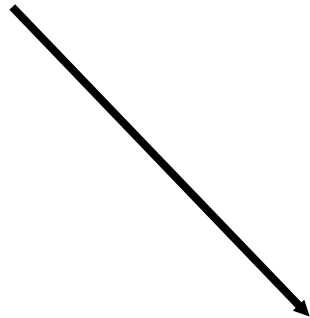


Regulatory Squeeze

The Board/Director Challenge

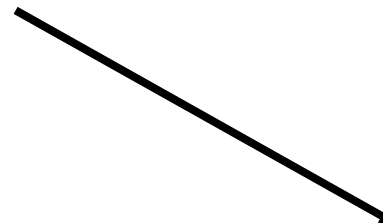
Objective

Protect Value



Tasks

- Guiding Strategy
- Monitoring Financials
- Managing Human Resources
- Integrating Principal Risks



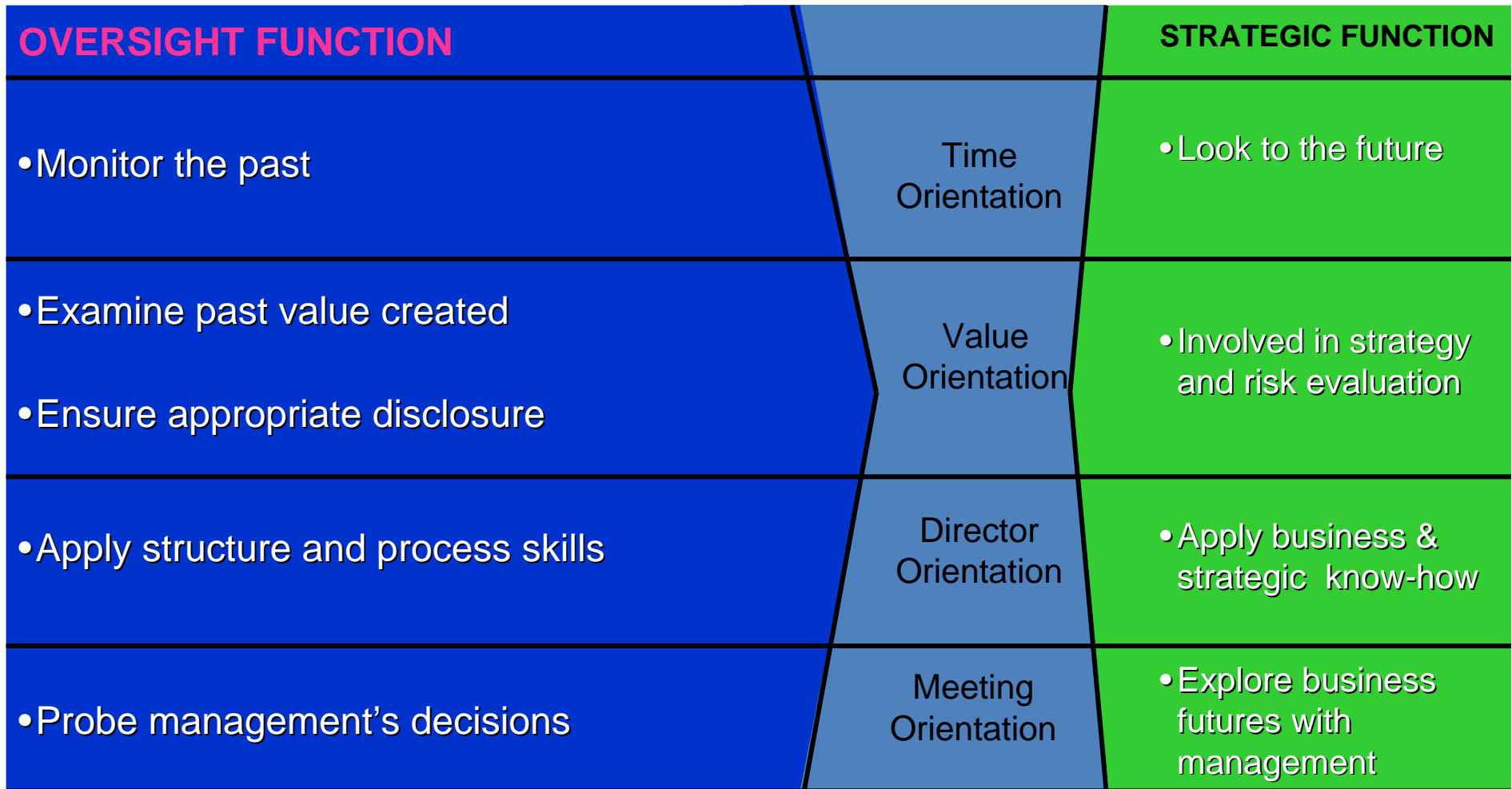
Challenges

- Information Gap
- Time Squeeze**
- Social Dynamics

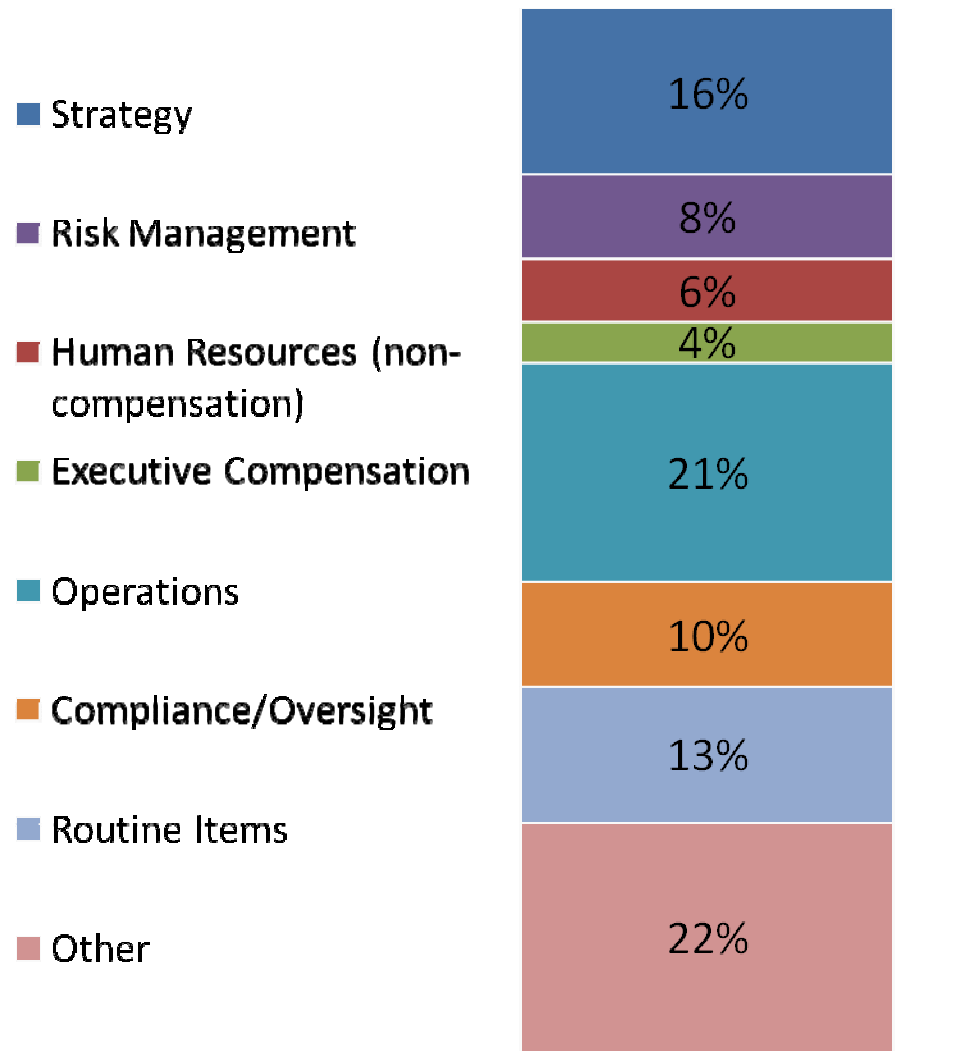
For each task, boards serve both an oversight and strategic function

OVERSIGHT FUNCTION		STRATEGIC FUNCTION
Monitor the past	Time Orientation	Look to the future
Examine past value created Ensure appropriate disclosure	Value Orientation	Involved in strategy and risk evaluation
Apply structure and process skills	Director Orientation	Apply business & strategic know-how
Probe management's decisions	Meeting Orientation	Explore business future with management

Time Squeeze: External scrutiny, regulatory pressure and new risks are causing boards to spend more time looking backwards



How should directors invest their time?

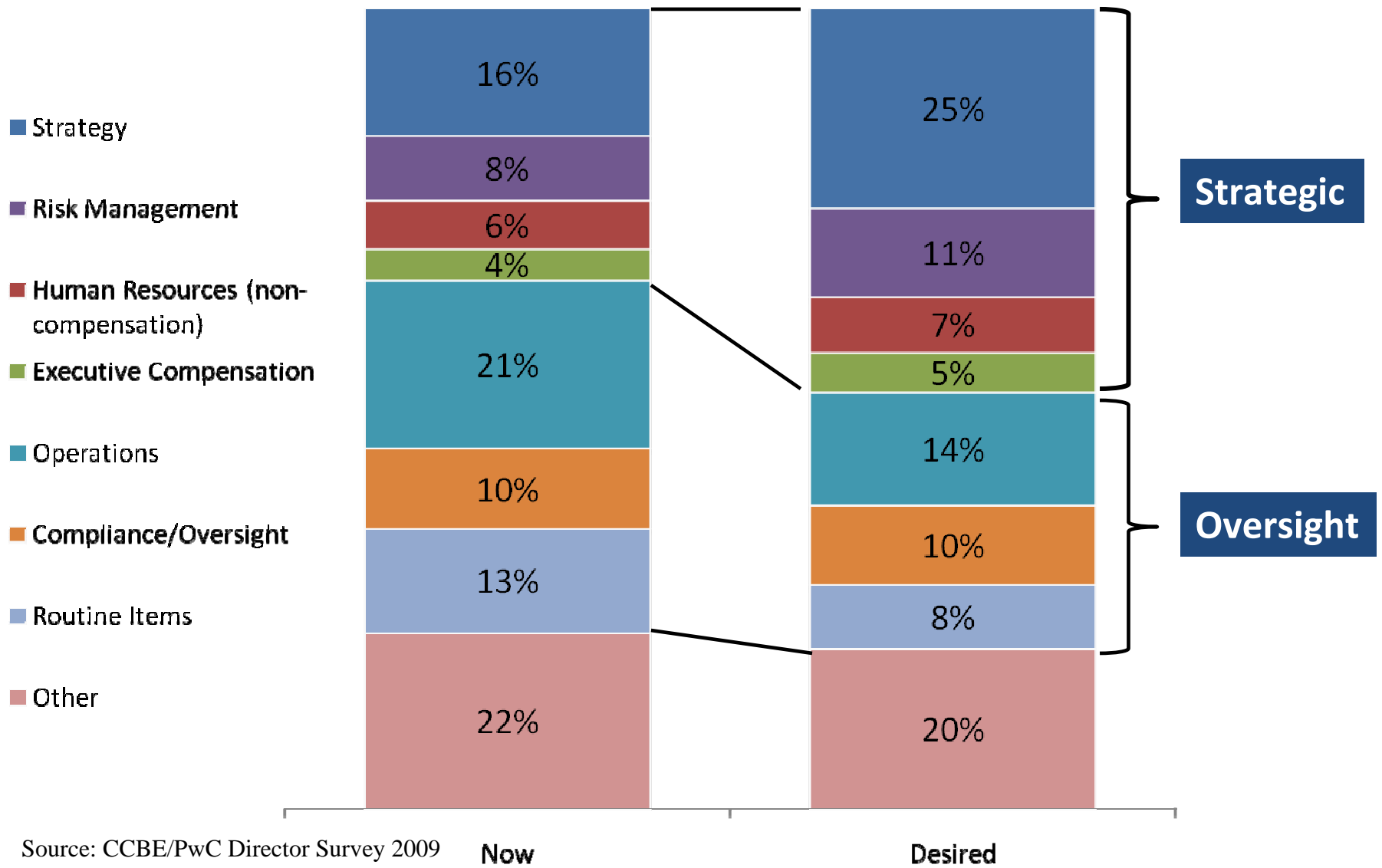


Source: CCBE/PwC Director Survey 2009

Now

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How should directors invest their time?



Source: CCBE/PwC Director Survey 2009

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Good Governance and Good Performance

CEO Risk Taking

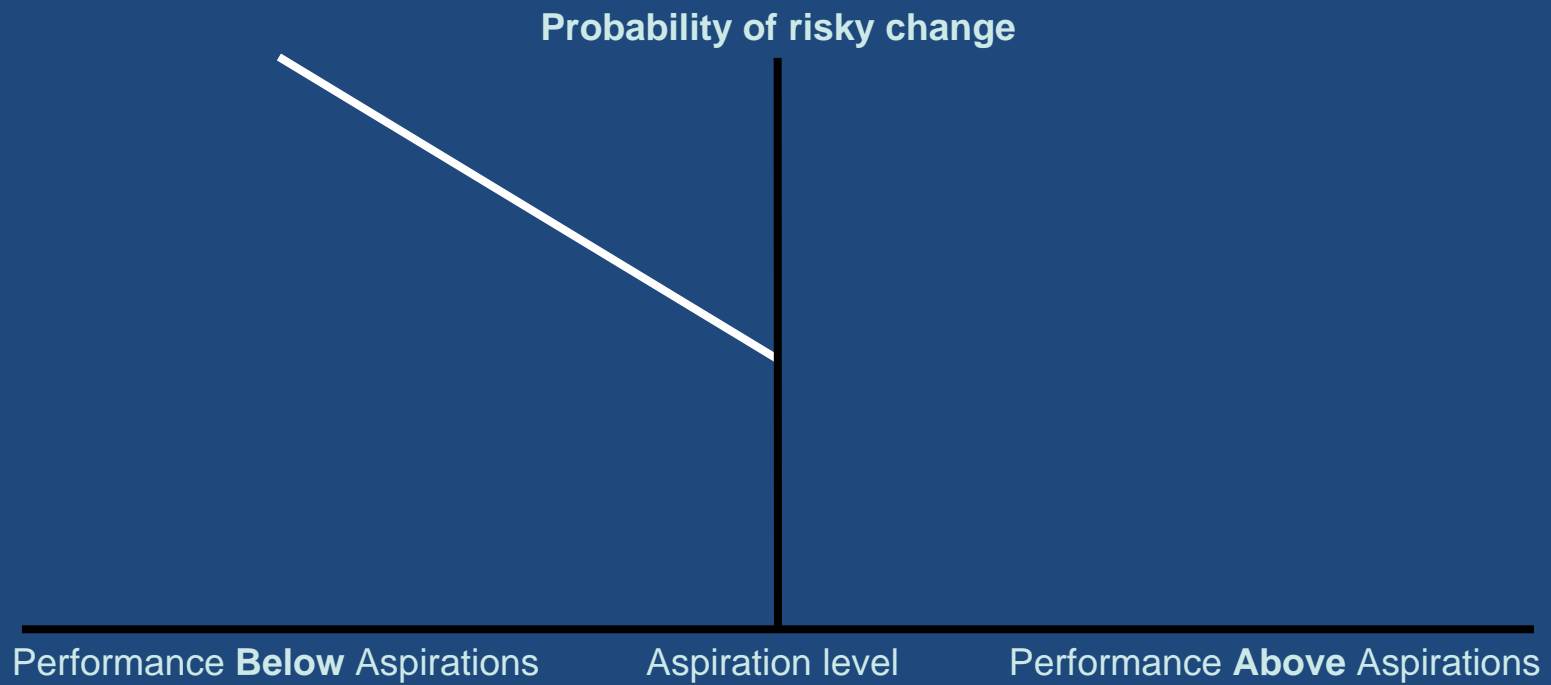
Probability of risky change

Performance **Below** Aspirations

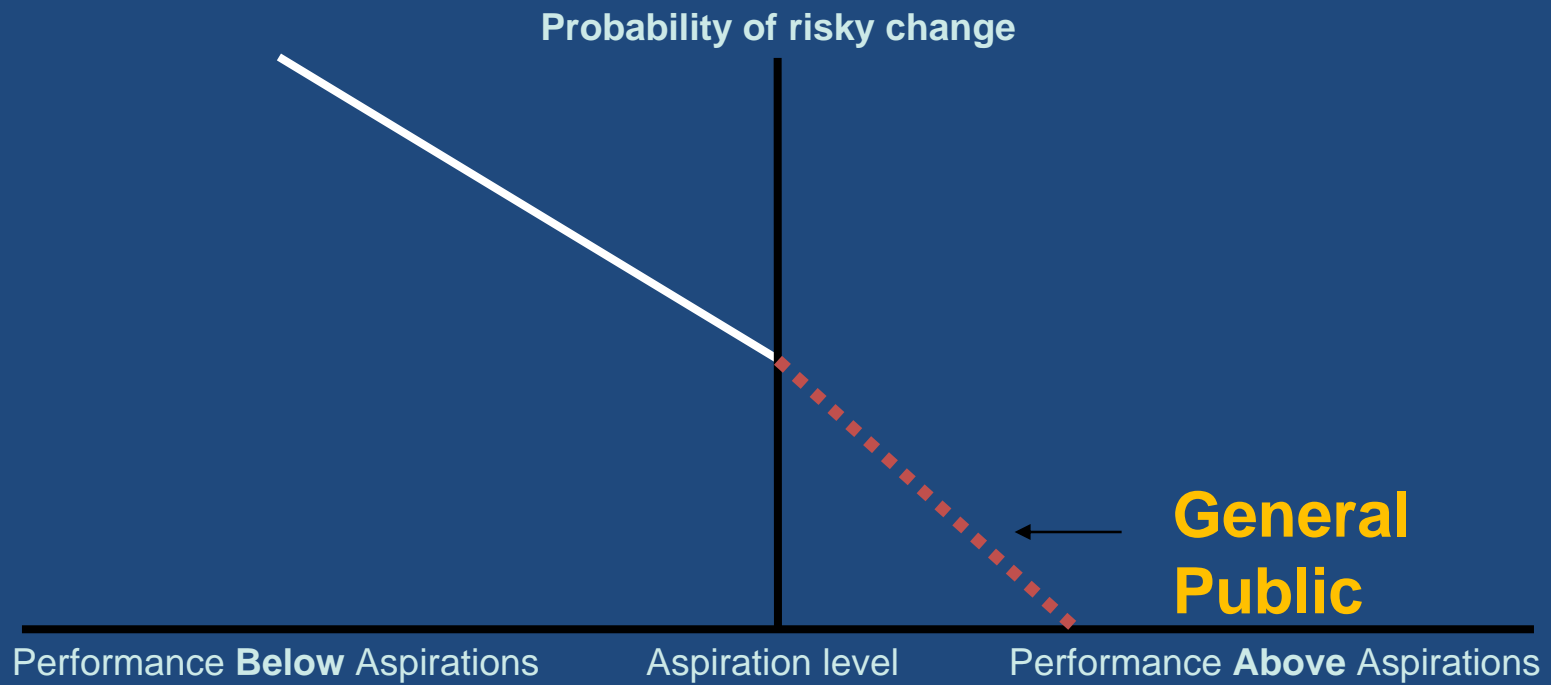
Aspiration level

Performance **Above** Aspirations

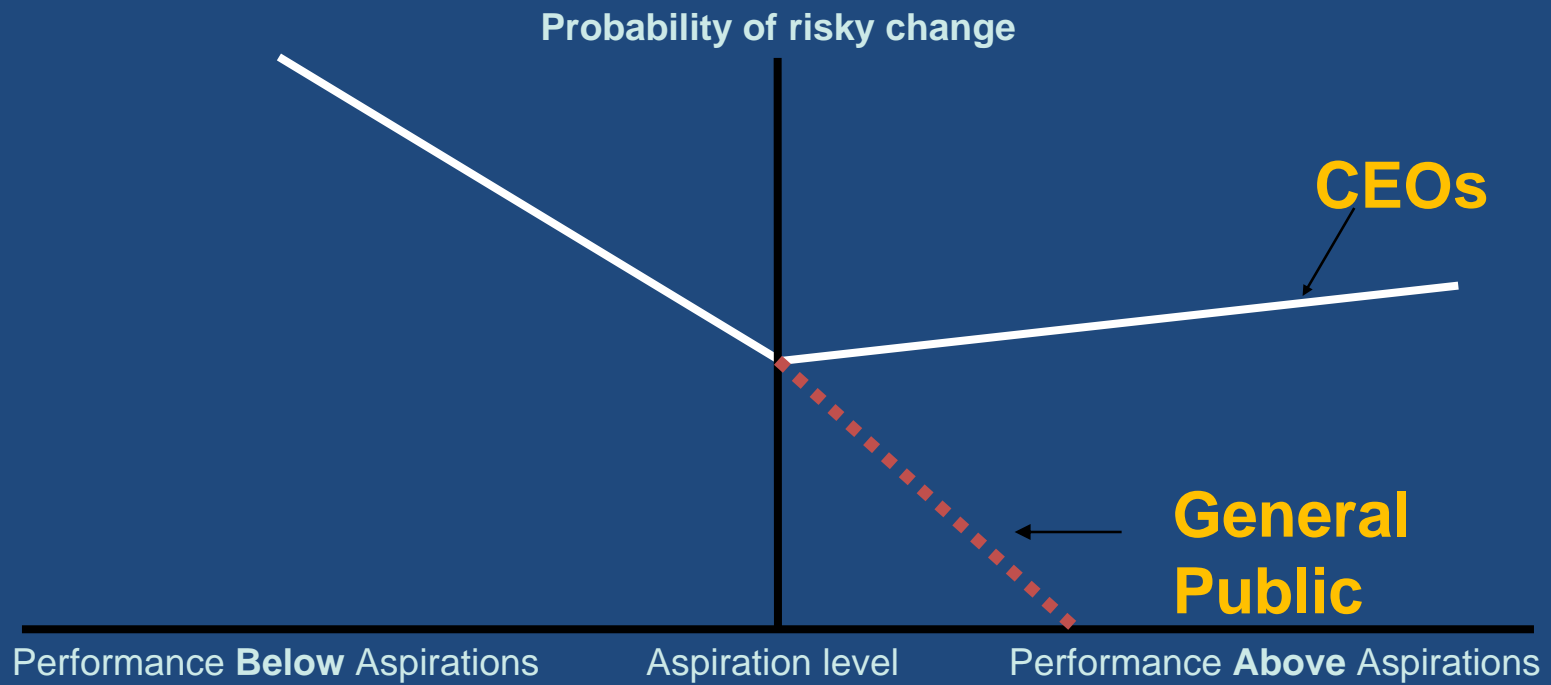
CEO Risk Taking



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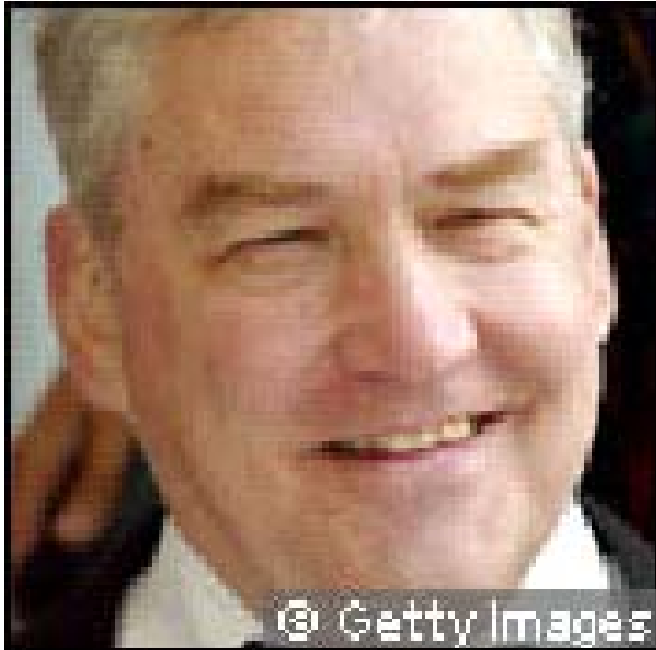


The Board and Management

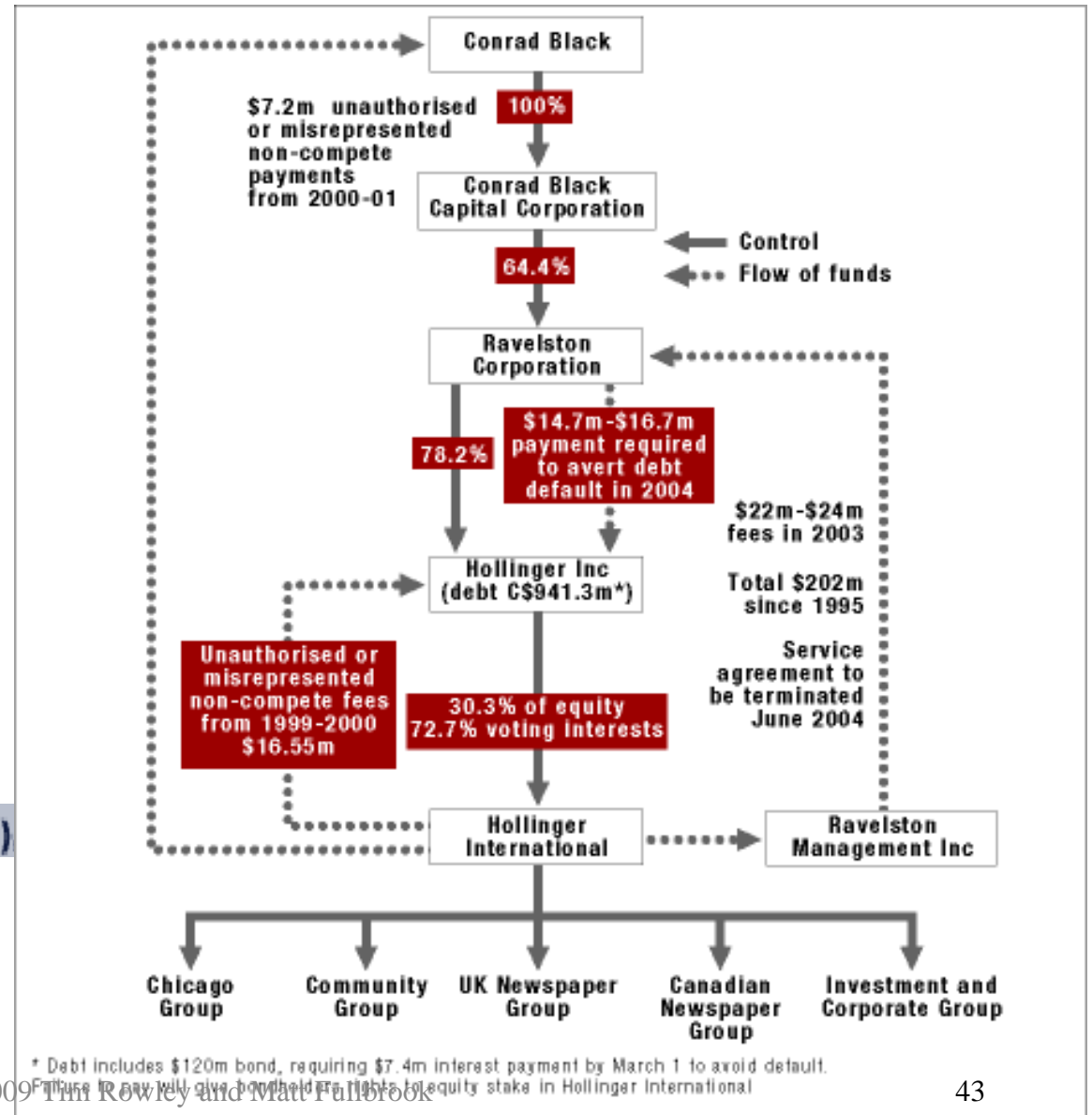


HOLLINGER INTERNATIONAL INC.

At HOLLINGER the directors were somewhat confused:



The Lord Black of Crossharbour, PC(Can)



WORLDCOMSM

WORLDCOM

WorldCom is the communications company for business
in the 21st century.



CEO Bernie Ebbers

Born in Edmonton
Alberta, CANADA



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What went on in Worldcom?



Richard Breedon
Corporate Monitor



“The board consistently ceded power to Ebbers. As CEO Ebbers was allowed nearly imperial reign over the affairs of the company, without the board exercising any apparent restraint...

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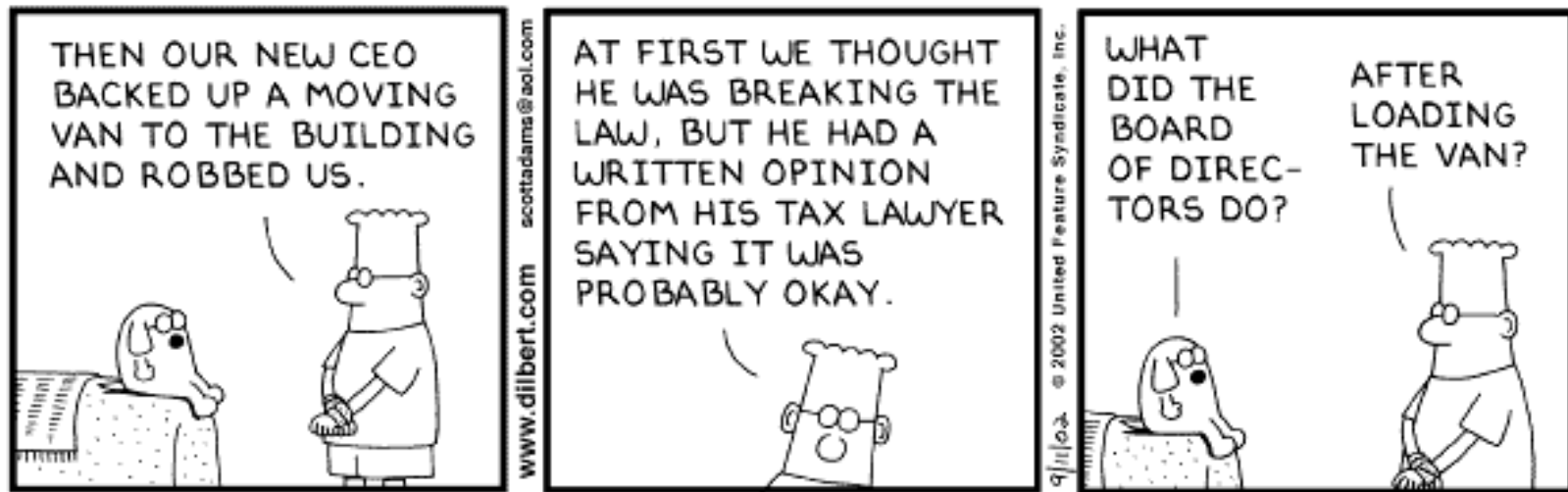


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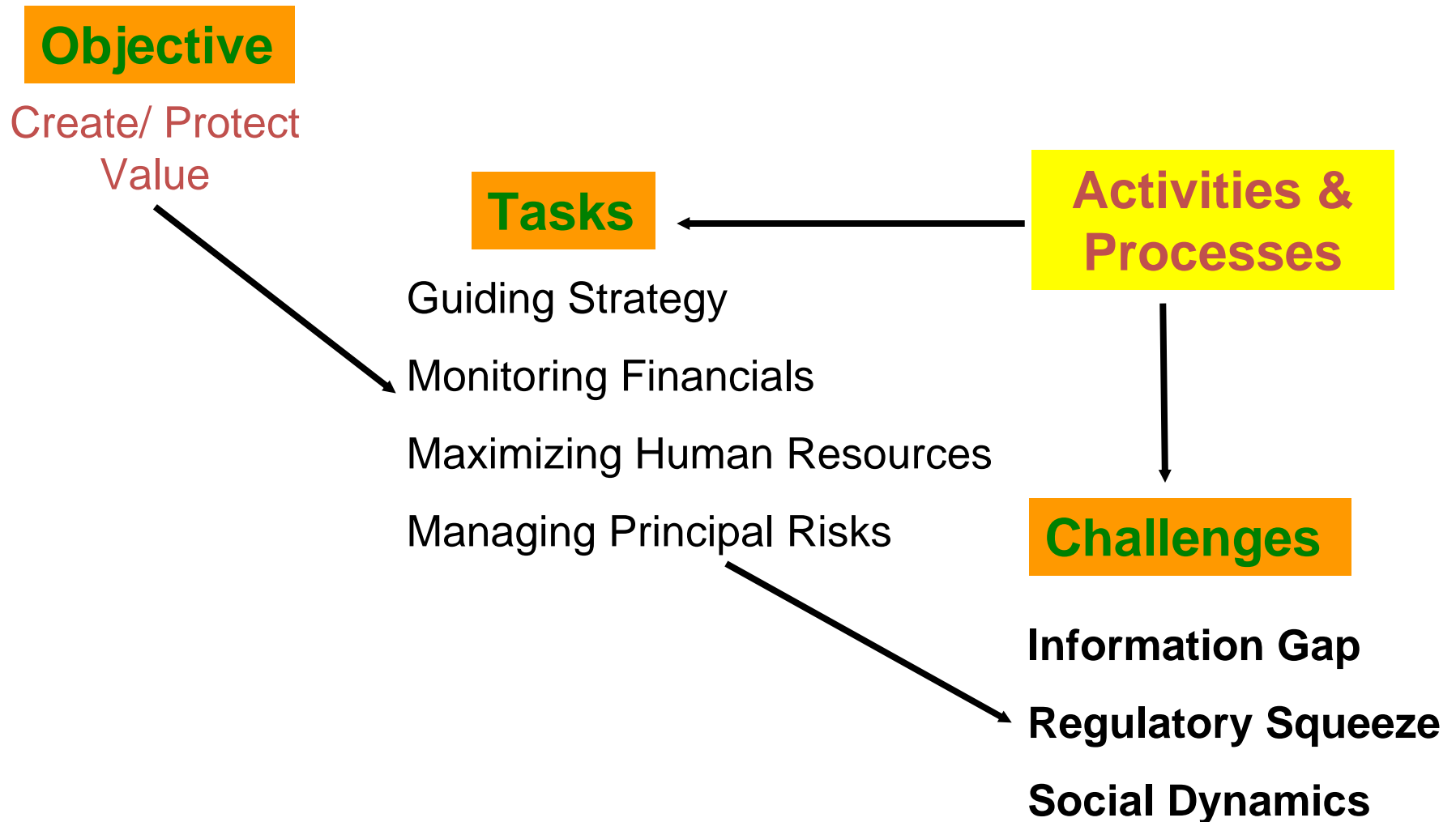
“The board consistently ceded power to Ebbers. As CEO Ebbers was allowed nearly imperial reign over the affairs of the company, without the board exercising any apparent restraint... **even though he did not appear to possess the experience or training to be remotely qualified for his position.**”

Where were the directors ?

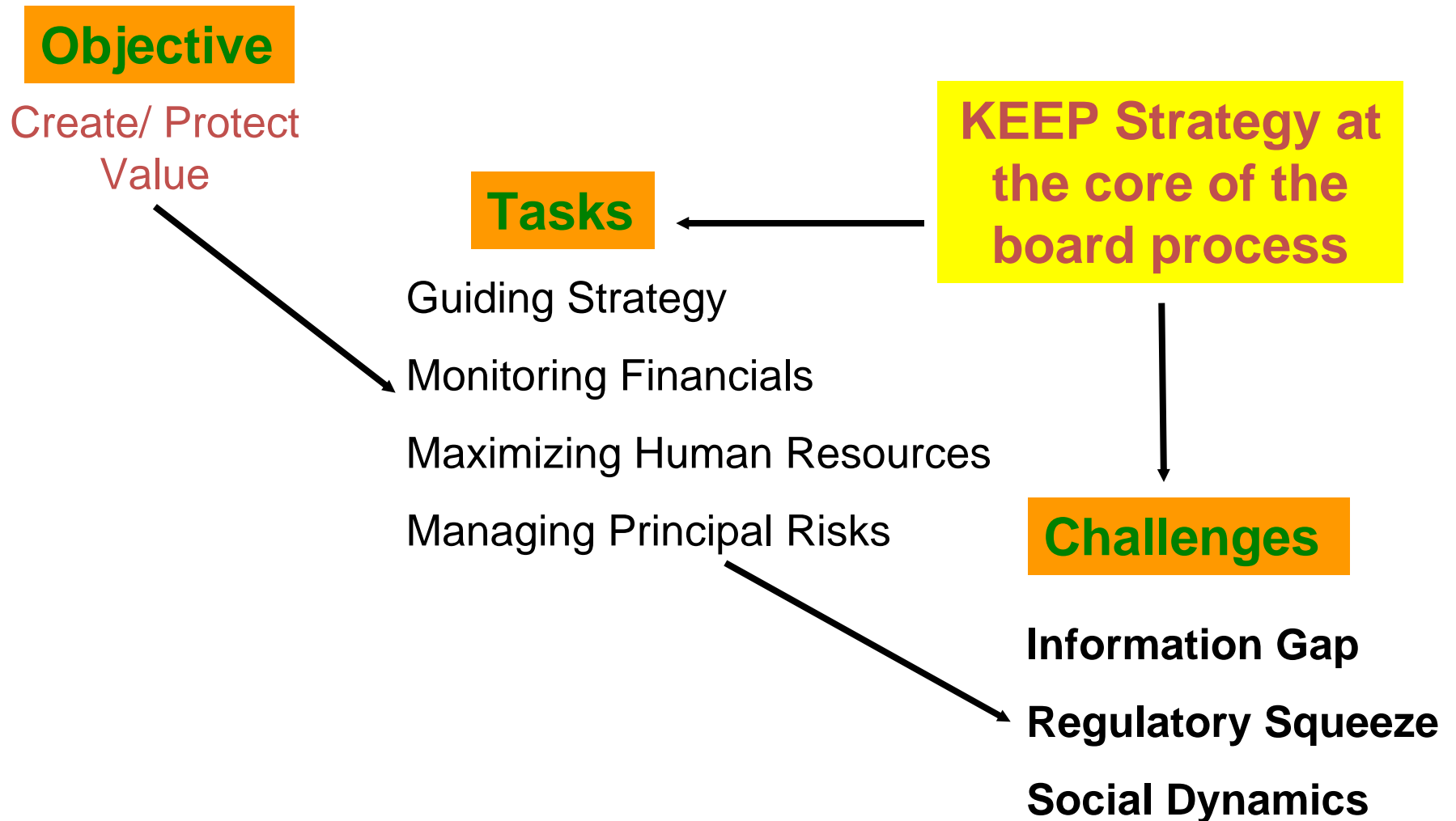


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The Board/Director Challenge



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Does good governance lead to good performance?

- “Good governance is an anti-inflammatory, not a steroid.”
- Governance structures are not one-size-fits-all
- Even the best structures need good people
- What is the cost of good governance?

Project Goals

1. Analysis of current trends in North American credit union governance
2. Dialogue with executives, directors and other stakeholders
3. What governance behaviour/structures, if any, lead to better performance?
4. Comparative study of credit union governance and public/for-profit governance