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2012 S&P/TSX Composite Index Director Tenure

Canadian board members on average serve a similar number of years to U.S. board members, but longer than their counterparts in the United Kingdom. The CCBE studied 234 companies listed on the S&P/TSX Composite Index (TSX Index) as of September, 2013 and found an average director tenure of 8.6 years. A survey published in May by Ernst & Young found that the average tenure for U.S. directors at Russell 3000 companies is 8.7 years.¹ The average director tenure on the FTSE 350 in the UK is much lower at 4.5 years.²

This disparity is primarily affected by the UK Corporate Governance Code, according to which a director is no longer considered independent from management after 9 years of service.³ The code also states that boards should maintain at least 50% independent directors. These conditions have a strong influence on average director tenure in the UK.

Director Tenure in the U.S.

Institutional investors have become increasingly more concerned about long director tenure according to an October 2013 survey by Institutional Shareholder Services (ISS).⁴ U.S. investors and issuers both participated in the survey, and there was significant disagreement between these groups regarding the appropriateness of long director tenure. Investors feel that after 10 or more years of board service a director's independence is compromised. They believe that lengthy director tenure can diminish the director's ability exercise independent judgment from management and can also limit the board's opportunities to renew. Conversely, 84% of survey participants from the issuer side believe that long director tenure is not problematic. CCBE has studied Canadian boards, and found similar results.

¹ A survey by Ernst & Young and the Society of Corporate Secretaries & Governance Professionals -

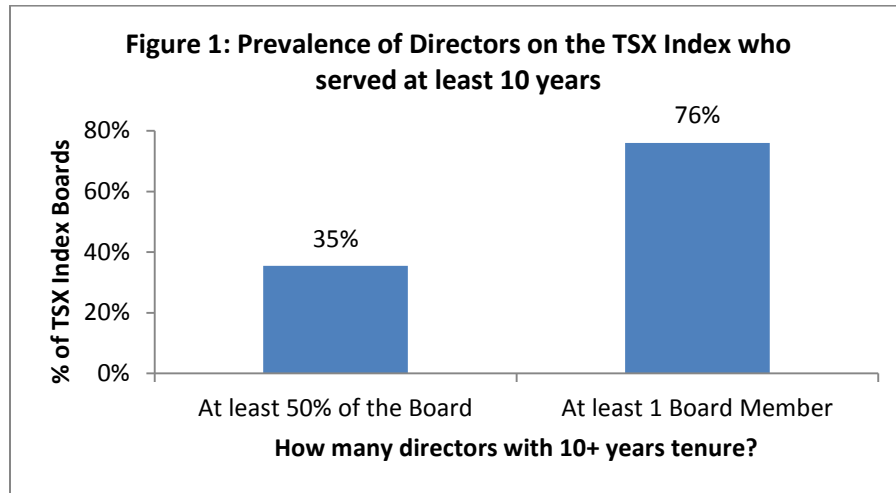
² Grant Thornton Survey -

³ The UK Corporate Governance Code, <http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx>

⁴ <http://www.issgovernance.com/files/ISS2013-2014PolicySurveyResultsReport.pdf>

Director Tenure in Canada

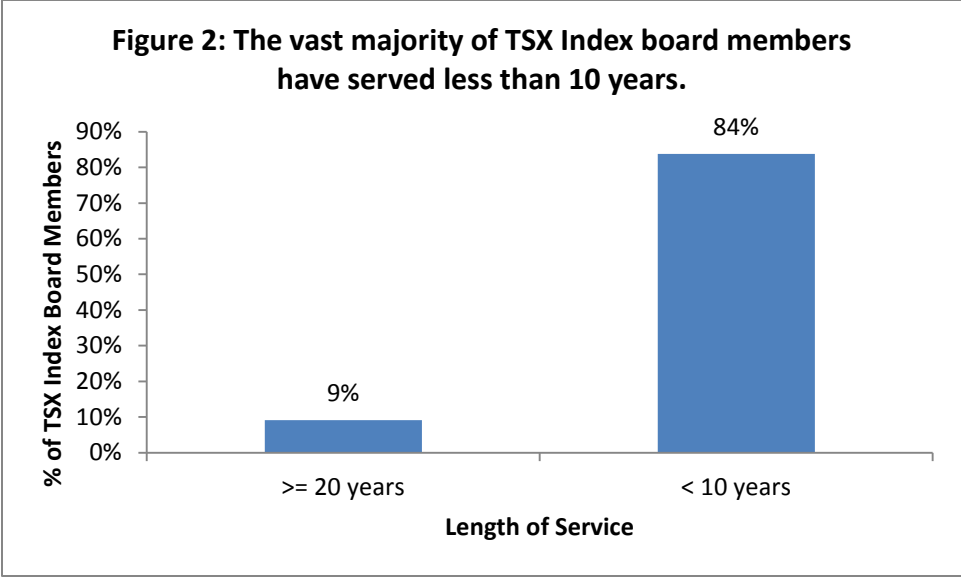
On the TSX Index, the vast majority of companies have at least one board member with at least 10 years of service. Indeed, over a third of TSX Index boards comprise at least 50% of directors who have served at least 10 years (Fig. 1).



The CCBE has interviewed many directors over the years and, generally, that long-tenured directors are no more or less effective than other directors, although they can often be more difficult to remove from the board in cases of ineffectiveness. As described above, this agrees with U.S. findings from the ISS survey.

Slow overall board renewal is perhaps the central reason why there are so many long-tenured directors on Canadian boards. In 2012, 40% of TSX Index listed companies did not replace or add members on their boards. In fact, new directors accounted for only 7% of all TSX Index board members.

This has led, in some cases, to very long-tenured board members. One third of TSX Index constituents have at least one board member who has served for 20 years or more. In fact, these boards often have more than one director who has served 20+ years. The longest tenured director on the TSX Index has served more than 50 years. These very long tenures are relatively rare, however (Fig. 2). In 2012, 84% of directors on the TSX Index served 10 years or less.



Implications for Director Diversity

Why does director tenure matter? Canadian issuers are not concerned about the impact of long tenure on board effectiveness, and investor concerns haven't led to significant changes. However, regulators, investors and the media have become increasingly more concerned with sexual diversity on boards, and their general sentiment appears to be that that change must be significant and fast.⁵ With Canadian boards renewing at a rate of only 7% in 2012, the pace of director turnover may be a significant barrier to achieving increased diversity in the near future. My next publication will explore trends in director diversity on the TSX Index.

⁵OSC Proposes Gender Policy for Boards, <http://www.theglobeandmail.com/report-on-business/osc-proposes-gender-equity-policy-for-boards/article13490037/>