



Institute of Corporate Directors
Institut des administrateurs de sociétés

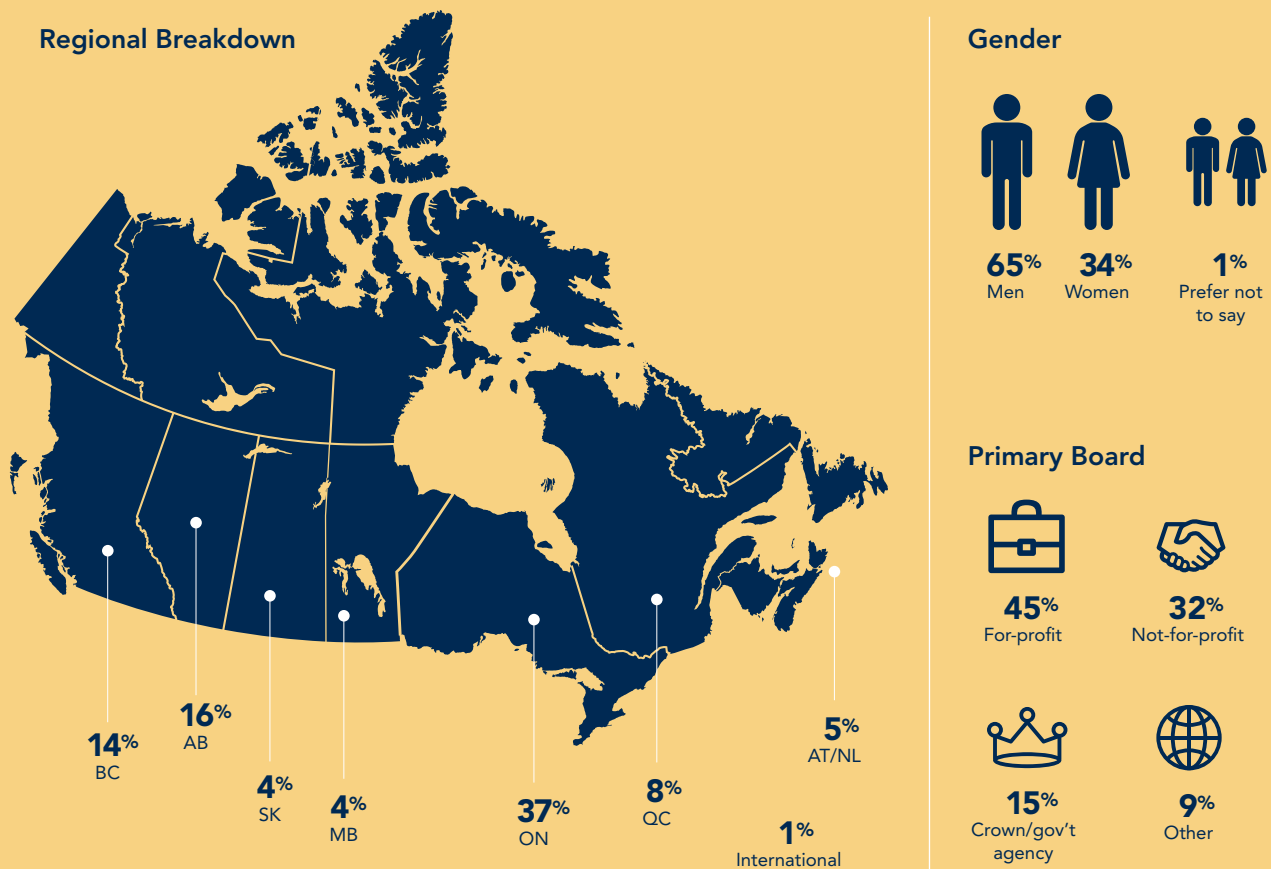
DIRECTORLENS

SURVEY FALL 2018

DIRECTORS ARE THE LEADERS WHO APPROVE AND OVERSEE CORPORATE STRATEGY AND PROVIDE OVERSIGHT OF ORGANIZATIONAL RISK MANAGEMENT. THEY ARE CHARGED WITH THE LONG TERM STEWARDSHIP OF CANADA'S ORGANIZATIONS.

The Fall 2018 Director Lens Survey measures the perspectives and intentions of Canada's directors on global and Canadian economic and political stability, boards' oversight of technology, workplace harassment, human capital issues and shareholder engagement. The context within which organizational leaders must make decisions is changing. Our surveys help inform the ICD's members and stakeholders, including policy makers, by offering the insights of directors on pressing issues impacting Canada's employers, workers, investors and managers.

This survey was conducted by Environics Research with 604 board directors responding between September 15 – October 19, 2018, yielding a response rate of 4.7% overall. A sample of this size produces results that can be considered accurate to within +/-4.0 percentage points, 19 times out of 20.

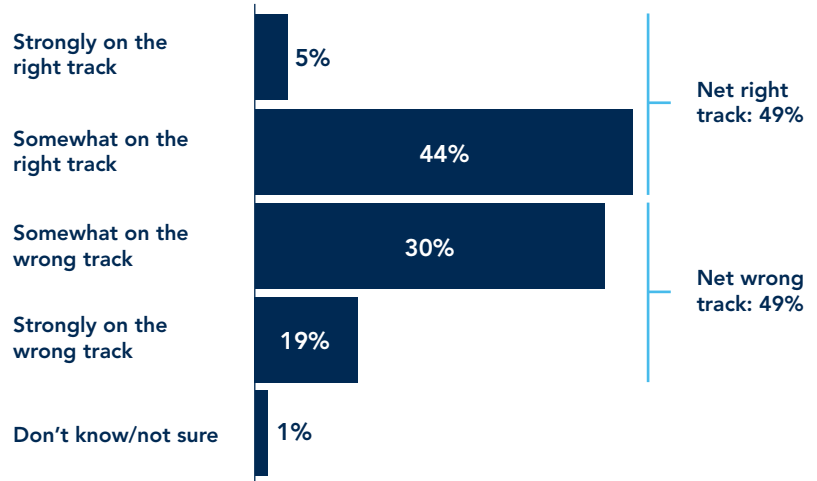


Totals may not add up to 100% due to rounding

WHERE IS CANADA HEADING?

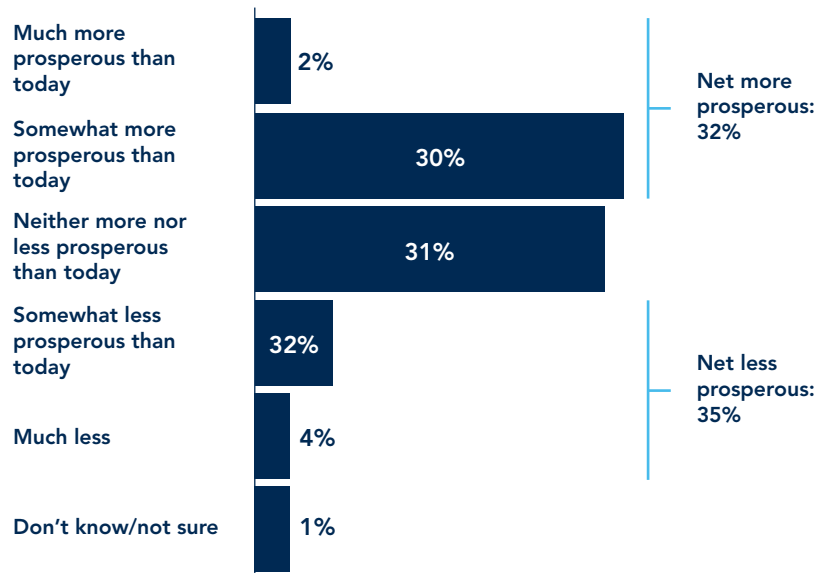
Directors are evenly split on whether Canada is headed in the right or wrong direction: 49% of ICD members surveyed felt Canada was somewhat or strongly on the right track while the same number felt that it was somewhat or strongly on the wrong track.

Q: Overall, would you say that Canada is currently heading...



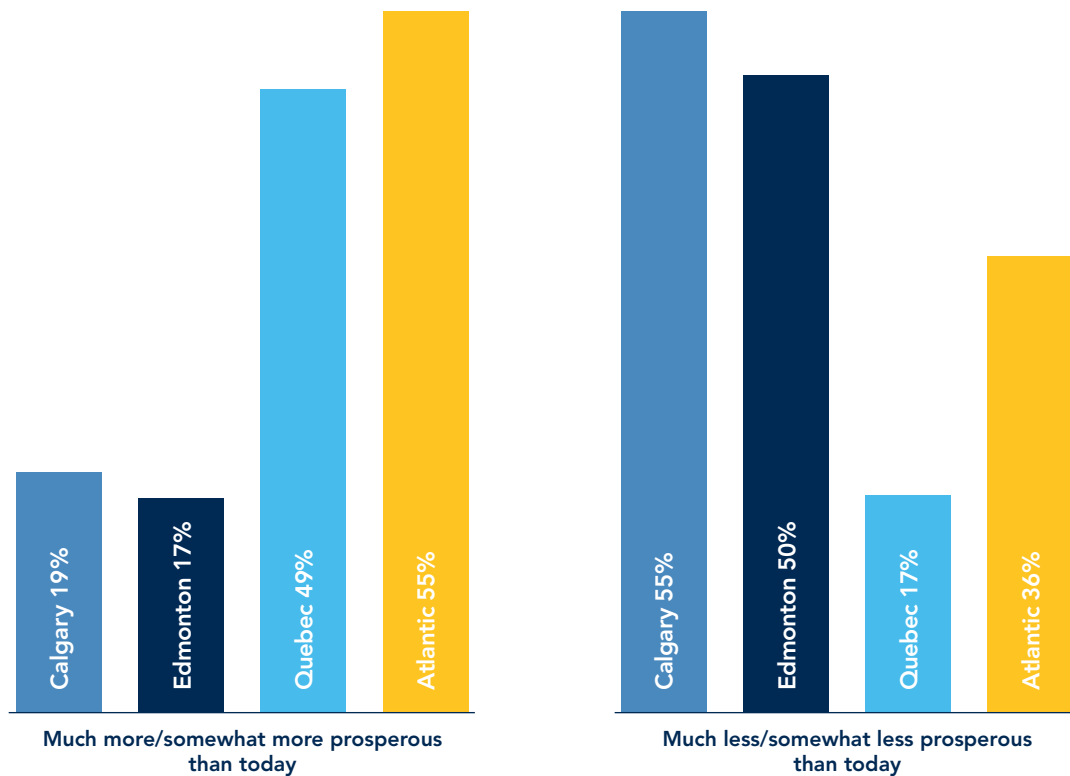
When asked about Canadian prosperity in the next 10 years, members split their responses somewhat evenly with 32% believing the country would be more prosperous, 35% responding that it would be less prosperous and 31% responding that it would be neither more nor less prosperous than today.

Q: Looking ahead over the next 10 years do you expect that Canadian society will be...



REGIONAL PERCEPTIONS OF FUTURE CANADIAN PROSPERITY

The survey results reflect that some parts of the country are feeling more optimistic about Canada's future prosperity than others. Respondents from ICD chapters in Atlantic Canada (55%) and Quebec (49%) felt that Canada would be much more or somewhat more prosperous in the next 10 years while in Alberta, a significant number felt that Canada would be somewhat or much less prosperous in the future.

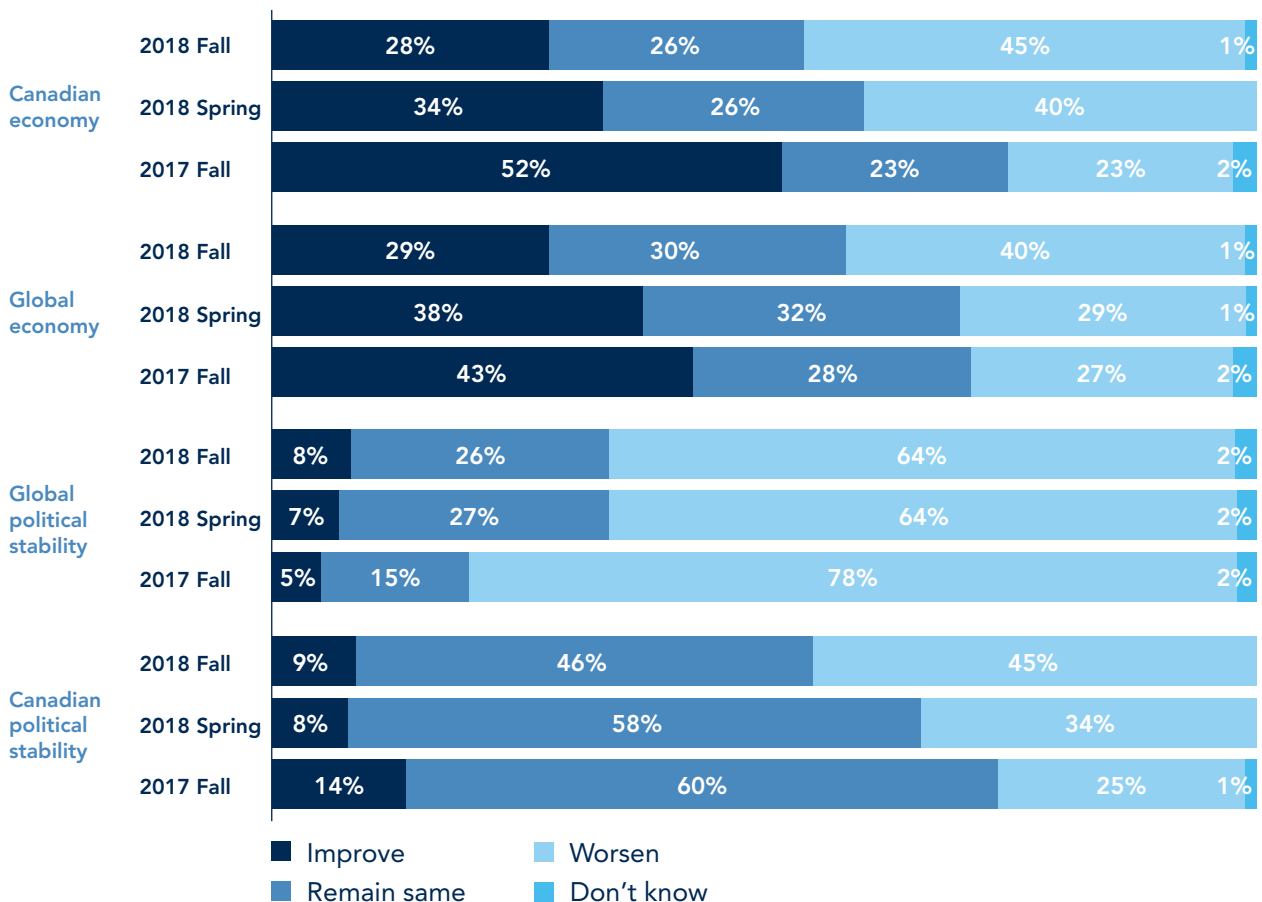


CONFIDENCE IN THE CANADIAN ECONOMY AND POLITICAL STABILITY CONTINUES TO BE CHALLENGED

Canadian directors continue to see trouble ahead for the Canadian economy. Only 28% of the directors we surveyed believe that the Canadian economy will improve over the next 2-5 years, compared to 52% who believed it would improve a year ago. Almost half (45%) of those surveyed believe the economy will worsen. Faith in the global economy is also declining – only 29% believe that it will improve in the next 2-5 years compared to 43% who believed it would improve a year ago. Forty per cent of those surveyed believe that the global economy will worsen in the next few years.

ICD members also expressed more concern for our domestic political stability. Forty-five per cent felt that Canadian political stability will worsen in the next 2-5 years while only 25% expressed that view in the fall 2017 survey. Recent changes in provincial governments, the recently introduced carbon emissions tax system, as well as an upcoming federal election may all be contributing to a sense of political unpredictability.

Q: Looking forward over the next 2-5 years, please indicate whether you feel each of the following will improve, remain the same or worsen:



TRADE

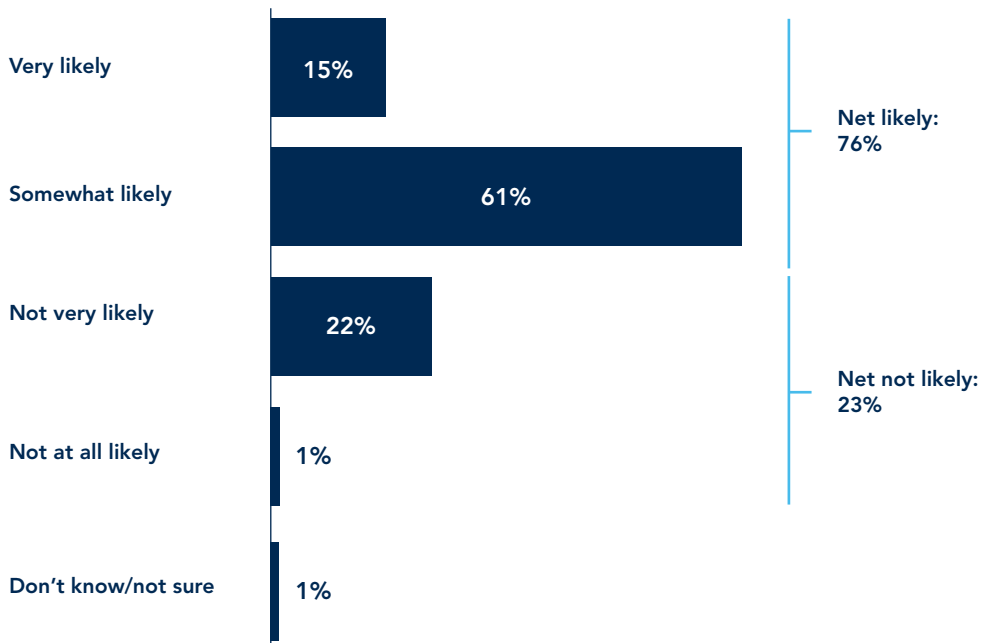
UNITED STATES-MEXICO-CANADA AGREEMENT (USMCA)

A number of respondents completed the survey after the announcement of the new United States-Mexico-Canada Agreement (USMCA). Of those who provided answers after the agreement was announced, 37% felt that the Canadian economy would improve over the next 2-5 years, compared to 26% who felt it would improve prior to the USMCA announcement.

GLOBAL TRADE

Optimism over global trading relationships was expressed with 76% of respondents indicating they felt it was somewhat or very likely that relationships would stabilize in the next 5-10 years. It is encouraging to note that a large majority of those surveyed feel the global trading system will not be permanently disrupted by current challenges.

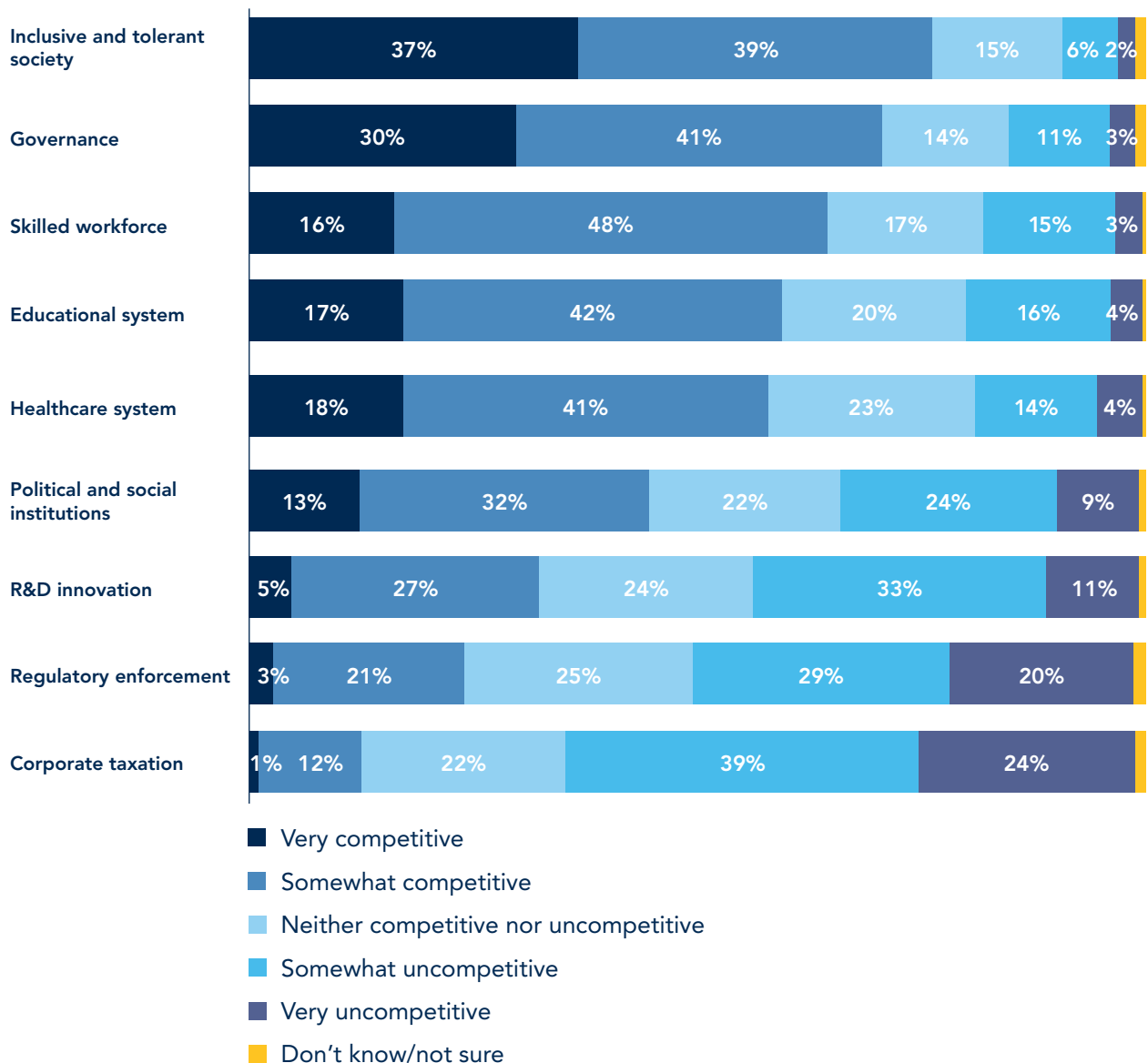
Q: How likely do you think it will be that global trading relationships will stabilize over the medium to long term (e.g. 5-10 years)?



CANADA'S COMPETITIVE ADVANTAGES: GOVERNANCE AND INCLUSION

For the first time, we asked our members to rate Canada's competitiveness on a variety of factors. Seventy-six per cent of respondents felt that Canada's inclusive and tolerant society made Canada more globally competitive while 71% felt Canada's governance is a distinct advantage. Canada's healthcare, education, political and social institutions, as well as a skilled workforce are all seen as bolstering Canada's competitiveness. However, a majority of respondents felt that Canada's overall business climate was not competitive, including on corporate taxation and on regulatory enforcement.

Q: Thinking in terms of Canada's global competitiveness, how would you rate each of the following?

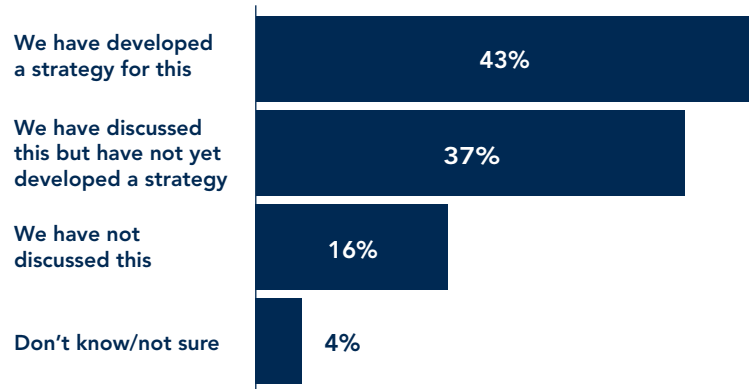


“Adoption of technology and new processes in Canada is slow relative to the United States. As such, our productivity gains are lower and therefore business is less competitive. In the knowledge economy, many of our knowledge-based entities are being bought up by foreign investors and then the IP is transferred out of the country. We are good developers of ideas but not good at commercialization.” – ICD member

BOARD OVERSIGHT OF TECHNOLOGY AND THE HUMAN CAPITAL IMPACT

Board members recognize the critically important role of technology, with four in ten directors (43%) saying that their boards have developed a strategy for applying technology in their organizations. Slightly fewer (37%) say that they have discussed it but have not yet developed a strategy, while only sixteen percent have not discussed a strategy.

Q: Has your board discussed or taken action on applying technology in your organization such as automating current functions?



However, far fewer respondents are developing strategies that deal with the impact of technology, including automation, on their workforce with only one in five (20%) saying that their boards have developed a strategy for retraining workers who are displaced by technology. It is, however, encouraging, that this response represents an increase from the 11% who said they had developed such a strategy in our spring 2018 survey.

Q: Has your board discussed or taken action on retraining your organization's workforce who are displaced by technology?

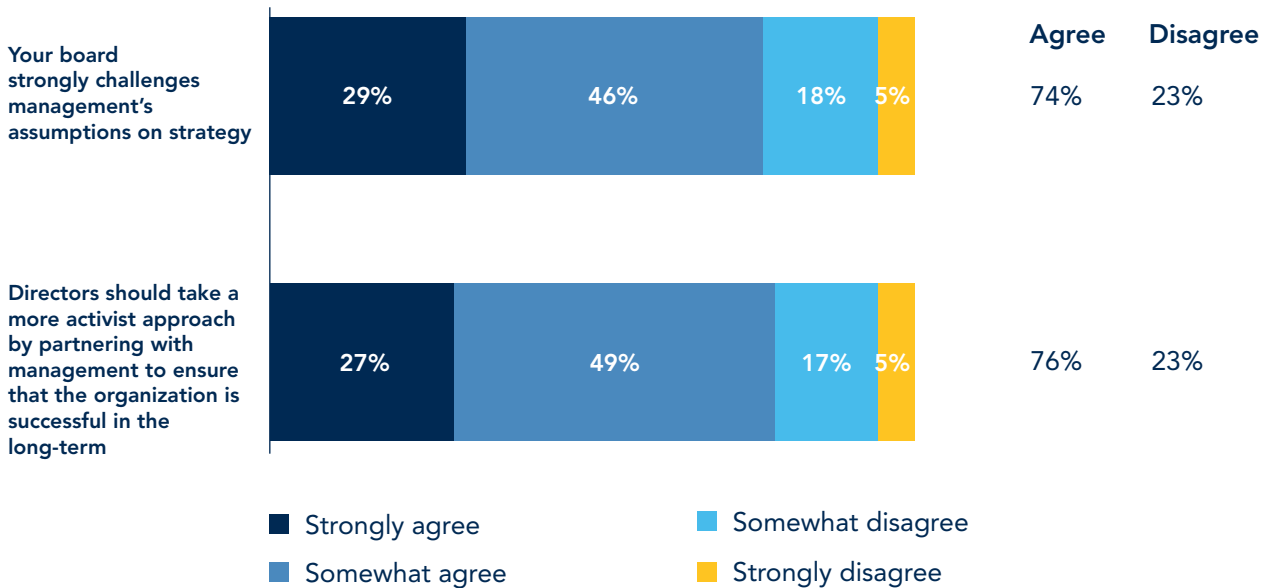


RELATIONSHIP BETWEEN MANAGEMENT AND DIRECTORS

We asked about working relationships between boards and their management teams and directors said they felt comfortable challenging management’s assumptions on strategy by a strong majority. It is also interesting to note that the Canadian directors in this survey were more likely to challenge management’s assumptions about strategy (74%) than the percentage of U.S. directors (60%) who gave the same response to a comparable survey question.¹

A significant majority of ICD members (76%) strongly or somewhat agreed that directors should take a more activist approach by partnering with management to ensure that the organization is successful in the long-term.

Q: To what extent do you agree that:



“I am concerned that a large portion of the unskilled and lower skilled workforce will be displaced, bringing a strain on the social system response.” – ICD member

¹PwC’s 2017 Annual Corporate Directors Survey

DIRECTORS STRONGLY SUPPORTIVE OF SHAREHOLDER ENGAGEMENT

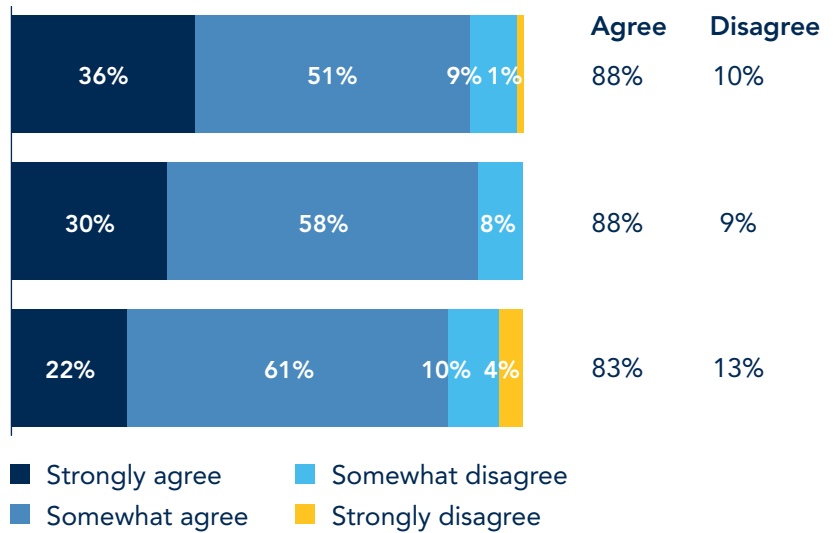
Our survey found strong support for shareholder engagement among ICD members. Most directors felt that engagement between investors and directors builds trust and credibility, provides useful input on strategy, facilitates the communication of the board’s policies and processes and allows boards to gain an understanding of shareholders’ concerns and perspectives.

Q: To what extent do you agree or disagree that:

Director engagement with shareholders builds mutual trust and credibility and provides useful input on strategy and performance.

Engagement with shareholders allows boards to better understand the views, motives, perceptions or concerns of investors and reduces the likelihood of proxy battles, or contentious say-on-pay.

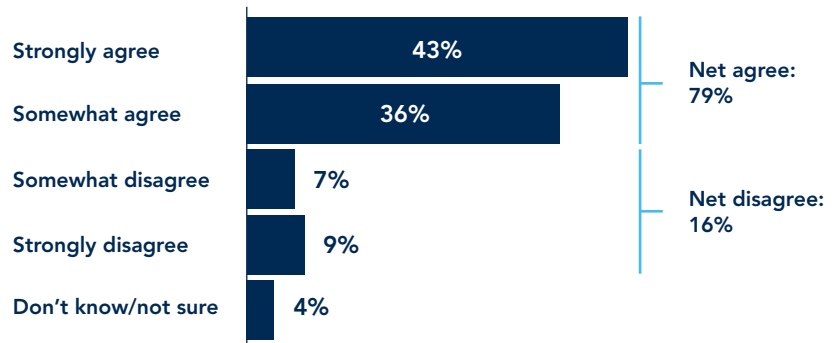
Engagement with shareholders allows the board to directly communicate their oversight processes and policies.



SOCIAL LICENSE TO OPERATE

A social license to operate may be defined as a community’s widespread and continuing approval of a company’s activities which allows it to continue operating with perceived legitimacy and support from stakeholders. A strong majority of ICD members (79%) surveyed agree that a social license to operate is necessary for conducting business.

Q: To what extent do you agree that a social license to operate is necessary for conducting business?



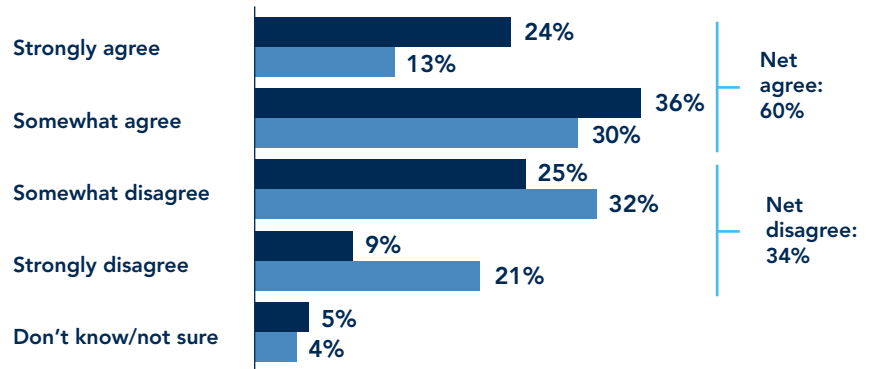
There were some regional differences on the necessity of having a social license to operate. For example, Québec-based respondents expressed the most support for the concept of a social license to operate with 89% either strongly or somewhat agreeing that it is necessary. Support for the concept was softer in some other regions. 65% of Calgary-based members, for example agreed that a social license to operate was necessary.

PERCEIVED RISKS FROM WORKPLACE HARASSMENT CLAIMS CONTINUE TO RISE

Six in ten (60%) of those surveyed agreed that the risks to their organization from workplace harassment have increased significantly, with 24% strongly agreeing. What may not have registered as an organizational danger only a year ago has now taken on great significance as boards attempt to oversee the creation of appropriate responses to an evolving issue.

Q: To what extent do you agree or disagree that the risks to the organization from workplace harassment have increased significantly?

- October 2018
- April 2018

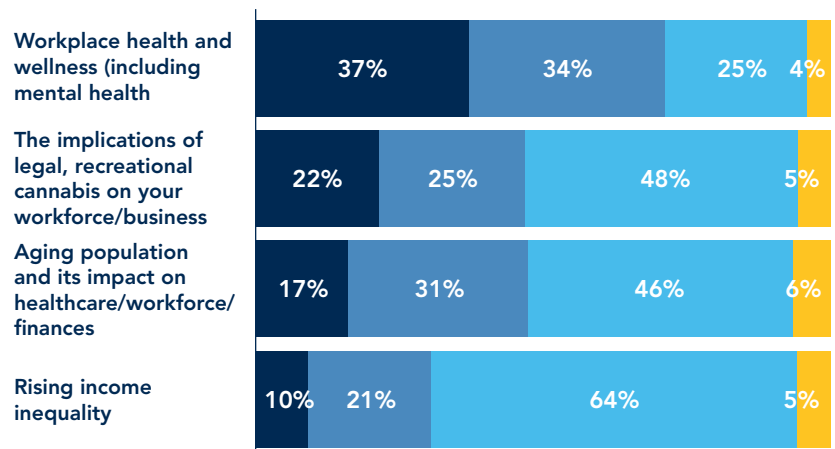


HUMAN CAPITAL CONCERNS FOR DIRECTORS

In addition to workplace harassment, directors were asked to identify if they had developed strategies for dealing with other human capital issues. A large number of respondents (71%) had either developed a strategy or discussed developing a strategy for workplace health and wellness, including mental health. Issues related to the legalization of cannabis, an aging population and its impact on the workplace and rising income inequality were less likely to have been incorporated into a board strategy or discussed as a strategic issue.

Q: To what extent has your board discussed each of the following as part of your organization's strategy?

- We have developed a strategy for this
- We have discussed this but have not yet developed a strategy
- We have not discussed this
- Don't know/not sure



CONCLUSION

Directors continue to struggle with evolving issues like workplace harassment and the challenges presented by economic and political uncertainty. Some practices such as shareholder engagement and the necessity of a social license to operate have become accepted by the majority of those we surveyed. Other issues such as rising income inequality or the impact of an aging workforce are not finding their place in the strategic discussions of a majority of the board directors responding to our survey. We will continue to monitor these and other critical issues to provide a director lens on the important issues facing Canadian board members as they strive to provide effective oversight of their organizations.



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