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# Short-termism on boards: Insights from Canadian directors and executives

Findings from a survey of members of the Canadian Institute of Corporate Directors

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# Canadian directors agree they have a responsibility to do more to tackle short-termism—and their boards should do more to address the issue.

Canadian directors believe they have a responsibility to address short-termism. Many believe there are specific actions they should be taking on their respective boards. Such are the results of a recent survey of the members of the Institute of Corporate Directors (ICD).

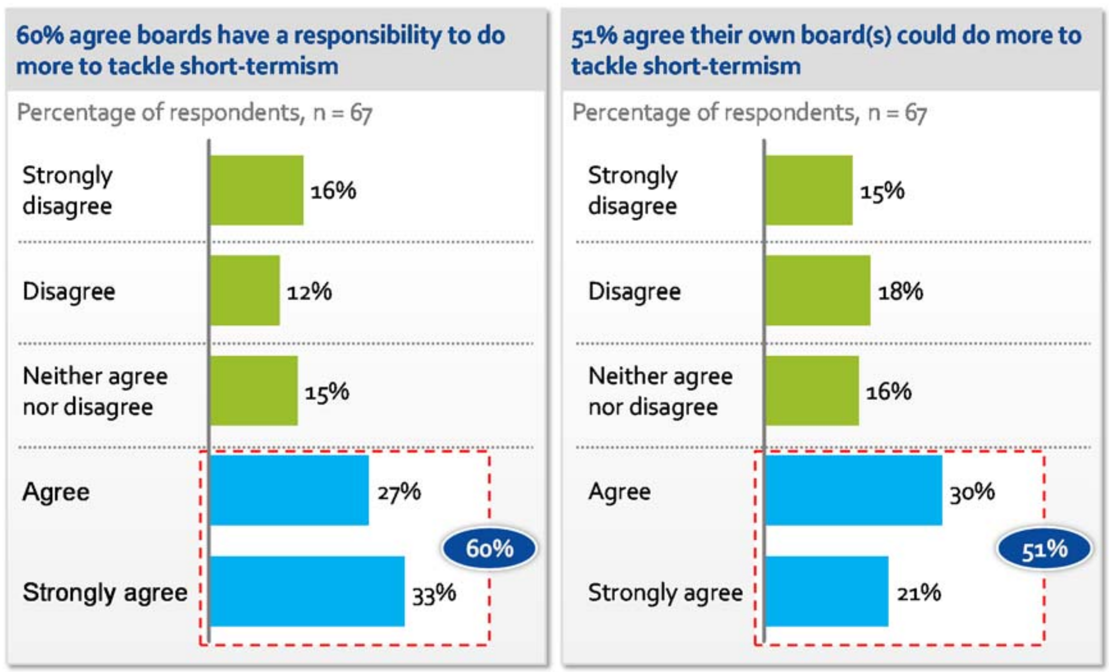
In June 2015, Dominic Barton and Mark Wiseman, Global Managing Director of McKinsey and President and CEO of Canada Pension Plan Investment Board (CPPIB) respectively, delivered a well-received keynote address based on the findings of their *HBR* article *Where Boards Fall Short*. The address shared recommendations that boards should take to combat short-termism. Following the speech, a survey was distributed to gather the group's perspectives. This was a follow-up to a 2013 speech that relayed global evidence of the value-destroying characteristics of market short-termism. An earlier survey conducted by McKinsey and CPPIB as part of the Focusing Capital on the Long Term (FCLT.org) initiative had found 63% of executives and directors felt short-term pressure had increased over the past five years. Respondents also found that boards were the greatest source of short-term pressure.

## Directors have a responsibility to do more to tackle short-termism

Overall, the June 2015 ICD survey found broad agreement on what should be done to combat short-termism on boards and what directors should specifically advocate for on their respective board(s). Of the 67 directors surveyed, 60% agreed they have a responsibility to do more to tackle short-termism and 51% believe their respective board(s) could do more to support the cause (see Exhibit A).

**EXHIBIT A**

**60% agree boards have a responsibility to do more to tackle short-termism with 51% believing their own boards can do more**




Board members feeling responsibility to act is promising given that they identified themselves as the greatest single source of short-term pressure within organizations in FCLT's 2013 survey, *Short-termism: Insights from Business Leaders*.

## A range of solutions are applicable

Board members felt there were clear solutions to the issue of short-termism. Directors were also surveyed as to what extent they agreed to specific recommendations on: selecting the right directors, spending more time on long-term strategy, engaging with long-term investors, and increasing non-cash compensation for directors.

The recommendations were taken from Dominic Barton and Mark Wiseman's January-February 2015 *HBR* article *Where Boards Fall Short* and were the result of numerous CEO and director interviews, global surveys, expert interviews, and empirical analysis.

## 1. Boards should ensure they select the right people

When it came to selecting the right directors, 64% agreed boards in general should select the right directors to ensure diversity of opinion and proven experience in building relevant businesses, as well as deep functional expertise (see Exhibit B).

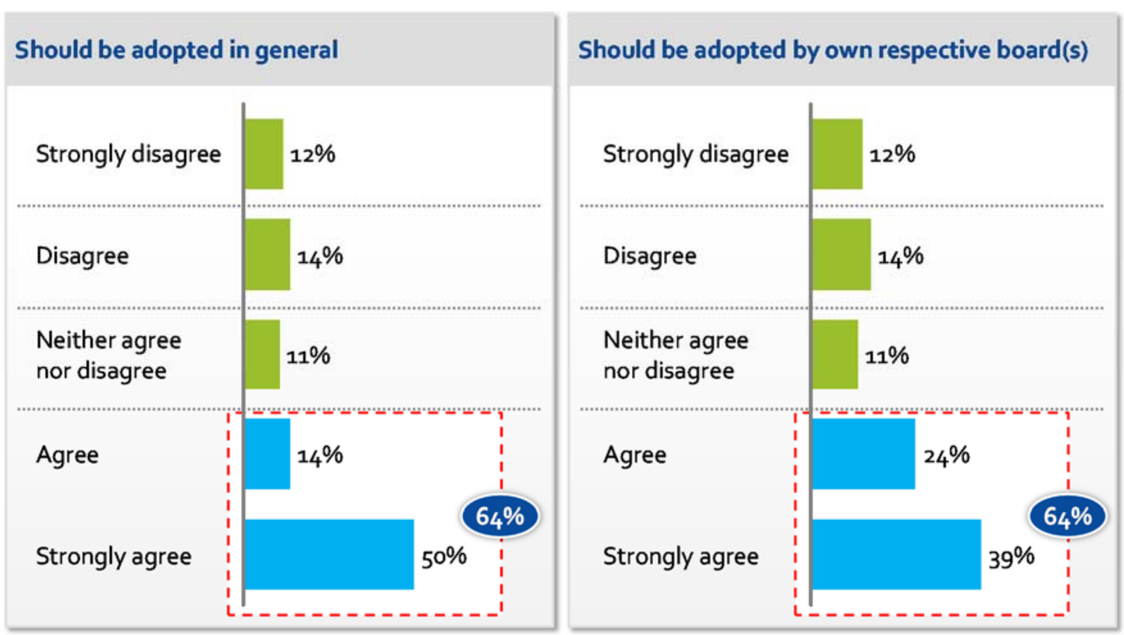
The same percentage (64%) agreed that their own board(s) should follow through with this recommendation.

In support, one director shared, "we need to be more careful during the director recruitment process to ensure that a wide net is cast to find talented, independent-minded directors from diverse talent pools."

**EXHIBIT B**

SELECTING THE RIGHT DIRECTORS

**Select the right directors to ensure diversity of opinion and proven experience in building relevant businesses, as well as deep functional expertise. Look for individuals with track record for independent thinking**



## 2. Directors should spend more time on value-added topics such as long-term strategy

While addressing how directors spend their time, 64% agreed boards in general should spend more quality time fulfilling duties and allocate larger portions of that time to discussing long-term strategy. Regular and creative group outings could also be valuable.

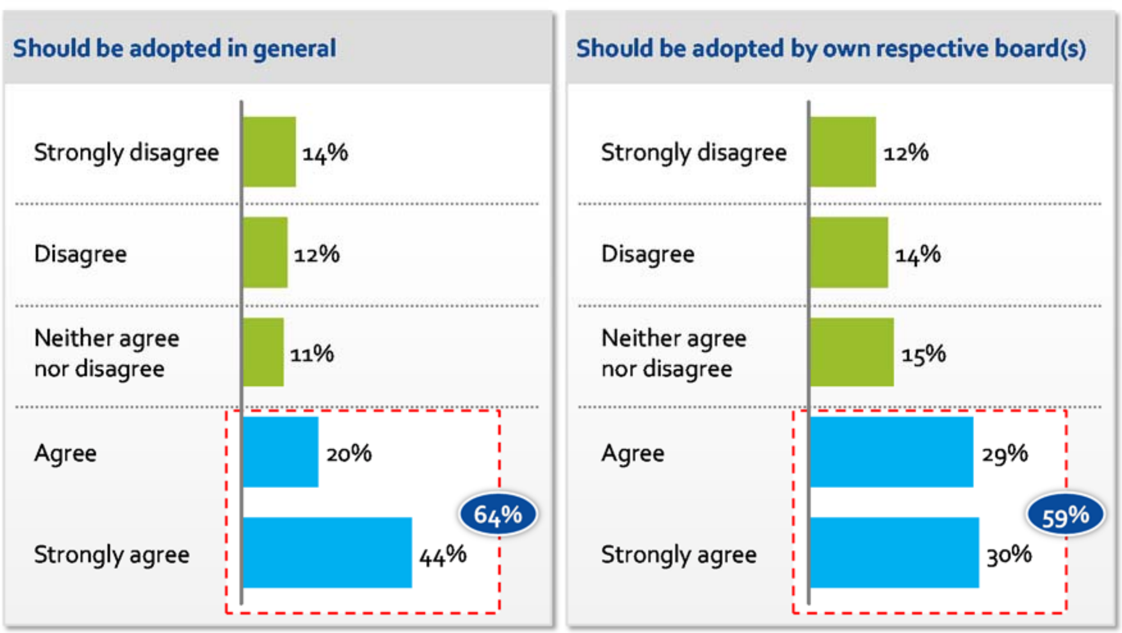
59% agreed that their own board(s) should follow this recommendation (see Exhibit C).

A director in attendance added, "we should seek to spend less time on non-value adding governance items of which there are many."

**EXHIBIT C**

SPENDING MORE TIME ON BOARD DUTIES

**Spend more quality time fulfilling duties and allocate larger portion of that time to discussing long-term strategy. Regular and creative group outings could also be valuable**



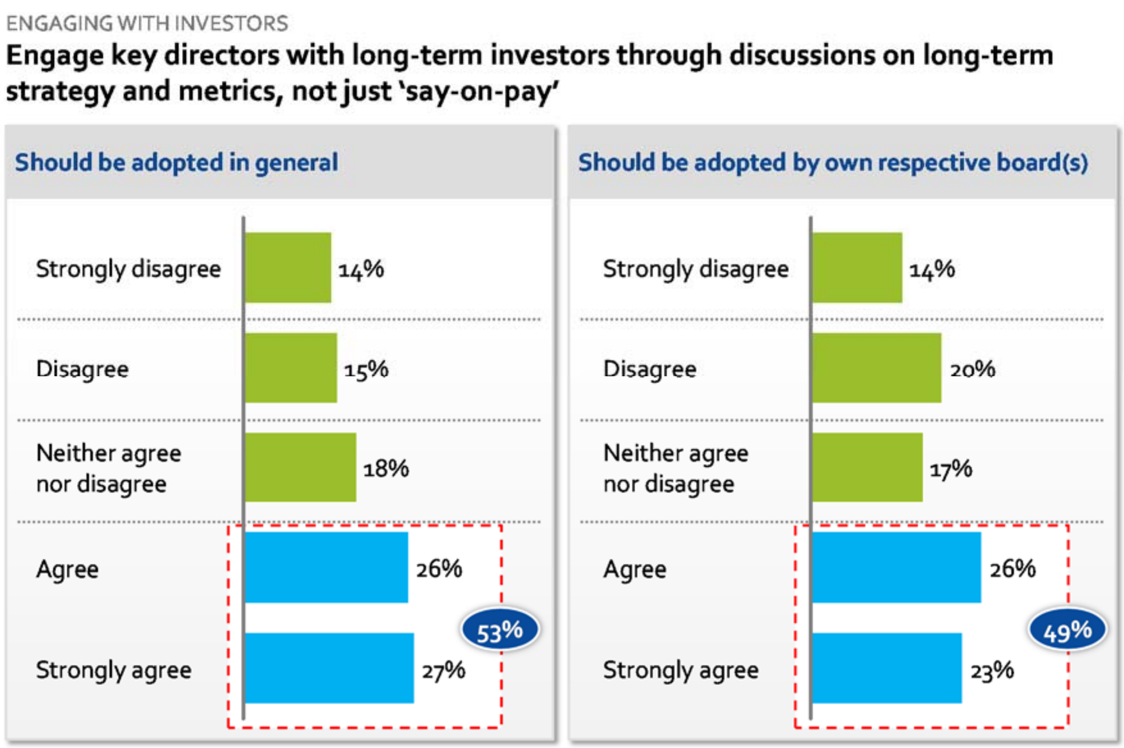
## 3. Directors should engage with long-term investors

When a recommendation for shareholder-director engagement was posed, 63% agreed boards in general should engage the key director in conversations with long-term investors through discussions on long-term strategy and metrics, not just 'say-on-pay' (see Exhibit D).

49% believed their own boards should engage key directors in conversations with long-term investors.

An ICD member stated, "Directors will have to be more transparent and will have to encourage management to disclose their strategy, direction and objectives in order to engage a larger set of stakeholders."

**EXHIBIT D**

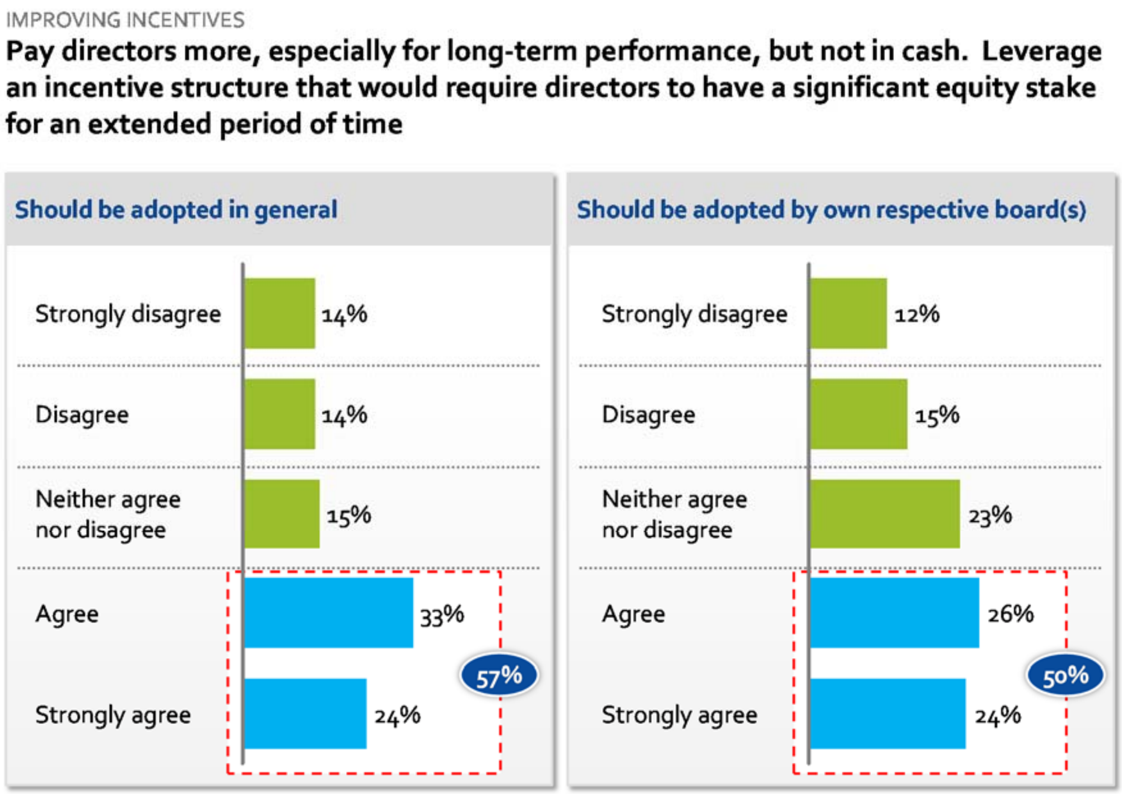



## 4. Directors should be compensated for long-term performance

Finally, when asked about director compensation, 57% of those surveyed indicated boards in general should pay directors more, especially for long-term performance, but not in cash (see Exhibit E). An incentive structure that would require directors to have a significant equity stake for an extended period of time would make sense.

50% agreed this should be implemented on their own board.

## EXHIBIT E




## Looking forward

McKinsey and CPPIB conducted this survey as cofounders of FCLT, a collaborative initiative developing practical tools and approaches to help institutional investors and corporations enhance long-term value creation. FCLT is continuing to bring leading practitioners together to discuss these issues while helping solutions make their way into practice for more organizations. Further information is available at www.FCLT.org