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January 1st, 2008

# The Whistle

## 2007 Corporate Governance & Compliance Hotline Benchmarking Report

**Executive Summaries**

This is our summary/key findings from the report released by the Security Executive Council, an international professional membership organization for leading senior security executives spanning all industries, both the public and private sectors, and the globe. The report is based on an analysis of more than 277,000 hotline incident reports from more than 650 organizations across all major industries over a five-year period. Rate data analyses across years are based on a four-year period from 2003-2006, as data volume of 2002 was too low for this type of analysis. Participants, or those who made reports, may be employees, former employees, vendors and the public. The data was masked to protect confidentiality.

Aggregated Frequencies Across All Reports Over Five Years:

- For those reports where case outcome was provided, most reports (65%) were serious enough to warrant an investigation and 45% resulted in corrective action taken.
- 71% of participants did not notify management of an issue before making a report.
- One of the most surprising findings was that participants reporting corruption and fraud incidents were less likely to remain anonymous than any other incident category. They remained anonymous only 34% of the time.
- The research showed that half of the reports received concerned personnel management incidents. Beyond the personnel management category, company/professional code violations (16%) employment law violations (11%) and corruption and fraud (10%) were the most commonly reported incidents regardless of industry.
- 53% of reports were made anonymously.
- The largest percentage of participants (34%) acknowledged awareness of a hotline through a poster.

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Aggregated Rate Data (2006 only)

- For the year 2006, a rate of 8.3 incidents was reported per 1,000 employees overall (regardless of incident type).
- Smaller organizations showed a general decrease of incidents reported over time. Mid-sized and larger companies showed a general increase of reported incidents over time.
- Number of Unique Companies by Industry: 2003 – 2006

| Industry | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Agriculture, Forestry & Fishing | 1 | 2 | 3 | 3 |
| Construction | 5 | 13 | 17 | 23 |
| Finance, Insurance & Real Estate | 25 | 49 | 71 | 91 |
| Manufacturing | 57 | 96 | 133 | 156 |
| Mining | 5 | 6 | 10 | 15 |
| Public Administration | 0 | 0 | 8 | 13 |
| Retail Trade | 30 | 59 | 92 | 126 |
| Service Industries | 35 | 52 | 80 | 125 |
| Transportation, Communications & Utilities | 11 | 34 | 48 | 57 |
| Wholesale Trade | 7 | 20 | 29 | 44 |
| Overall | 176 | 331 | 491 | 653 |

## Business gets better at the business of disclosure

*More firms are reaching the top tier of Report on Business's annual Board Games ranking of corporate governance practices. Rankings assess issues from board composition to compensation and shareholder rights*

**JANET MCFARLAND**
**Source: Globe and Mail**

Canadian companies are giving shareholders a growing volume of information about their executive compensation and their boards of directors, a Report on Business review of corporate governance trends reveals.

While the pace of change in many areas of corporate governance appears to be slowing, there has been a dramatic shift in the disclosure realm over the past year as companies move quickly to beef up their reporting.

Many of the changes are related to information about compensation for executives and directors, which is published annually in companies' shareholder proxy circulars. Shareholders have particularly demanded greater information to explain and justify growing executive pay packages.

This year, for example, 40 per cent of companies in the benchmark S&P/TSX composite index provided a tally chart disclosing the dollar value of all compensation elements earned by the CEO in the past year – including the estimated value of stock options, share grants and accrued pension plan service. That compares with 16 per cent of companies providing such full disclosure last year.

And 58 per cent of companies provide a similar tally chart totalling the value of all the elements of compensation paid to each of their directors last year, up from 27 per cent last year.

Bill Mackenzie, director of special projects for the powerful Canadian Coalition for Good Governance, which represents many of Canada's largest institutional investors, says the expanded disclosure is a reform particularly championed by shareholders.

"If we paid a whole lot of money for this CEO, the idea is to be able to figure out if we got the value we paid for or not," he says. "The key is to tell us how you got there, so we can figure out if it makes sense over the long term."

The expanding disclosure has helped push a growing number of companies into the top tier of ROB's annual Board Games ranking of Canadian companies' corporate governance practices. The ranking assesses a variety of governance issues, including board composition, compensation, shareholder rights and disclosure practices.

The average Board Games score of all 270 companies in the benchmark S&P/TSX composite index was 68 out of 100 this year, up from 64 in 2006. And 6.6 per cent scored 90 or above this year, up from 3 per cent last year.

The leaders in 2007 were **Manulife Financial Corp.** with a mark of 98 followed by **Gildan Activewear Inc.** at 96. **Toronto-Dominion Bank** and **Canadian National Railway Co.** were tied for third place at 95.

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Manulife has led four of the six years that Board Games has been published, while Gildan is new to the top ranks, having climbed steadily from a mark of 50 when the ranking was launched in 2002.

Many high-ranking companies say they have been placing particular emphasis on expanding their disclosure to respond to investor pressure for greater transparency.

**Potash Corp. of Saskatchewan,** for example, scored perfect marks in the Board Games disclosure category this year. Director Mary Mogford, who heads the company's corporate governance committee, says shareholders have come to "expect and appreciate" the company's approach to disclosure, which goes well beyond reporting.

When designing recent changes to a new performance option plan, for example, she said the company consulted about 18 major investors on the design.

"We think we have a really active responsibility to be very transparent and to disclose for our shareholders – and other stakeholders – as much as we can about our business," she said.

For many companies like Potash, expanded disclosure has also gone beyond compensation issues to encompass all forms of financial reporting and even reporting on board composition. For example, 59 per cent of companies this year include their directors' ages in their proxy circulars, up from 35 per cent last year. And 33 per cent now disclose whether they have mandatory director retirement policies, up from 15 per cent last year.

Many companies are also now revealing how much they pay their external compensation consultants for advice about executive pay, in much the same way disclosure about auditor fees has become standard.

Board experts say there are several converging forces causing companies to greatly expand the quality of details they publish in their proxy circulars. One is new U.S. regulations requiring far more detailed compensation disclosure, coupled with a similar set of proposed new rules pending in Canada.

Some companies prefer to adhere to U.S. standards to appeal to American investors, even if it's not mandatory. Others have decided to adopt the Canadian proposals early, feeling the change is inevitable anyway.

Larry Macdonald, chairman of Calgary-based **Vermilion Energy Trust,** said Vermilion saw no point in delaying its expanded disclosure.

"We look at all the rules, and our thought is to be ahead of the game. It seems like the rules and regulations in the U.S. do show up in Canadian jurisdictions several years later, so we're just getting there a little bit earlier."

Vermilion posted the highest Board Games score of any trust this year, including full marks for disclosure. The trust's score climbed to 90 out of 100 this year, up from 64 in 2006.

Mr. Macdonald said the toughest part of enhancing the trust's disclosure this year was getting all directors to agree to have their ages published with their biographies. "We talked them into it," he laughs.

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Another force spurring disclosure change is the impact of a new publication issued by the powerful Canadian Coalition for Good Governance, which represents most of Canada's largest institutional investors with more than $1-trillion in assets under management.
The CCGG's booklet, which outlines what it considers to be best practices in compensation disclosure, has become the most-downloaded document from the group's website, Mr. Mackenzie said.
Traditionally, companies have reported the salaries, bonuses, perquisites and equity payouts to their executives each year.
But the CCGG and other investor advocates have argued those charts don't add up the total value of compensation and tend to overlook a number of key elements like the value of options or pensions. Moreover, the traditional compensation chart is not designed to present a clear picture of what the company intended to pay an executive for the prior year's service because it ignores the value of options or share units granted in the previous year while reporting payouts from share units or long-term incentive plans put in place many years earlier.
The solution increasingly adopted by many companies is to include a second chart showing the company's estimated value – including the estimated future value of options or share units – of all compensation granted in the past year.
Mr. Macdonald says Vermilion had no problem with meeting many of those higher voluntary standards.
“If you're going to have disclosure on salaries, I think you have to give enough information so they can figure out what's going on. If you're going to disclose it, disclose it all and really be up front … We basically don't have anything to hide. It's all out there.”

**Board Games results for 2007 (and 2006 results)**

**67.8 (64):** Average score of all corporations and income trusts

**68.4 (65):** Average score of corporations

**66.4 (62.5):** Average score of income trusts

**10.2 (11.4):** Percentage scoring below 50

**6.6 (2.9):** Percentage scoring 90 or above



Questions or comments? E-mail us at Shannon@whistleblowersecurity.com