

Canada gets top grade in governance survey

And Canadian Coalition for Good Governance says governance is improving.

Canada's business community might be getting better at governance but it still has work to do, according to a survey released in July.

New York-based GovernanceMetrics International (GMI), an independent ratings agency, looked at the corporate governance practices—including such items as shareholder voting rights, takeover provisions, and executive compensation—of 1,600 companies based in 15 countries. Canada topped the list, with an average rating of 7.2 on GMI's scale, which runs from 3.0 to 10.0; the United Kingdom came next, with 7.1, then the U.S. with 7.0. Japan was the lowest-ranked nation, with an average score of 3.5.

But Canada's performance is due to skewed sample sizes, says GMI chief executive officer Gavin Anderson. "We only studied the top 30 companies in Canada," he says. "There is a lot of circumstantial evidence and a belief that larger companies have better governance policies in general." By contrast, GMI looked at 1,000 U.S. companies, the majority of which were smaller than the Canadian 30; had the survey only looked at the top 100 U.S. firms, that country would have led with an average score of 7.7.

Two Canadian companies—Alcan Inc. and BCE Inc.—scored 10 on the GMI scale. However, Anderson cautions, that doesn't mean the two firms are perfect; rather, it means they rank better than most of the 1,600 firms surveyed. Fifteen U.S. corporations were also awarded 10s, but five North American firms scored the lowest possible score.

Don Reed, president and CEO of Franklin Templeton Investments in Toronto, sits on the board of the Canadian Coalition for Good Governance (CCGG), a national organization that advocates for more ethical business practices and transparency. He says many governance issues have improved in Canada, pointing to a decline in the practice of CEOs assuming other positions—which could lead to potential conflicts of interest.

"Since the Coalition has been formed [in June 2002], we've seen a lot of the changes we wanted," Reed says. "We've seen the separation of the CEO and the chairman, the CEO and the compensation committee—it's ludicrous to have a CEO deciding his own compensation."

Key to CCGG's influence is its roster of members, which reads like a who's who of Canada's financial world: ex-federal finance minister Michael Wilson is the coalition's chairman, while University of Toronto finance professor David Beattie is managing director. Large pension funds, such as the Alberta and Ontario teachers' pension plans and the Ontario Public Service Employees Union pension trust, are also represented on the CCGG board, as well as institutional money managers such as Franklin Templeton, Connor Clark & Lunn, Jarislowsky Fraser, MFC Global, Perigee and more.

Despite that representation, Reed says many smaller investors have yet to get involved in a meaningful way. "They often say, 'Well, what difference do my 1,000 shares make?' Well, what about 10,000 shareholders with 1,000 shares each? That's a powerful force," he says. "Our objective is the same as any individual shareholder: we want to see the company maximize its value to shareholders."

While he concedes high-profile cases of corporate misconduct like Enron, Adelphia Communications and WorldCom have grabbed headlines, concern over how businesses govern themselves is not new. "I was the president of the Toronto Society of Financial Analysts in the '80s, and we were dealing with governance issues then," such as voting versus non-voting shares, he says.

Despite the negative press, "not all companies have a problem—most are well-run," Reed says. He adds that, as more firms voluntarily adopt better governance practices, the ones that don't will be under more intense scrutiny. "At some point in time, the companies that are way out of step will suffer." ■