EXECUTIVE COMPENSATION AND BOARD OF DIRECTORS' DISCLOSURE IN CANADIAN PUBLICLY-LISTED CORPORATIONS

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Abstract

This article contributes to the growing body of literature exploring the important role that information transparency plays in strengthening the national corporate governance regime. We review the 2007 amendments to the Canadian reporting legislation with the particular emphasis on sections pertaining to executive compensation and boards of directors. Taking into consideration the specificities of the 'comply-or-explain' system in Canada, we seek to uncover the extent to which publicly-listed firms comply with these newly amended standards of corporate governance reporting. Based on a comparison of 403 proxy circulars issued in the post-amendment period, we identified important cross-firm variations in the type and format of disclosed information on executive compensation and corporate boards of directors. In order to address the problems that inter-organizational disclosure discrepancies generate for governance researchers and analysts, we provide several recommendations on how Canadian publicly-traded companies can improve their reporting practices.

Keywords: Board of Directors, Canada, Compliance, Corporate Governance, Disclosure Legislation, Executive Compensation

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1. Introduction

The recurrent worldwide incidence of financial scandals and corporate failures and the consequent loss of significant amounts of investors' capital has undermined public trust in regulatory institutions, and placed the corporate governance practices of publicly-traded firms under the spotlight (Ben-Amar and Zeghal, 2011; Spraggon and Bodolica, 2011). The United States (US) government and stock market authorities responded by tightening the national governance regime in order to force listed companies to disclose more specific and detailed data to the outside community (Broshko and Li, 2006). Strict reporting standards have been introduced by the Securities and Exchange Commission (SEC) to scrutinize governance practices of organizations, to increase managerial responsiveness to shareholders' interests, and to reduce the instances of corporate resource misallocation.

The American 'rule-based' system, which stipulates mandatory compliance with established governance legislation (Healy and Palepu, 2001), influenced significantly the regulatory developments in neighboring Canada. Due to a large number of Canadian cross-listed companies on the US stock exchanges, the Ontario Securities Commission (OSC) developed requirements similar to the SEC-adopted

governance codes, in order to secure closer reporting alignment and decrease discrepancies across the two markets. However, considering the multiple peculiarities of the Canadian institutional context in contrast to the American one (Bodolica and Spraggon, 2009), it was decided that a more flexible 'principles-based' approach would be maintained in corporate Canada. Under this system, publicly-traded companies have a choice to either comply with established disclosure regulations or explain how they achieve the same governance objectives through alternative means (Burke, 2002; Steeno, 2006).

The most significant advancements in the Canadian governance legislation occurred in 2005 with the issuance of two major reporting guidelines for companies traded on the Toronto Stock Exchange (TSX): National Policy (NP) 58-201 (Corporate Governance Guidelines) and National Instrument (NI) 58-101 (Disclosure of Corporate Governance Practices) (Lando et al., 2005). The main purpose of the NP 58-201 is to provide issuers with general corporate governance guidance, to delineate a set of best practices in the field, and to discuss fundamental principles that publicly-listed firms are expected to incorporate in their corporate governance practices (OSC, 2005b). The NI 58-101 builds on the principles outlined in the NP 58-201 to specify the actions that the issuers are recommended to undertake to improve their corporate governance configuration and to require specific disclosure of governance practices that were adopted by the firms (OSC, 2005a). Despite the non-mandatory nature of the actions prescribed in these disclosure guidelines (MacAulay et al., 2009), both regulations were introduced so that a higher level of uniformity in reporting standards of Canadian companies could be achieved.

In light of the dismal economic situation in the world, this corporate governance legislation in Canada has recently been undergoing several amendments to enhance the transparency of corporate actions and to provide more comprehensive information to investors (Gupta et al., 2009; Swain et al., 2008). In 2007, Canadian regulatory authorities introduced reporting rules regarding executive compensation and board of directors which applied starting from the financial year ending on December 31, 2008 (Torys, 2007). The amendments change, among other things, the manner in which executive pay is to be reported, and require disclosure of the board of directors' compensation, expertise, responsibility and relatedness to the firm's management. In addition, the amendments require an explanation of the philosophy underlying the determination of the level and structure of executive compensation. With these new reporting standards in place, the performance of members of the top management team in attaining corporate goals can more easily be matched against the compensation that they are being paid by the corporation.

Prior to 2007, Canadian legislators did not formulate any specific requirements regarding the disclosure of directors' pay and the ideology on which the compensation of the highest-paid executives was based. Recently, an increasing need has emerged for regulators, analysts, and researchers to be able to uncover the specific governance practices of firms in order to critically assess their performance. These disclosure amendments put a far greater responsibility on corporate leadership to report governance practices in the most comprehensive and accurate manner (Medland and Wright, 2008). Despite the substantial similarity to regulations introduced by the SEC, the actual style and specificities of disclosure are simplified to maintain the Canadian 'principles-based' regime. Nonetheless, a flexible reporting approach allows a potential for deceptive corporate behavior, creating the need to examine the degree of companies' compliance with disclosure requirements as well as the specific actions companies have undertaken to ensure that their governance practices are of high ethical standard and easily accessible by investors.

This article contributes to the growing body of literature analyzing information transparency and disclosure regulation in order to strengthen corporate governance regime in countries around the globe. We seek to review the recent amendments to the Canadian governance reporting legislation with particular emphasis on information related to executive compensation and boards of directors. Considering the non-mandatory nature and other specificities of the 'comply-or-explain' approach in Canada, it is our goal to uncover the extent of public organizations' compliance with these newly amended standards of governance reporting. A research team was involved in the analysis of the relevant information disclosed in corporate proxy circulars of 263 Canadian companies over an average of five years surrounding the pre- and post- amendment period. Based on a comparison of 403 corporate proxy circulars in the post-amendment period, we identified important cross-firm variations in the type and format of disclosed information on executive compensation and boards of directors. We provide several recommendations on how Canadian publicly-traded organizations can improve their reporting practices in order to remedy the problems that cross-firm disclosure discrepancies generate for governance researchers and analysts.

The remainder of this article is structured around the following key sections. We start by discussing the peculiarities of the Canadian 'principles-based' governance regime as opposed to the American 'rule-based' system. We then briefly analyze the findings of prior empirical studies on governance disclosure in Canada. We continue by providing a detailed description of the amendments introduced in 2007 to executive compensation and board of directors' disclosure regulation. Following the methods section, which discusses our study sample, we trace cross-firm variations in reporting behavior and provide

recommendations for enhancing the disclosure practices of Canadian corporations. In the concluding section, we suggest several areas of inquiry which could guide future research efforts in the field of corporate governance reporting.

2. Literature review

2.1 Canadian corporate governance regime

The 2007 amendments to executive compensation and board of directors' disclosure requirements in Canada follow closely the logic of the corporate governance system operating in the United States (Broshko and Li, 2006). The increasing convergence of Canadian regulations with those of its neighbor can be explained by the following two trends. First, in light of the repeated occurrence of governance failures and the continuous efforts of American legislators to tighten the governance rules, it became apparent that Canadian corporations ought to be better equipped to prevent similar instances of corporate misconduct. Mounting stakeholder pressure convinced Canadian authorities to design tougher governance legislation that would at least partially replicate the strict and comprehensive nature of the US corporate governance regime (Thompson, 2006).

Second, due to the relatively small size of the Canadian capital market, many Canadian corporations are cross-listed on American stock exchanges, which allows them to raise additional capital. Inconsistencies in reporting standards between the Canadian and American systems make such cross-listing problematic, and call for the development of more coherent disclosure regulations that would be aligned with the requirements of both markets (Barnes et al., 2004). This alignment could facilitate the disclosure procedures in companies cross-listed on US and Canadian stock exchanges while simultaneously enhancing the quality of Canadian governance reporting.

Despite this trend towards convergence, the Canadian and American corporate governance regimes remain fundamentally different. While the 'rules-based' approach prevails in the USA, Canadian authorities prefer a more flexible 'principles-based' system (Broshko and Li, 2006). This governance flexibility stems from multiple peculiarities of corporate Canada, where the ownership structures are more concentrated, the levels of income taxation are higher, the number of members sitting on the board is lower, and the executive pay is less closely tied to firm performance than in the US (Bodolica and Spraggon, 2009). Due to the mandatory nature of US corporate governance legislation, all publicly-listed companies are required to fully comply with the rules of the SEC and the requirements of the national stock exchanges. Thus, US legislators favor regulatory enforcement over discretionary compliance as a means to foster a solid governance culture within a tightly standardized legal framework.

Conversely, the 'principles-based' approach in Canada stipulates primarily a voluntary alignment with the corporate governance recommendations, allowing flexibility to accommodate specific circumstances and characteristics of organizations (MacAulay et al., 2009). Although the designated 'best practices' are not compulsory in nature, Canadian corporations are encouraged to consider and address them in the development of their corporate governance policies. It is worth noting, however, that the disclosure of certain governance information has been mandatory in Canada since 1993, when all public corporations were required to report in their annual proxy statements the compensation figures for the five highest-paid executives (Park et al., 2001; Spraggon and Bodolica, 2011).

The regime in Canada is consistent with the 'comply-or-explain' logic, whereby companies are given the choice to either abide by the norms of 'best practice' developed by local investment and stock market authorities, or to explain their practices in case of deviation from the proposed guidelines (Swain et al., 2008). In particular, organizations ought to provide a detailed explanation of the exact steps that were undertaken to achieve the same objective through alternative means than those stipulated in corporate governance regulations (Steeno, 2006). Within this system, a fundamental set of principles is developed to form a common ground for firms to organize their reporting strategies around a similar set of rules rather than to devise their disclosure practices on their own (Burke, 2002). Putting the main emphasis on disclosure of relevant governance information, the Canadian 'principles-based' approach permits flexibility in the extent of reported data depending on the internal cost-benefit analysis of disclosure, while maintaining some level of uniformity in governance reporting across firms. This less rigid 'comply-or-explain' ideology is considered to be more suitable for the Canadian market because it ensures that the costs of compliance do not outweigh the benefits for investors and other stakeholders, given that Canadian publicly-listed companies are typically smaller than their American counterparts.

2.2 Prior disclosure studies

Many empirical studies have been conducted to date (Healy and Palepu, 2001) linking corporate disclosure behavior with a variety of antecedents (e.g., capital markets' transactions, corporate control contest, managerial stock compensation, litigation costs, and proprietary costs) and consequences (e.g., stock liquidity, cost of capital, and information intermediation). Yet, extant empirical evidence was built primarily on the US-based samples rather than Canadian ones. In a comparative study of 'principles-based' and 'rules-based' regimes, Broshko and Li

(2006) analyzed 176 Canadian and 1,436 American publicly-listed companies and noted the prevalence of fundamentally different governance practices across these countries, particularly with regard to corporate boards of directors. In comparison to US boards, Canadian boards are smaller in size, meet more frequently, are less independent from management, encounter fewer CEO-chair duality situations, have less female representation, and are staffed by younger directors with shorter tenures. Moreover, boards in Canada are less likely to have compensation, nominating and corporate governance committees; when they do have these committees, the committees tend to have fewer and less independent members.

These cross-country differences prompted several researchers to inquire into the factors that influence the quality of governance-related information reporting in Canadian organizations. Observing a high variability of implementation and disclosure of corporate governance guidelines across firms, Bujaki and McConomy (2002) examined the motives associated with the voluntary reporting of governance practices in 300 TSX-traded companies. The authors showed that the comprehensiveness of adoption and disclosure of governance guidelines is higher in firms that have the following characteristics: they are larger in size, they have higher leverage ratios, they display a lower revenue growth potential, and they have boards with higher proportion of unrelated directors. The later finding is consistent with Ben-Amar and Zeghal (2011), who drew upon a sample of 181 Canadian publicly-listed corporations to show that a board of directors that is independent from management positively influences the transparency of disclosed data on executive compensation.

An even more important inquiry has been whether disclosure is associated with positive corporate outcomes. In a review of prior empirical studies, Healy and Palepu (2001) concluded that a more transparent financial reporting behavior of corporations has the potential to generate beneficial consequences for both outside investors and reporting companies. While the former enhance their capacity to make accurate investment decisions, the later obtain benefits in the form of lower cost of capital due to diminished asymmetries of information. In an investigation of 263 Canadian companies, Klein et al. (2005) found that the existence of open governance disclosure mechanisms not only reduced information asymmetries between investors and managers but also enhanced corporate performance of firms with a variety of ownership structures. These results are aligned with Adjaoud et al. (2007) who analyzed the relationship between the quality of boards of directors and firm performance in 219 Canadian corporations. Employing disclosure as one of the key characteristics of board quality, the authors reported that disclosure of governance practices and directors' relatedness, biographies, and meeting attendance records positively affected corporate performance, captured by indicators of economic value added and market value added. However, reporting practices in these firms did not exhibit a significant relationship with traditional measures of firm performance, such as return on investment, return on equity, earnings per share, and market-to-book ratio.

In their study of the 300 largest companies on the TSX Index, Panasian et al. (2008) analyzed how Canadian firms responded to a TSX voluntary listing requirement that was intended to encourage greater independence of boards of directors from top management teams. Although many companies decided not to comply with these recommendations, those that did increase the proportion of outside directors sitting on the board were motivated primarily by poor firm performance, which improved significantly relative to companies that did not modify their boards. MacAulay et al. (2009) used data over the 2003-2007 period to examine how the 2005 introduction of new corporate governance requirements affected publicly-listed firms in Canada. While these requirements were found to improve governance practices in affected companies, the association between corporate governance and organizational performance has significantly weakened in the post-adoption period. However, despite the weaker association noted above, it can be concluded that financial reporting and governance disclosure are typically associated with beneficial corporate outcomes in the specific context of Canadian publicly-traded firms (Niu, 2006).

3. Discussion of the 2007 disclosure amendments

3.1 Executive compensation

3.1.1 Summary compensation table

Important changes have been made to the summary compensation table for the key executives (see Table 1). The old reporting format required a break-down of the total executive pay into the three broad components of annual compensation, long-term pay, and all other payments made in cash (Lando et al., 2005). All compensation components were stated in dollar values, with the exception of securities under options granted, which were reported as a numerical count. Since this style of reporting did not convey the exact dollar value of total executive pay, the new format requires disclosure of the monetary values of all the compensation components, including the share- and option-based awards. Considering that different valuation methods can be used to estimate the dollar value of securities granted, the amended format facilitates higher levels of reporting consistency across firms with regards to those pay elements which are not disbursed in cash. In addition, the summary table now includes a new category indicating pension

value as well as a total compensation column. This indication of the specific monetary value of total rewards received by executives allows companies to identify and disclose the names of their five highest-paid executives on the basis of their total compensation figures rather than on the dollar values of their salary and bonus exclusively.

Table 1. The old and new reporting formats of the summary compensation table for executives

Old Format (< 2008)	New format (≥ 2008)
Annual compensation:	Salary ($)
• Salary ($)	Share-based awards ($)
• Bonus ($)	Option-based awards ($)
• Other annual compensation ($)	Non-equity incentive plan compensation:
Long term compensation:	• Annual incentive plans ($)
• Securities under options granted (#)	• LTIPs ($)
• Restricted share awards ($)	Pension value ($)
• LTIP payouts ($)	All other compensation ($)
All other compensation ($)	Total compensation ($)

3.1.2 Equity-based and incentive plan awards

Prior to the 2007 amendments, corporate proxy statements provided specific information about the stock option plans offered to executives, such as option grants and exercises during the fiscal year (Torys, 2004). Under the modified reporting standards, disclosure of incentives-related data is organized around two broad categories of equity-based awards and incentive plan awards (see Table 2). While the former category reports on both option- and share-based awards, the latter indicates the value of these awards vested during the year and the dollar value of non-equity compensation that the executive has earned during the year (Medland and Wright, 2008). A tabular format is used to disclose details related to equity- and non-equity-based awards, followed by a narrative to explain the basis on which they were determined. This particular information offers researchers and investors the possibility of estimating the fair value that executives extract from their share- and option-based awards in a given year and indicates how much value might still be extracted in the future from vested and unexercised equity-based awards.

Table 2. The old and new reporting formats of the equity-based and incentive plan awards

Old Format (< 2008)	New format (≥ 2008)
Stock options:	Share- and option-based awards:
✓ Grants during the year:	✓ Option-based awards:
• Shares under options (#)	• Securities underlying unexercised options (#)
• Percent of total options granted (%)	• Option exercise price ($)
• Exercise price ($)	• Option expiration date
• Value of securities on the grant date ($)	• Unexercised in-the-money options ($)
• Expiration date	✓ Share-based awards:
✓ Option exercises during the year:	• Shares not vested (#)
• Securities acquired on exercise (#)	• Share-based awards not vested ($)
• Aggregated value realized ($)	• Vested share-based awards not distributed ($)
• Unexercised option exercisable/unexercisable (#)	Incentive plan awards:
• Unexercised in-the-money options exercisable/unexercisable ($)	• Option-based awards – vested in the year ($)
	• Share-based awards – vested in the year ($)
	• Non-equity incentive plan compensation – earned in the year ($)

3.1.3 Compensation discussion and analysis

Another important amendment introduces a 'compensation discussion and analysis' section in the proxy statements, which is to explain in detail the philosophy guiding the determination of executive compensation levels and structure. The former reporting standards allowed corporate boards of directors to decide whether or not to provide interested parties with more specific information regarding the rationale and process of establishing the compensation packages of the members of top

management team. Under the new disclosure rules, the compensation committee and the board of directors are required to create a carefully designed strategy for structuring executive pay in a way that is both easily justifiable in the eyes of firm stakeholders and highly motivational for executives in attaining optimal levels of performance. The new section incorporates a discussion of the key principles and objectives that underlie the executive compensation program, along with the steps that were undertaken as part of the compensation review process. It also describes the various elements included in the executive compensation program, together with the rationale behind each of them, and discusses how these elements are aligned with the strategic objectives that the corporation is aiming to achieve. For instance, if the company intends to offer a discretionary cash bonus or a retention bonus to its executives, a clear justification should be provided as to why this particular bonus is being used and on what performance criteria it is based.

3.1.4 Termination and change of control benefits

Prior to the 2007 amendments, the information regarding benefits to be received by executives upon termination of employment or change of control was stated under the employment agreement section. It included a brief narrative indicating whether the company had entered in an employment agreement with any of its named executives and whether specific compensation protection provisions existed, without necessarily quantifying the payouts to be made to executives upon change of control or termination. The amended regulation requires a more detailed disclosure of the compensation-related clauses from the employment contract that determine the monetary benefits the executives will be entitled to in case of termination for just cause or change of corporate control. The duty to report severance pay is not limited to payments of cash but also requires disclosure of the treatment of existing equity-based awards offered to executives. This entails the provision of an adequate amount of detail describing various payout scenarios in relation to share- or option-based awards, such as whether an acceleration of vesting of options would occur or not in connection with a potential change of control or termination of employment.

3.2 Corporate board of directors

3.2.1 Compensation of non-management directors

Historically, the information related to board of directors' compensation has been inadequately disclosed in corporate proxy statements. Prior to the 2007 amendments, companies reported either the total amount of cash payments that were disbursed to all directors for their services or the fixed dollar value of the annual retainer and meeting attendance fees to which each director was entitled in a given financial year. This type of disclosure necessitated a manual calculation of total fees paid to each unrelated board member individually by multiplying the meeting attendance fees by the number of attended meetings. A short narrative was also provided to explain whether the non-management directors were eligible to participate in stock option or other incentive plans established by the corporation, but no additional data was required concerning the monetary value of the total compensation earned by each member of the board. The amended standards now require that the compensation of directors be disclosed in a similar tabular format to that of the named executive officers for the purpose of securing uniformity and consistency of reported information for both executives and directors (Swain et al., 2008; Torys, 2007). However, the disclosure period for directors covers only the last financial year rather than the total of three most recent years required for executives.

The introduction of the summary compensation table for directors, which breaks down the total compensation column into its various constituent elements, allows firm stakeholders to analyze fairly how the directors are being paid and estimate accurately the monetary value of all payments made to directors during the year. Apart from the specific details included in directors' compensation table, additional tables must be produced to explain the current state of option- and share-based awards and non-equity incentive plans to which unrelated directors are entitled (see Table 3). With this disclosure in place, it becomes possible to obtain a variety of pay-related information about directors, such as the number of unexercised options, the value of in-the-money options, the number and value of unvested shares, and the value of non-equity incentives earned during the year. Companies are also required to provide more details concerning the fees that are paid to directors, including the initial and annual board retainer, the retainer for committee chairs and lead director, and the fees for attending each board and committee meeting.

Table 3. The required information to be disclosed in relation to directors' compensation

Directors' compensation table	Other data in tabular format
Fees earned ($) Share-based awards ($) Option-based awards ($) Non-equity incentive plan compensation ($) Pension value ($) All other compensation ($) Total compensation ($)	Share- and option-based awards: Same data as for executives (see Table 2) Non-equity incentive plan awards: Same data as for executives (see Table 2)

3.2.2 Election of directors

Significant changes have been made to the contents and manner in which corporations disclose information regarding nominees to directorship under the 'election of directors' section of proxy statements. Initially, companies reported in a tabular format the names of people nominated for election, their principal occupation, their country of residence, their date of appointment as director (if relevant), their membership on various board committees, and the number of common shares over which they exercise control. To comply with the NP 58-201 recommendations (OSC, 2005b), some companies chose to describe, either below the above mentioned table or in a separate appendix, whether the nominees are independent, their directorship with other issuers, and the attendance records of board and committee meetings. Only a few companies opted to provide additional biographical information about their current and potential directors, such as age, highest diplomas held, prior work experience, and major achievements in their field of expertise.

The current disclosure practices on corporate directors tend to be more comprehensive, with widespread inclusion of key biographical data of each nominee to directorship. The table is now significantly extended to incorporate information about directors' age, place of residence, occupation, years of service, education, areas of expertise, level of relatedness, meetings attendance, membership and position occupied on other public company boards in the past five years, number of common shares and deferred share units controlled, and total value of securities held. Many organizations even include a picture of each board member and, more importantly, clarify the situation with regards to interlocking directorates involving any of the firm nominees. The latter information is particularly useful in assessing the overextension of corporate boards and whether such overextension is likely to generate detrimental effects for directors' performance of their duties on the board.

3.2.3 Board of directors' committees

The amended governance regulation also requires more detailed disclosure regarding the main committees of the board of directors, beyond a mere description of their key activities and responsibilities. Of particular interest to legislators, analysts, and researchers are the compensation and audit committees of the board, which are expected to elaborate more specifically the philosophy or principles that guide their work and to provide an outlook of their activities for the most recently completed financial year. The compensation committee is now supposed to develop an informative report on the structure of executive pay to explain the alignment of executive pay with the long-term objectives of the firm, to ensure the competitive nature of compensation packages by comparing the Chief Executive Officer's (CEO) pay to that of the comparator group, and to justify the amounts being paid to executives in relation to the current level of corporate performance. Regarding the audit committee, data ought to be provided on any action plans drafted by the committee, the name and date of appointment of the external auditing firm, any change in the lead outside auditor in the past five years, and the audit fees, audit related fees and tax fees that were incurred by the company for auditing services.

4. Research method

A team of six researchers and research assistants took part in a larger scale project, which involved a manual collection process of executive compensation and board of directors' data from proxy statements issued by Canadian corporations over a period between 2000 and 2011. The specific amendments to disclosure regulation that came into effect in 2008 brought about significant changes in firms' practices of reporting corporate governance information. Having had the opportunity to observe the extent of these changes in an empirical setting, our sample of analyzed proxy statements was partitioned into the pre- and post-amendment periods. This partitioning was a necessary step in developing a revised model of recording executive compensation and board of directors' data that would better reflect the modification in the amount of reported data and more accurately compare the disclosure behavior of companies in the post-amendment period.

Initially, our sample comprised 263 public organizations, with an average of five years window of analysis. This research process generated 1,315 proxy statements, which were screened for corporate

governance data gathering purposes. A total of 912 of the corporate proxies were issued prior to the year 2008, and the remaining 403 were released after the year 2008. Further, during the process of recording relevant governance variables, important cross-company variations in data disclosure, both between the two amendment-related periods and within the post-amendment period, were observed by different members of the research team. While the variations in reporting format and content between the pre- and post- periods could be easily attributed to the enforcement of the new governance legislation, discrepancies in data reporting across firms in the post-amendment period were particularly unexpected.

Therefore, in the final step we analyzed the 403 proxy statements from the post-disclosure period to determine the impact of the legislative change on disclosure behavior of corporations. In the next section we discuss the identified differences in compliance levels across firms as well as the potential problems researchers and analysts could face with variations in compliance with reporting standards.

5. Cross-firm disclosure variation in the post-amendment period

5.1 Executive compensation

In the period following the coming into force of the amended regulation, significant cross-firm discrepancies were found in the disclosure of executive compensation information. Because the amended legislation builds on prior versions of reporting standards, many companies chose to employ a mix of old and new tabular formats for reporting specific details about various compensation elements, including the equity-based and incentive plan awards. While other firms have fully incorporated the updated compensation tables into their annual proxy statements, in some cases the new tables have columns or spaces for data that are not applicable for some companies. For instance, if a well-developed pension plan is not in place or the value of executives' pension is zero, the company may occasionally delete the pension-related column entirely from the summary compensation table instead of preserving this column and marking its values as nil. This deletion is undesirable, because any alteration in the formatting style and contents of tables, which are meant to be standardized, creates a lot of difficulty for researchers in gathering consistent information and generating reliable large-scale data analyses.

The generally followed practice is to disclose executive pay data for the last three financial years, which typically appear in the summary compensation table in a reverse chronological order. However, some companies decline to follow this practice, and display the executive compensation data in chronological order. As a result, caution must be exercised by analysts when handling information from corporate proxy statements. Although corporations are required to report compensation figures for their five highest-paid executives, some of them limit their disclosure to only two executives (CEO and Chief Financial Officer) while others go on to provide data for as many as nine top executives. While the voluntary provision of additional information is always welcomed by members of the outside community, firms' withdrawal from standard procedures regarding the number of reported executives undermines the ability of researchers to conduct comprehensive studies on compensation designs of top management teams.

A few companies were found to reconstruct the required compensation tables or rename the tabular headings to better suit the specificities of their current compensation plans. For example, when organizations ought to report the value of share- and option-based awards made to their executives, some opt for the disclosure of both the numerical counts and dollar values of equity-based awards, while others modify the label of the column heading into 'stock appreciation rights granted' to provide quantitative data within the table and more specific accounts in lengthy footnotes. Despite obvious cross-firm differences in the type of executive incentive plans implemented, the observed corporate practice of altering the parameters of a standard reporting format makes the data collection process cumbersome and potentially inaccurate.

Furthermore, contrary to regulators' expectations, many public organizations still fail to provide an adequate level of detail concerning the total wealth implications for executives in the event of a change in control or termination of employment. Instead, a brief summary is offered to indicate the lump-sum payment to be made in case of adverse events without specifying the conditions that would allow entitled executives to benefit from unvested and unexercised share and option grants. In many instances, the analysis and discussion section in corporate proxies does not sufficiently elaborate the main principles that guide the determination of the magnitude and design of executive compensation packages. This variation in reporting prevents analysts from conducing reliable comparative studies on the effectiveness of compensation-allocation decisions in Canadian corporations.

Another important discrepancy that has been observed, particularly for the firms cross-listed on the American stock markets, is the currency used in disclosure of compensation-related information. Some companies pay their executives in Canadian dollars but report the monetary figures in American dollars, while other companies do exactly the opposite. A few firms state the compensation values in the currency in which these were originally disbursed, so that both Canadian and American dollars might appear interchangeably within the same summary compensation table. Although the rates for converting

one currency into another are typically provided in the table footnotes, some firms use the annual average exchange rate whereas others rely on the official exchange rate at the financial year end. Moreover, the actual value of option grants and shares owned by the executive may vary significantly due to cross-listing situations and currency fluctuations during the year. Compensation data collected over multiple years ought to be adjusted for inflation, taking into account the inflation rates in the firm's country of operation (i.e., Canada) and using the most recent financial year as a base year for conversion into standard Canadian or American dollars. Hence, currency conversion and inflation adjustment manipulations have to be treated with caution particularly when conducting comparative studies or performing time series analyses.

5.2 Corporate board of directors

Given that prior corporate governance legislation did not require comprehensive reporting of directors' compensation, a significant amount of cross-firm variation was encountered in disclosure of this information. Despite the suggested tabular format (see Table 3), alterations in the structure and contents of directors' compensation table were commonplace. While some companies report data according to the seven proposed headings, others include only four headings, indicating the value of fees earned, amounts paid in cash, payments made in deferred share units, and percentage of total fees earned taken in deferred share units. If a given element, such as non-equity incentive plans, is not currently used to reward corporate directors, many organizations omit commenting on this element entirely by deleting the related heading from the compensation table. In addition, firms rarely follow the required tabular standards for providing additional details on directors' equity and non-equity based awards. This inconsistency in reporting not only affects the efficiency of the data collection process but also undermines researchers' ability to effectuate inter-organizational comparisons.

Not all companies offer a complete analysis of the fees paid to directors; some companies state only the total amount of fees earned, without breaking them down explicitly into board and chairmanship retainers and fees for attending board and committee meetings. Many firms choose to combine all the required information into a single table by providing meeting attendance details in the footnotes of the directors' compensation table, instead of disclosing these sets of data separately and for each director individually. Moreover, the placement of attendance records, which are employed in the calculation of directors' fees, differs greatly across organizations, with many of them still using a separate appendix to proxy statements for communicating compliance with the requirements of NI 58-101 (OSC, 2005a). As in the situation with executive compensation disclosure, variations in the choice of currency and method of calculating the exchange rates when stating the fixed and variable elements of directors' compensation are likely to affect the conversion accuracy and data consistency.

A reporting practice that was found to be particularly problematic for the purposes of data collection relates to the arbitrary order of appearance of the same board members across different tables. This situation is more understandable between the 'election of directors' table and compensation-related tables, because the former reports information for all executive and non-executive nominees for directorship, while the latter indicates payments that are made to non-management directors exclusively. However, the discrepancy in the order of appearance of the same non-executive director across different compensation tables is less justifiable. Whereas in some cases companies list the independent directors in alphabetical order by their last name, in other cases the same directors are arranged based on the scale of cash payments, equity awards or non-equity incentives received. All of this inconsistency creates extra work for analysts and researchers attempting to accurately attribute different compensation elements to the same non-executive board member.

Many differences were also observed in the formatting and contents of the 'election of directors' table. For example, some issuers fail to indicate board members' age or municipality of residence, whereas others choose to comment on the educational background and industrial experience of directors in a longer narrative, rather than in a concise tabular format. For many companies, specific information about various members sitting on the board tends to be distributed over multiple sections and appendices of the corporate proxy statement. It is worth noting that data concerning directors' designation, date of appointment, committee membership, and number of shares and options held can typically be found at the beginning of the proxy, where the proxy is announcing matters to be acted upon at the special shareholders' meeting. However, details regarding directors' membership on other public company boards, interlocking directorates, and meeting attendance might be either reported in a separate appendix at the end of the proxy or merged along with the disclosure of directors' compensation somewhere in the middle of the document.

In several instances, specifics regarding board members such as directorship positions in other issuers, committee chairing responsibilities and lead director roles assumed on external boards, and interlocking directorates might not be fully provided or might even be completely omitted from the proxy statement. These multiple inconsistencies in the placement, formatting, and type of reported information create additional difficulties for researchers and analysts in collecting accurate data on

directors' service on the board, exposing the process to the possibility of inaccurate inference and error.

6. Recommendations regarding disclosure practices

6.1 Executive compensation

In light of the above discussion, the key recommendation that can be made to Canadian publicly-traded organizations is to work further towards strengthening the alignment of their reporting practices with the new corporate governance guidelines. With regard to executive compensation in particular, future organizational efforts could be directed towards improving consistency with the proposed tabular formats and contents to facilitate quantitative analysis of various elements included in the compensation package. Public issuers might take the initiative to invest additional time in making their proxy statements more streamlined in format yet more comprehensive in detail, especially due to the large number of stakeholders who are interested in their activities and with whom they regularly interact. Cross-firm comparisons would become more reliable if the reported information could be synchronized with the amended legislation. This consistency may be effectively achieved if the general look of compensation-related tables could stay intact, if the simultaneous alternations between the American and Canadian currencies could be avoided, if a consistent method for calculating the exchange rates could be employed, and if compensation figures could be disclosed for no fewer than the five highest-paid executives.

Furthermore, Canadian business entities should not compromise on their discussion of the guiding principles and strategic objectives that underlie the determination of the level and design of the top management team's compensation, nor should they fail to comment on the specific financial implications for executives of adverse events such as change in control or termination of employment. It is our belief that compliance with these recommendations would allow every user of corporate proxy statements to extract detailed executive compensation information more easily and perform the relevant analyses more accurately. Researchers and analysts would be better able to forecast future trends in executive compensation and examine the sensitivity of executive compensation to variations in different measures of corporate performance; shareholders would be able to understand if the amounts paid to executives as compensation are aligned with the stated philosophy; and other companies operating in the same industry would find it easier to identify industry trends and set relevant benchmarks against market leaders.

6.2 Corporate board of directors

Given that detailed disclosure requirements regarding directors' compensation have been only recently included in corporate governance regulations, much work remains to be done in this area of reporting. Companies could be advised to put greater emphasis on ensuring adequate disclosure of the various means by which directors are rewarded for their services on the board, such as annual retainers, meeting attendance fees, share- and option-based awards, and non-equity incentive plans. Taking into account the significant amount of expertise that Canadian issuers have already achieved in the field of executive compensation reporting, the key lessons learned from past experiences could be effectively extrapolated to improve the current practices of conveying required information on directors' compensation. In the near future, organizations could consider working on the relevant categorization of different elements of board compensation with a particular emphasis on non-management directors. To secure a higher level of data consistency, the incorporation and usage of standard tabular formats in corporate proxy statements would be welcomed by researchers and analysts interested in reviewing the board compensation practices of public organizations.

It is worth noting that since the amendments of 2007, there have been considerable improvements in structuring the 'election of directors' section and reporting more explicitly about board of directors' demographic characteristics, educational background, and industry experience. Nonetheless, room for improvement remains in the content, design, and placement of other tables related to directors' attendance records, board interlocks, and service involvement with other business entities, which remain highly specific to the situation of each firm. For instance, if a board member is presently not in a situation of interlocking directorates, it would be strongly advisable to mark this data as non-applicable rather than to exclude it entirely from the proxy statement. Considering the critical importance of the audit and compensation committees of the board of directors, more details could be provided on the key activities of these committees, along with their strategic implications for firm performance. Because management directors are typically not compensated for their service on the board, a viable recommendation from the standpoint of governance researchers that may reduce confusions and avoid misinterpretations could be to separate board-related disclosure into two groups composed of executive and non-executive directors. In the spirit of full transparency and accountability to multiple corporate stakeholders, legislators could work further to devise standardized frameworks for reporting relevant board of directors' information.

7. Conclusion and future research directions

In this article we have discussed the specificities of the 'principles-based' corporate governance regime in Canada and inquired into the level of public entities' compliance with the recently updated governance legislation in the country. Similar to the early evidence on disclosure practices of Canadian corporations, which was provided by Bujaki and McConomy (2002), we found many cross-firm variations in the extent and format of reporting the required information on executive compensation and board of directors. It seems that Canadian regulatory authorities were not particularly satisfied with the compliance levels of organizations and have been working on a new set of proposals to be enforced for the 2012 proxy season. These amendments are meant to emphasize performance and risk management techniques that would require companies to tie executive compensation levels more closely to the achievement of both short- and long-term performance targets and disclose risk-adjusted compensation for members of the top management team (Frazer et al., 2011).

The world economy, which was heavily affected by the recent financial crisis, saw huge amounts of taxpayers' money being used to bail out poorly governed corporations (Spraggon and Bodolica, 2011). The repeated instances of managerial misconduct and resource misallocations induced legislators all over the globe to develop tougher governance policies and reporting standards, which would make organizations more accountable for their actions and decisions. While the consequences of this stricter disclosure regulation might be easier to estimate for organizations operating in the 'rule-based' countries, its effects in more flexible 'comply-or-explain' regimes are more difficult to assess. Whether continuous amendments of extant governance guidelines will contribute to the attainment of higher levels of reporting compliance and standardization among Canadian companies is an important question that is worth addressing in future studies in the field. The major challenge for national policy makers and stock market authorities resides in the definition of reasonable boundaries of disclosure so that the uniqueness of the Canadian business context is fully taken into consideration. This task should be approached with caution and precision so that not only stakeholders but also corporations can significantly benefit from better information transparency, and leave behind the continuous struggle to cover the increasing costs of compliance with governance regulations.

The recommendations outlined in this article could assist legislators in understanding and tackling the specific needs of analysts and researchers interested in assessing the effectiveness of corporate governance practices in today's organizations. When designing the next generation of governance-related initiatives, greater emphasis could be put on the development of preventative measures that could contribute to the improvement of moral standards and ethical principles of business conduct. Future studies on governance disclosure could focus on examining the strength of the relationship between the reporting practices of Canadian publicly-traded organizations and different measures of both financial and social firm performance. More empirical investigations ought to be conducted on large Canadian samples to uncover the benefits and costs of greater disclosure in a flexible 'principles-based' system. Comparative analyses of reporting guidelines developed by legislators in other countries with similar governance regimes could be beneficial for understanding the key lessons learned and give regulators insight into problematic areas that might be in need of further development (Collett and Hrasky, 2005; Lim et al., 2007).

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