

Determining Best Practices for Board Evaluation
for a Provincial Commercial Crown Corporation

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Abstract

Board performance evaluations have become an essential element of good corporate governance and are increasingly required for publically-traded companies around the globe. This paper seeks to identify board evaluation best practices which are appropriate to a Canadian provincial commercial Crown corporation. An historical review of the development of governance practices in several jurisdictions reveals two distinct approaches: a rules-based compliance approach in the US, and a principles-based approach in Canada, the UK, Australia and elsewhere. There is debate about the strict relationship between good governance and firm performance, but consensus is growing that good governance matters; and that board evaluations are critical to developing board performance. Despite differing regulatory contexts, the emerging best practices for board evaluation are similar. This paper looks at how performance is defined and measured and how board evaluations should be designed and conducted to bring best value. The focus is on identifying effective evaluation practices from the academic and normative literature and considering them in the context of a commercial Crown corporation. The conclusion drawn from the research is that basic principles and best practice processes apply whether they are applied to private sector, not-for-profit organizations, or Crown corporations. The specific performance attributes to be measured may differ between different sectors – and in any case should be tailored to individual firms – but the evaluation processes and principles are shared.

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Executive Summary

Board performance evaluations are increasingly recognized around the world as a critical element in strong corporate governance. The bulk of academic research and normative ‘best practice’ literature is focussed on the world of publically-traded, widely-held, private sector firms. These firms are commonly subject to legislation, regulations, stock exchange listing requirements and shareholder pressures to ensure good governance. Using the Nova Scotia Liquor Corporation as a case study, this paper seeks first to identify those established best practices for board performance evaluations which are most applicable in the context of a Canadian provincial commercial Crown corporation; and then identify other performance criteria which are perhaps unique to a Crown corporation environment and should be added to current best practice.

A review of the literature highlights the evolving debate, not only about the relationship between good governance and overall firm performance, but about the specific value of board evaluations. Nonetheless, board evaluations have become recommended best practice around the globe in the past thirty years and are now widely seen as adding shareholder value.

However, the review demonstrates that there are no ‘one-size-fits-all’ board evaluations regardless of the sector in which the board operates. There are no widely accepted standards or specific methods for board evaluation. Some consensus is evident though and basic principles are emerging. In general, boards are looking for performance improvements in three areas: board processes, director skills, and relationship building. Best practice is to evaluate at three levels: whole-board, board committees, and individual

directors. There is continued debate about the choice between self-evaluation and peer evaluation for individual directors.

The specific circumstances of the firm – size, complexity, competitive environment, board composition, sector, shareholder needs, history, financial situation, and other factors – will determine the performance criteria that are most relevant to an evaluation of a particular board at a particular point in time. It is this process of determining the specific board evaluation objectives and processes that is the basis of emerging best practice. Thus, while there are performance factors specific to Crown corporations, the process of engaging the board in determining the objectives of the evaluation and the criteria to be evaluated, is common to any firm.

One conclusion is that the process is as important as content in designing board evaluations and facilitating discussion of the results. An honest intent to use evaluation results to further board discussion about how to improve and become an even better board, is perhaps more important than the specifics of the evaluation method.

Thus, recommendations for the NSLC include: engage the board in the design of the evaluation process; continue to evolve the existing performance evaluation process; consider periodic use of an external facilitator; enhance the analysis and presentation of evaluation results; and adopt a policy to guide document retention in relation to evaluations.

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INTRODUCTION

Good corporate governance has increasingly been recognized as essential to good corporate performance; and measures to develop, promote and report on good corporate governance have gained increasing prominence. A central tenet of good corporate governance is having a board of directors that functions well and is both skilled and structured so as to be able to effectively carry out its duties. A fundamental tool for ensuring that a board of directors is functioning well is an annual assessment of its overall performance. Increasingly, adding value to this whole-board assessment is an evaluation of the board committees and individual members. This assessment and feedback is used to identify ways in which, individually and collectively, directors can improve their performance.

Assessing board performance is recognized as an important part of governance, but there are no widely-accepted standards or methods for designing, conducting, evaluating or reporting on board performance. Each individual board must determine whether, when and how to assess performance. This may relate to the specific circumstances of the board, the competitive situation facing the company, or the theoretical underpinnings upon which the board was created. A fundamental question that must be understood is *why* a board wishes to assess performance. The answer to that question will influence the answers to the ‘whether,’ ‘when’ and ‘how’ questions.

The corporate disasters exemplified by the Enron collapse in 2001 gave prominence to a growing focus on corporate governance which, in fact, had been developing for some years. Shareholders, regulators, stock exchanges, commentators and academics have all

identified the need for more effective corporate governance to reduce the risks of firms self-destructing and wiping out shareholder value. While there is mixed evidence about the contribution good governance makes to directly *creating* shareholder value, there seems little doubt that good corporate governance contributes to *protecting* shareholder value.

Not surprisingly, most research, debate and discussion about corporate governance is in the context of private sector firms, specifically those with widely-held publically-traded shares. These ‘listed companies’ include most firms governed by boards of directors, and represent collectively the greatest portion of shareholder market value. It is here that regulations relating to capital markets and financial reporting influence corporate governance. At the same time, the listing requirements of various stock exchanges impose governance and disclosure provisions designed to protect investors; and shareholders themselves – in particular hedge funds and large institutional investors – put pressure on firms to adopt and enhance transparent and effective governance practices. This is the context most associated with the research and practices of corporate governance.

At the same time, governance has become a key issue in the not-for-profit (NFP) sector as stakeholders recognize similar issues and risks associated with NFP boards of directors. There is a growing literature dealing specifically with corporate governance in the NFP sector which recognizes the unique features that distinguish the governance requirements of for-profit firms from those of not-for-profit firms.

However, this paper is concerned with a third type of organization: a Canadian provincial commercial Crown corporation. A commercial Crown corporation (CCC) is a for-profit

entity quite distinct from a publically-traded firm and yet requiring effective corporate governance to be successful. Shareholders in this context may be seen to be the citizens of the province, represented by the elected government of the day and acting through the minister assigned responsibility for the Crown corporation. The structural, political and public policy context of a CCC introduces unique demands on a board of directors. This must be reflected in any attempt to assess board performance.

There is little research or normative literature aimed specifically at the governance needs of a CCC and this paper attempts to illuminate that gap and identify the performance assessment elements that distinguish an assessment of a private-sector board from that of a CCC board. The paper then presents recommendations which may be valuable to CCC boards in considering board performance evaluations.

Using the Nova Scotia Liquor Corporation (NSLC) as a case study, this paper considers board performance evaluation in the context of a provincial commercial Crown corporation. The paper examines the existing academic research, normative literature and selected practitioner recommendations relating to board evaluations, to identify those which are applicable in the context of a CCC and those which are not. It goes further to consider the additional performance measures of a CCC which may be necessary to effectively evaluate board performance in the CCC context.

The paper concludes with a set of recommendations for the NSLC board of directors' Governance and Human Resources committee to consider in its review of the existing NSLC board evaluation process.

LITERATURE REVIEW

Part I - Assessing Board Performance – Historical Perspective

This section outlines the growing use and acceptance of formal board evaluations as a component of good governance.

Assessing the performance of a board of directors is not a new activity. Of course, for years board chairs and CEOs have done just that – often informally, usually privately, and rarely systematically (Aronson, 2003. p. 8). However, the concept of conducting and acting upon formal board performance evaluations is still relatively new and continues to evolve both in terms of its acceptance as a concept and in its implementation.

Nonetheless, global trends indicate that performance assessment is more and more a fact of life for boards of directors.

The current focus on corporate governance in general is also relatively new. Bury and LeBlanc note that even the term “corporate governance” was not in use until well into the 1980’s (Bury & LeBlanc, 2007. p. 499), so it’s perhaps not surprising that formal board evaluations were not the norm in most board environments.

Surveys of board members over time do, however, reflect a growing recognition of the importance of conducting board evaluations as an integral part of good corporate governance. Evaluations have grown from being barely mentioned in surveys, to a topic with significant profile.

In 1977, the Conference Board of Canada surveyed fifty “prominent members of the business community” on the subject of corporate boards of directors in Canada (Peterson,

1977). The respondents brought experience from 265 outside directorships, plus 41 of them also sat on their own boards as CEO. The study addressed performance, but primarily in the context of boards assessing the company's performance. "In this study the directors who distinguished between an appraisal of the board as distinct from an appraisal of the company all agreed that no objective assessment of a board's performance is made" (Peterson, 1977. p. 111). The study does note two instances – from a total of more than 300 boards – of a more systematic assessment of the board either by a committee or by the board chair. The study's authors note that the general state of affairs in 1977 was quite accurately summed up in one respondent's comment: *"In the final analysis the stock market is the judge. Short of that, boards are not appraised and individual directors are not appraised. Even if someone does occasionally attempt it they don't do anything about it"* (Peterson, 1977. p. 112).

In a 1983 study for the Financial Executives Institute of Canada, directors made no mention of assessing the board's performance, although monitoring the CEO's performance was identified as being important. In a related finding, only a few companies reported that board members were provided with job descriptions for the CEO and key senior staff; and no mention is made of job descriptions for directors (FEI, 1983). The same study describes the primary function of the Nominating Committee to be "to create a strong, viable and dynamic board that can work effectively with management to meet the challenges facing the organization." However, no consideration is given to accomplishing this through assessing or improving the performance of board members once they have been invited to join the board (FEI, 1983. p. 11).

In a follow-up to its earlier surveys, the Conference Board of Canada conducted a Canadian directorship practices survey in 1984 (Mitchell, 1984) in which the topic of board assessment was not even raised in survey questions. Performance evaluation was certainly not listed by respondents as one of the normal items discussed at board meetings in the course of a year (Mitchell, 1984. p. 11).

However, things began to change over the next decade. By 1995, the Conference Board found that 15% of approximately 200 firms participating in a study assessed the effectiveness of the board as a whole and 11% assessed committee effectiveness; further, 8% assessed performance of individual directors (Connor, 1995. p. 12). This study provides a key benchmark result prior to the introduction of the Toronto Stock Exchange's guidelines calling for annual board assessments. These guidelines are further discussed below.

Later studies by the Conference Board of Canada show a steady increase in board performance evaluations, peaking at 92% in 2002. Subsequent studies have indicated some fluctuation with most recent results showing only 80% of respondents indicate that their board conducts performance evaluations of the board as a whole, although the report notes that this is up from 70% in 2008. However, it's noteworthy that the proportion for large firms is essentially 100% (Conference Board of Canada, 2011).

The Conference Board studies of Canadian firms indicate that more firms are assessing performance of individual directors as well: increasing from 49% in 2002 to 70% in 2010 (Conference Board of Canada, 2003, 2005, 2007, 2009 and 2011). However, assessment

of individual directors continues to lag assessment of the board as a whole in Canadian firms.

Adoption of board evaluations in the US has been even slower. In 2003 the firm of PricewaterhouseCooper cited a then recent study by Korn/Ferry International showing that only 37% of the Fortune 1000 companies formally evaluated the entire board's performance on a regular basis (PWC, 2003. p. 10). They went on to note:

Also, performance evaluation of individual committees and directors has not taken hold as a board practice. While the survey found that 73% of directors think that individual directors should be evaluated regularly by their peers regarding performance, only 21% of boards conduct such evaluations, and less than half of directors on those boards thought that the evaluations were effective (PWC, 2003. p. 10).

In a 2012 study conducted by Harvard's Boris Groysberg, only 62% of US firms reported that they had an effective means to address poorly performing directors (Groysberg, 2012(a). p. 18). This does not mean they don't have director performance appraisals, merely that they are not seen as effective in dealing with individual performance issues. In contrast, a related study, also by Groysberg, found that, in Australia and New Zealand, a whopping 87% of respondents reported that they did have an effective means to address poorly performing directors (Groysberg, 2012(b)). It's unclear whether the difference relates to performance evaluations alone or more generally to a culture of board-level performance.

The 2012 Spencer Stuart survey of US firms found that evaluation of individual directors is becoming more common (36% of boards do so, as compared with 34% the previous year); that more than half of all boards examine both the full board and board committees, while 13% assess only the full board; and that 31% of boards (up from 29% the previous year) review performance at all three levels: full board, committees and individual directors (Spencer Stuart, 2012).

A very recent study, just published in March 2013 is the 17th annual Canadian Spencer Stuart Board Index (CSSBI). It studies governance practices and trends for 100 of the largest publicly traded Canadian companies and includes comparisons with U.S. companies of equivalent size (Spencer Stuart, 2013). The results indicate that 100% of the largest 100 firms in Canada conduct full-board, committee and individual director evaluations. In the US, of the comparable firms, 100% conduct full-board evaluations, 82% committee evaluations and only 36% conduct individual director evaluations. So, even large US firms lag their Canadian counterparts in adopting committee and, in particular, individual director evaluations.

Part II - Why Board Evaluations?

This section identifies the factors contributing to the growth of formal board evaluations, with a particular focus on the influences of regulations and stock exchange listing requirements which have evolved as a result of governance reviews around the world.

There is evidence that investors see the added value in firms that have good corporate governance practices and are willing to pay a share price premium for those firms. A series of global studies by McKinsey & Company, published in 2000, show clear investor preference for good governance:

Three-quarters of the investors say that board practices are at least as important as financial performance when they evaluate companies for investment. For Latin America, almost half of the respondents consider board practices to be more important than financial performance. Over 80 percent of the investors say that they would pay more for the shares of a well-governed company than for those of a poorly governed one with a comparable financial performance.¹ (A well-governed company was defined as one that has a majority of outside directors with no management ties on its board, undertakes formal evaluations of directors, and is responsive to requests from investors for information on governance issues.) (Coombes, 2000. P. 75.) (Emphasis added.)

Clearly, the existence of formal evaluation of directors was becoming an important component of good corporate governance.

¹ As compared to two-thirds of respondents in a comparable survey in 1996 (Felton, 1996. pp. 170-171).

Citing this study, the Economist's Business Europe journal, noted that the size of the share price premium – ranging from 18-28%² – was an indication of just how far European companies have to go in improving share value through better board supervision (Coombes, 2000. p. 76; Building Better Boards, 2001. p. 2.).

The increased interest in corporate governance has evolved for many reasons. Bury and LeBlanc cite several factors including: “the unfriendly takeovers movement, the increasing importance of institutional investors, heightened attention to directors’ legal liability, and pressure for more efficient and effective corporations in an increasingly open, fast-paced and technologically advanced business world” (Bury & LeBlanc, 2007. p. 499). The demands for improved governance pre-date the corporate meltdowns in the early 2000s but were undoubtedly accelerated by media and investor reaction to the collapse of Enron and similar corporate scandals and bankruptcies around the world. As a result, regulatory requirements for stronger governance came hand in hand with investor and stock exchange initiatives to protect investors:

Proposals for reform have come from many directions, in many different forms, but an immediate response in many countries has been to enforce tighter regulations, codes, or principles and/or to enact specific legislation (Bury & LeBlanc, 2007. pp. 500-501).

J. A. Levin reviews some of the history of the regulatory developments influencing corporate governance (Levin, 2002). He notes that the US Sarbanes-Oxley Act of 2002 and the subsequent revisions of the New York Stock Exchange listing requirements,

² As compared to only 11% in a 1996 survey (Felton, 1996. pp. 170-171).

while high profile in the US, were not the first attempts to improve governance. Unlike Athena, they did not, as Levin notes “spring full-grown and armoured from the forehead of Zeus” (Levin, 2002. p. 5), but grew from a long line of antecedents.

The International Context

OECD PRINCIPLES OF CORPORATE GOVERNANCE

In April 1999 a task force of the Organisation for Economic Co-operation and Development (OECD) issued its “OECD Principles of Corporate Governance” addressing the need for improved corporate governance (OECD, 1999). The OECD Principles issued in 1999 were updated in 2004 after further consultation. They have since “become the international benchmark for corporate governance, forming the basis for a number of reform initiatives, both by governments and the private sector” (OECD Secretariat, 2004. p. 1). The OECD website notes that the Principles are one of the “12 key standards for international financial stability of the Financial Stability Board and form the basis for the corporate governance component of the Report on the Observance of Standards and Codes of the World Bank Group” (OECD Secretariat, 2013).

The Principles set out seven key functions of a board of directors including: “Monitoring the effectiveness of the governance practices under which it operates and making changes as needed.” While not proposing board evaluation specifically, the text notes that some countries “have moved to recommend or indeed mandate self-assessment by boards of their performance as well as performance reviews of individual board members and the CEO/Chairman” (OECD, 2004. p. 61).

The Canadian Context

THE 1994 DEY REPORT

The Toronto Stock Exchange established a committee in 1992 chaired by Peter Dey, who was then the Chairman of the Ontario Securities Commission, to review and evaluate the corporate governance practices of publicly held Canadian corporations. Its final report entitled “Where were the directors?” was issued in 1994 (Dey, 1994) and its proposed governance guidelines were adopted by the Toronto Stock Exchange (TSX)³ in April 1995. Compliance with the guidelines was made voluntary, but any company listed on the TSX had to report annually, as a condition of being listed, as to whether it was adhering to the guidelines, and if not, why not. This ‘comply or explain’ approach is a hallmark of Canadian (and UK and Australian) corporate governance quite distinct from the US regulatory approach.

In addition to proposing written position descriptions for the board and the CEO, the Dey guidelines were specific about assessing board and director performance:

Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole and of committees of the board and for assessing the contribution of each individual director (Dey, 1994. Para 5.28).

³ This report uses ‘TSX’ throughout, although the Toronto Stock Exchange formerly used ‘TSE’ as its short-form name.

Although it was pre-dated by Britain's Cadbury report, Levin considers the Dey Report to have been "the first comprehensive and relatively recent discussion of enhanced corporate governance" (Levin, 2002. p. 6). One commentator recently noted that the Dey Report "laid out a blueprint for improving governance that is still being followed and built on to this day" (Anderson, 2012).

THE 2001 SAUCIER REPORT

In November 2001 a committee on corporate governance, jointly established by the Toronto Stock Exchange (TSX), the Canadian Venture Exchange and the Canadian Institute of Chartered Accountants issued its report entitled *Beyond Compliance: Building a Governance Culture*. The report made a series of recommendations aimed at improving corporate governance in Canada (Saucier, 2001).

In relation to board evaluation the report recommended:

The "independent board leader" should be accountable to the board, personally or through delegating to a committee, for ensuring that regular assessments of the effectiveness of the board and its committees, as well as the contribution of individual directors, are carried out. The results of the assessment of the board and its committees should be reported to the full board. Results of individual assessments should be given to individual directors to help them enhance their contribution (Saucier, 2001. P. 19).

The nub of the recommendation, building on the Dey report, was that responsibility for board evaluation should rest squarely with the director who functions as the 'independent

board leader.’ Although this responsibility may be delegated to a committee or committee chair, the independent board leader “is accountable for ensuring that assessments take place and for disclosing that assessments have been done” (Saucier, 2001. p. 38). The committee stressed that board and committee reports are to be presented back to the full board, while individual director assessments are to be shared only with the individual assessed to help them enhance their contribution. Disclosure is required as to the existence and process of evaluations, but not the results.

CURRENT TSX LISTING REQUIREMENTS

The Toronto Stock Exchange requires a listed firm to disclose its corporate governance practices in accordance with *National Instrument 58-101 Disclosure of Corporate Governance Practices*, issued by the regulator, the Ontario Securities Commission (OSC). The TSX monitors compliance with this requirement and can suspend or delist firms not in compliance, or refer them to the OSC where they may be subject to further legal action (TSX Company Manual, 2013).

The governance practices required under this regime make it mandatory for firms to:

“Disclose whether or not the board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the board satisfies itself that the board, its committees, and its individual directors are performing effectively”
(OSC, 2005. para. 9.).

The TSX also provides guidance on what ‘enhanced’ disclosure might include. Its 2006 guide to good disclosure suggests the following voluntary disclosure to provide greater insight into adopted practices:

Disclose whether:

- *assessments of the chair are done;*
- *assessments of the chair of each committee are done;*
- *how frequently are assessments performed;*
- *the consequences that can result from the conclusion of the assessments; and*
- *the scope of the assessments.*

(TSX, 2006. p. 12).

In a 2009 study entitled ‘Corporate Governance: Platitudes, Principles or Best Practices?’ Salterio and Conrod found that 90% of TSX-listed companies surveyed met the guideline for board, committee and director evaluations, while 5% did not meet the standard, but met the disclosure requirements to explain their non-compliance; and a further 5% flat-out failed to meet either the standard or the disclosure requirement (Salterio 2009. Table 7).

The Australian Context

ASX PRINCIPLES OF GOOD CORPORATE GOVERNANCE

First published in 2003, Australia’s Principles of Good Governance and Best Practice Recommendations were developed by a broad coalition of members of the Australian

Stock Exchange (ASX) Corporate Governance Council. It follows the British and Canadian models of best practice guidelines backed up with an “obligation to explain to investors why an alternative approach is adopted – the ‘if not, why not?’ obligation” (ASX, 2003). The report says: “If a company considers that a recommendation is inappropriate to its particular circumstances, it has the flexibility not to adopt it – a flexibility tempered by the requirement to explain why” (ASX, 2003. p. 5).

One of the ASX principles is to “encourage enhanced performance” and it is in this context that the report recommends that firms disclose the process for performance evaluation of the board its committees and individual directors, and key executives (ASX, 2003. p. 47). It goes on to comment that the performance of the board and key executives should be reviewed regularly against both measurable and qualitative indicators; and specifically, that the nomination committee should take responsibility for evaluating the board’s performance.

The Principles were revised and re-issued in 2010 (ASX, 2010) and the evaluation requirements were folded into Principle #2: Structure the board to add value. The basic best practice recommendation remained unchanged, but an additional recommendation requires confirmation that the evaluations took place during the reporting period and an explanation of any variance (ASX, 2010. pp. 20-21).

The US Context

THE 1999 BLUE RIBBON REPORT

The New York Stock Exchange (NYSE) and the National Association of Securities Dealers established a ‘blue ribbon committee’ on Improving the Effectiveness of

Corporate Audit Committees. In February 1999, the committee issued its report and recommendations (Whitehead, 1999) which began the evolution of legislation supporting improved corporate governance in the US context.

The committee's mandate was to look at the functioning of audit committees and so board evaluation was not addressed in the committee's final recommendations. However, the report's overview section noted that boards must do more than meet their minimum legal requirements and board and director evaluation was a consideration. The authors noted: "The measure of the board, then, is not simply whether it fulfills its 'legal' requirements but, more importantly, the board's attitude and how it puts into practice its awareness and understanding of its responsibilities." The report recommended readers assess this by considering a list of questions including: Does the board engage in individual director and full board evaluation? (Whitehead, 1999. p. 1070)

Many of the recommendations of the blue ribbon committee have been carried forward and are reflected in the US Sarbanes-Oxley Act as well as the listing requirements for the NYSE (Levin, 2002. p. 12).

SARBANES-OXLEY

The Sarbanes-Oxley Act was signed into law on July 29, 2002. It was designed to make improvements in firms' audit process and internal controls; increase board independence from management; and improve disclosure and transparency for US publically-traded organizations. It built on the US approach of mandatory compliance with regulation rather than the Canadian approach of best practice guidelines coupled with 'comply or

explain' regulations. The Act does not require board evaluations, but it does hold firms accountable to take action on the results of any evaluations they do conduct.

NYSE LISTING REQUIREMENTS

While Sarbanes-Oxley does not mandate evaluations, the NYSE listing requirements does so, although obliquely. Section 303A(09) of the NYSE Listed Company Manual states that listed companies must adopt and disclose corporate governance guidelines . The governance guidelines must include an annual performance evaluation of the board: “The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively” (NYSE, 2013). No additional detail or guidelines are included and the Manual is specific that no single set of guidelines would be appropriate for every listed company. So, while performance evaluations are required and compliance must be disclosed, there is significant leeway for how they are done.

The UK Context

THE 1992 CADBURY REPORT

A committee was established in May 1991 by the UK's Financial Reporting Council, the London Stock Exchange, and the accounting profession, to address the financial aspects of corporate governance. This followed a series of corporate failures in Britain which had raised concerns about protection of investors and the effectiveness of the UK capital markets. Chaired by Sir Adrian Cadbury, the committee issued its report in December 1992 (Cadbury, 1992).

This seminal report established a variety of new, and somewhat controversial, governance requirements including separation of Chair and CEO roles, requirement for a minimum

number of non-executive (that is, independent) directors, and an audit committee made up of non-executive directors. The report proposed a Code of Best Practice which was adopted by the London Stock Exchange in its listing procedures. This required companies to report on whether they met the standards of the Code and, where they did not, to explain the lack of compliance: the so-called ‘comply or explain’ regime (Mellor, 2007. p. 4). This established the non-legislative approach still in effect in the UK – and Canada – today.

The Cadbury Report introduced the concept of board evaluation in the UK context:

Non-executive directors have two particularly important contributions to make to the governance process as a consequence of their independence from executive responsibility. Neither is in conflict with the unitary nature of the board.

The first is in reviewing the performance of the board and of the executive. Non-executive directors should address this aspect of their responsibilities carefully and should ensure that the chairman is aware of their views (Cadbury, 1993. para 4.4 – 4.5).

Thus, the Cadbury report envisioned board evaluation as a clear responsibility of non-executive directors, but left it to an informal mechanism.

THE 2003 HIGGS REPORT

The concept of board effectiveness was squarely addressed by Sir Derek Higgs in his review of the role and effectiveness of non-executive directors published in 2003. In his

report Higgs set out that the Chair of the board is responsible for “arranging the regular evaluation of the performance of the board, its committees and individual directors” (Higgs, 2003. p. 23). And, the report includes an entire appendix dedicated to details of conducting performance evaluations (Higgs, 2003. p. 113). In particular, Higgs proposes a revision to the Code to include:

Performance evaluation of the board, its committees and its individual directors should be undertaken at least once a year. The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, appointing new members to the board or seeking the resignation of directors.

The board should state in the annual report whether such performance evaluation is taking place and how it is conducted (Higgs, 2003. p. 84).

The Higgs report formally introduced the idea of not only evaluating the effectiveness of the board as a whole, but of its committees and individual directors. This was a milestone in the development of performance appraisal as a key component of good governance.

UK CORPORATE GOVERNANCE CODE

Following the adoption of the Cadbury Report’s Code of Best Practice in 1992, but prior to the Higgs report, there were a series of high-profile reviews of various aspects of corporate governance in Britain including a report by Sir Richard Greenbury looking at directors remuneration (Greenbury, 1995) and another by Sir Ronnie Hampel looking at how to effectively implement the recommendations of the various governance reports

(Hampel, 1998). It was the latter which ultimately led to the creation in 2000 of the UK's Combined Code – Principles of Good Governance and Code of Best Practice (Hampel, 2000). All firms listed on the London Stock Exchange were required to 'comply or explain' just as with the Cadbury Code of Best Practice. However, the early versions of the Code contained no direct reference to board evaluation.

The Code has been reviewed and updated approximately every two years (FRC, 2013) and is now known as the UK Corporate Governance Code. Following publication of the Higgs Report, the Code was revised to address board performance evaluation. The current Code is explicit and sets out not only the fundamental principle of evaluation, but also 'supporting principles' that provide further detail. In fact this most recent Code reflects very current thinking on the subject by including an evaluation of the Chair by the non-executive directors and introducing a requirement for larger companies that evaluations be conducted periodically by an external assessor.

It also explicitly provides for assessment not only the skills and knowledge of the board taken as a whole, but its diversity, including gender diversity, and how the board works together – that is, it introduces assessment of directors' behaviour. It also requires an assessment of individual directors' "commitment" to the role of director.

Section B6 of the 2012 Code says:

Main Principle

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Supporting Principles

Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.

The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors. Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties).

Code Provisions

B.6.1. The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.

B.6.2. Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years. The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.

B.6.3. The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors (FRC, 2012. p. 15-16).

The UK has a long history of addressing governance issues and the Code continues to be innovative in updating its best practice recommendations. The use of such Codes, rather than more prescriptive legislation, has proliferated. A McKinsey study in 2004 identified fifty countries that had adopted corporate governance codes (Coombes, 2004. p. 48). The Financial Reporting Council notes that the UK approach combines high standards of corporate governance with relatively low associated costs (FRC, 2012. p. 3). This sets it apart from the reportedly high compliance costs in the US.

Part III – Non-Regulatory Pressure for Board Evaluations

This section looks at additional, non-regulatory pressures for increased use of formal board performance evaluations.

A variety of other actors on the governance stage have exerted influence to encourage a greater degree of board evaluation in governance practices. These include both directors' associations (made up primarily of individuals currently serving as directors) and institutional investors, including hedge funds. Both constituencies are pressing for stronger board governance to better protect shareholder value.

In the US, the National Association of Corporate Directors (NACD) represents more than 13,000 members. As early as 1994, the NACD published a report on performance evaluation of CEO's, boards and directors. Monks and Minow note that evaluation of a board's effectiveness and evaluation of individual directors was "almost unheard of" at the time (Monks, 2008. p. 285). The report by a 'blue ribbon' committee urged boards to adopt a system to set goals and assess the performance of individual directors, board committees, and the overall board.

More recently, the NACD has published a set of 10 key principles designed to strengthen corporate governance for U.S. publicly traded companies. The NACD's 'Principles' are in response to what it sees as evolving best practice recommendations that are overly prescriptive "without recognition that different practices may make sense for different boards and at different times

given the circumstances and culture of a board and the needs of the company”
(NACD, 2011. p. 1).

There is debate about the risks of a highly prescriptive approach. In 2003, one commentator cited an Economist survey in which 70% of the 300 senior managers surveyed ranked the US as the most improved market for corporate governance. In the preceding year, the inference being that the prescriptive approach was a success. At the same time the commentary notes that a prescriptive approach may only encourage firms to focus on avoiding penalties rather than actually pursuing the benefits of good governance (Business under the microscope, 2003. p. 1.).

One of the NACD Principles is “Protection Against Board Entrenchment: Governance structures and practices should encourage the board to refresh itself.” In the context of that Principle, in relation to board evaluation, the NACD says:

These mechanisms [age and term limits] do not substitute for evaluating the contributions of individual directors ... Boards should consider the contributions of individual directors as well as the evolving needs of the company in determining board composition.

In addition, the board and its committees should conduct self-evaluations periodically in the interest of continual self-improvement. Such self-evaluations do not need to be unduly complicated, but should provide an opportunity for the board and its committees to reflect and should culminate in a significant discussion about areas for further effort and

improvement. Board policies regarding the conduct of evaluations should be disclosed (NACD, 2011. p. 12).

As noted below, there is also debate about the value of self-evaluations in assessing the performance of individual directors.

In the UK, the Institute of Directors (IoD) – established in 1903 – has a royal charter to represent and set standards for company directors. On the topic of board evaluations, the IoD says: “An efficient appraisal system is one of the key areas where board effectiveness can be improved. Developing an effective board depends on a process of appraisal linked to a process of continual development. This enables directors' performance to be monitored and improvements made” (IoD, 2013).

In Australia, the Australian Institute of Company Directors promotes board evaluation and provides guidance to its members on adopting and reporting on the ASX best practice guidelines. In addition, it assists members in sourcing consultants as external assessors or process facilitators.

In Canada, the Institute of Corporate Directors is a not-for-profit, member-based association representing Canadian boards and directors from all sectors. It provides educational and research resources, as well as professional certification of directors. It promotes adherence to the best practice and reporting recommendations of the TSX. It also publishes an inventory of key competencies for directors which can serve as a basis for board evaluations (ICD, 2006).

From the shareholder perspective the highest profile voice in Canada is that of the Canadian Coalition for Good Governance (CCGG). It announces that it is the “pre-eminent corporate governance organization in Canada and is uniquely positioned to effect change as the voice of Canadian institutional shareholders” (CCGG, 2013).

The CCGG has been influential through its publication of governance best practices as well as best practices for reporting (‘proxy circular disclosure’). It sponsors annual Governance Gavel Awards to recognize excellence in corporate governance and disclosure practices. CCGG also conducts or sponsors research on issues related to governance, as well as collects and curates published research to make it available to shareholders and companies.

In the US, the California Public Employees’ Retirement System (CalPERS) oversees US\$233 Billion in pension fund investments on behalf of 1.6 million members (Geron, 2012). As an institutional investor it has a history of activist investing and promoting effective governance. CalPERS has published its Global Principles of Accountability for Corporate Governance which guides its proxy voting as well as its governance initiatives. CalPERS expresses the view that: “No board can truly perform its function of overseeing a company’s strategic direction and monitoring management’s success without a system of evaluating itself. ... Corporate boards should therefore have an effective means of evaluating itself and individual director performance” (CalPERS, 2011. p. 9).

Coombes notes that governance codes drafted by powerful institutional investors like CalPERS “have had a direct impact on corporate practice by stating what these investors expect from companies in which they invest” (Coombes, 2004. p. 51).

Part IV – The Not-For-Profit Sector

This section looks at the growth of formal board evaluations in the context of the not-for-profit (NFP) sector.

Governance has been an increasingly important concern in the not-for-profit sector. In a major Canadian study of NFP board governance conducted in 2005, a key finding was the lack of performance measures to assess board effectiveness (Bugg, 2006. p. v). One of the key trends in the NFP sector, as identified in the survey, was an increased emphasis by stakeholders on performance measurement. The study found that this showed up in two ways: an increased emphasis on measuring the effectiveness of boards, and increased use of board self-assessments. The challenge faced by NFP boards was setting appropriate objectives for the organization, the board, and the CEO and determining effective ways to measure their performance (Bugg, 2006. p. ix).

When asked how often the board conducts formal board evaluations, 52% responded that the board did not conduct formal evaluations. For those that did, 74% conducted them annually, 13% conducted them once every 2 years and 13% conducted them less than once every two years. A lower percentage of less engaged boards conduct formal evaluations (Bugg, 2006. p. xii).

In considering board assessments, the report noted that NFP boards have their own culture and that “one cannot give orders and necessarily have them followed” when dealing in a volunteer environment. Some survey participants favoured an entirely informal approach to board evaluation, while others would opt for a formal process

(Bugg, 2006. p. xv). The report urged some caution in considering adopting measurement methods common to the private sector, noting that non-profits “are often more complex because they have a larger variety of stakeholders and their missions often involve outcomes that are difficult to measure” (Bugg, 2006. p. xvii). However, one conclusion from the study is that basic principles of good governance are common across sectors but their application must be tailored to the specific circumstances in which any particular board finds itself. As we shall see, the same holds true when considering governance in the context of commercial Crown corporations.

Other research in the NFP sector brings similar conclusions. Murray finds that there is no evidence to support the idea that there is “one best way” when it comes to governance – despite the prevalence of ‘the Carver policy model’ in the NFP world (Carver, 1990). He notes that consultants and others advising on governance must move away from universal prescriptions to cure governance ills (Murray, 2004. pp. 7 and 13). He does find that effective NFP boards are more likely than ineffective boards to attempt to assess their own performance at regular intervals (Murray, 2004. p. 6).

In his 2009 book, “The management of nonprofit and charitable organizations in Canada,” Murray proposes a board development and evaluation system which includes “periodic formal occasions at which the board assesses its own performance using feedback questionnaires” and he suggests that there is a need to assess the performance of individual directors (Murray, 2009. pp. 41- 42). Crispin Gregoire, on the other hand, looking at the role of NFP boards in fostering accountability, argues for clear job descriptions for board members which identify how the board’s work will be evaluated, and for providing feedback on the board’s performance. But, he stops short of proposing

an evaluation of directors themselves, opting instead only to “recognize the contribution of individual board members” (Gregoire, 2000).

Down under, the Australian Institute of Company Directors is developing “Good Governance Principles and Guidance for NFP Organisations” and in early 2013 was seeking feedback on its initial draft. The document addresses assessing board performance:

The board should periodically review its effectiveness with a view to taking steps to improve the quality of its governance, boardroom discussion and decision-making. In some cases this review might include use of an external facilitator and a formal board or governance assessment tool. In other cases, this may involve informal one-on-one interviews conducted by the chair or another designated board member (remembering one of the issues being assessed is often the effectiveness of the chair), supplemented by discussion at a board meeting(s) (typically without management present) (AICD, 2013. p. 26).

Gill *et al* propose a simple 15-point checklist for NFP boards to self-assess the health of their governance (Gill *et al*, 2005). In fact, much of the literature for NFP appears to limit assessment to some form of survey or checklist; and it is almost exclusively self-assessment. Hannah asserts that “Rigorous self-evaluation is a hallmark of a strong work team, and it’s no less essential for the teams charged with providing direction to nonprofits (Hannah, 2011. p. 3). At the same time, Hannah expands the scope of board evaluation to include not only whole-board evaluation, but ‘board officers’ and individual

board members. The concept of board officers is akin to an assessment of Committee Chairs in the private-sector context, something which is not common. Hannah does note that director evaluation is most commonly done through self-evaluation but can be by appraisal of a governance committee (Hannah, 2011. p. 5).

Hannah notes some innovation in the NFP sector:

A fairly new trend is peer appraisal, in which other directors add their input to the evaluation feedback. Peer appraisal requires a high degree of trust among board members and an environment that values honest, constructive feedback. A well constructed survey with balanced criteria and a well-defined rating scale will help objectify the evaluation process and make it easier to gather meaningful feedback from peers (Hannah, 2011. p. 5).

Nonetheless, the overall picture of board evaluations in the NFP context is one of self-evaluation by way of a questionnaire or checklist, with little or no group evaluation or discussion; and little emphasis on reporting.

In considering a theory-based approach to understanding the behaviour of non-profit boards of directors, Miller-Millesen notes that board best practice is influenced by the particular theoretical framework underpinning the purpose of the board (Miller-Millesen, 2003). Viewing non-profit boards through the lenses of agency theory, resource dependence theory and institutional theory she identifies different priorities for different boards and different best practice models. Specifically addressing the issue of assessing board contribution to organizational performance she notes:

Difficulties determining board contribution to organizational performance occur when performance is assessed using evaluation criteria embracing the behavioral assumptions of the wrong theory. For example, if board members were recruited to legitimize the organization, it would be unacceptable to assess board performance by measuring its contribution to the oversight function. Similarly, if the board engages in self-assessment activities in order to position itself for a capital campaign, it would be inappropriate to evaluate the effectiveness of the self-assessment from an agency theory perspective. The problem is that as this article has demonstrated, the assumptions of three different theoretical perspectives underlie the best practice literature. Until actual behavior is observed and explained, linking board activity to organizational performance will continue to yield ambiguous results (Miller-Millensen, 2003. p. 543.).

Part V – Canadian Crown Corporations

This section looks at governance in the specific context of a Canadian commercial crown corporation, noting the lack of research in this area and the unique factors which must be considered when addressing public sector board performance.

Dating back more than a century, the Crown corporation is one of the oldest forms of public sector organization. It is widely used in Canada both at the federal level – where some 87,000 full-time equivalent staff are employed (Salgo, 2012. p. 1.) – and in the provincial sector. Crown corporations and other arm’s length entities – collectively known as distributed governance organizations (DGO) – account for nearly 65% of all public expenditures in Canada and a quarter of our GDP (Institute on Governance, 2012. p 1.). Commercial Crown corporations, which have greater autonomy from government and generally are not reliant on direct government funding, make up only a small portion of the total number of Crown corporations (Salgo, 2012. p. 2).

Watson takes as a given that governance best practices – including board evaluations – should be adopted by Crown corporations, but adds:

Crown corporations operate within a unique environment. Their shareholder is government which, in and of itself, is a multifaceted entity that does not always speak consistently. They operate within a political context. There are public policy issues that must be taken into consideration in decision-making. They are subject to public sector legislative and policy requirements. They generally have a significant

number of active stakeholders. All of these factors have significant implications for effective corporate governance (Watson, 2007. p. 4).

There is relatively little governance literature specific to Canadian Crown corporations, commercial or otherwise. Indeed, there is little by way of literature on corporate governance for state owned enterprises (SOEs) in any form.

The OECD published, in 2005, its ‘OECD Guidelines on Corporate Governance of State-owned Enterprises’ which closely aligns with its more general Principles of Corporate Governance described above. The version for state owned enterprises includes a section on responsibilities of SOE boards and recommends simply that SOE boards should carry out an annual evaluation to appraise their performance (OECD, 2005. p. 17).

The annotations accompanying the Guidelines provide some level of detail for implementing the Guidelines. They contemplate both a board and individual director evaluation, although the latter comes with some apparent concern about the risks of individual director evaluation. In addition, it introduces the concept of external advice for board evaluations, including from government.

A systematic evaluation process is a necessary tool in enhancing SOE board professionalism, since it highlights the responsibilities of the board and the duties of its members. It is also instrumental in identifying necessary competencies and board member profiles. Finally, it is a useful incentive for individual board members to devote sufficient time and effort to their duties as board members.

The evaluation should scrutinise both the overall board performance and could also include the effectiveness and contribution of individual board members. However, the evaluation of individual board members should not impede the desired and necessary collegiality of board work.

Board evaluation should be carried out under the responsibility of the Chair and according to evolving best practices. The board evaluation should provide input to the review of issues such as board size, composition and remuneration of board members. The evaluations could also be instrumental in developing effective and appropriate induction and training programmes for new and existing SOE board members. In carrying out the evaluation, the SOE boards could seek advice from external and independent experts as well as by the ownership entity (OECD, 2005. p. 52).

Closer to home, the Canadian federal government's Treasury Board Secretariat issued a report to Parliament, also in 2005, entitled "Review of the Governance Framework for Canada's Crown Corporations: Meeting the Expectations of Canadians." This was an extensive review looking specifically at federal (rather than provincial) Crown corporations. One of its key findings was that boards of directors need to be better equipped to fulfill their responsibilities (Treasury Board, 2005. p. 5).

The report identifies that:

A well-managed appraisal process would increase the effectiveness of Boards and help identify areas where training may be required or where

other remedial actions must be taken. Evaluations provide a mechanism for the Board and the chair to hold each other accountable while peer assessments have an impact on the performance of individual directors and the overall effectiveness of the Board (Treasury Board, 2005. p. 26).

The report commits the government to act on its findings and sets out a series of measures which the government will undertake in relation to federal Crown corporations.

Regarding board performance evaluations it says:

Consistent with good governance practices, the government will ask Boards of Directors to establish regular assessments of their effectiveness and the contribution of individual directors as a self-development tool. The assessment of the Board as a whole will be communicated by the Chair of the Board to the appropriate Minister (Treasury Board, 2005. p. 26).

No further guidance is provided on the specifics of conducting assessments and no requirement for public reporting is introduced.

In its guidance to Crown corporations (Treasury Board Secretariat, 2008. pp. 3-5.), the federal government proposes four key elements for board evaluation but adds little in the way of guidance on how to implement them:

- *Commitment on the part of individual directors to participate*
- *A well thought-out, systemic process*

- *Specific, appropriately-chosen instruments*
- *Follow-up*

At the provincial level, British Columbia appears to have done the most legwork in relation to Crown corporate governance. Its Crown Agencies Resource Office provides a Crown Agency Corporate Governance good practices checklist which sets out the following:

Board, Committee and Director Assessment

- *The Board annually assesses its performance and the performance of each of its Committees against their respective Terms of Reference.*
- *The Board annually assesses the performance of the Chair against the Chair's position description.*
- *The Board annually assesses the performance of individual directors against the directors' Charter of Expectations (BC Crown Agencies Secretariat, [year unknown]. p. 17).*

So, although no specific guidance is given as to how to conduct evaluations, the expectations are clear that annual board, committee and director evaluations are best practice. There is no requirement to disclose either the method or the fact of conducting such evaluations.

Nadler (2006) devotes part of a chapter to Canadian Crown corporations, noting that these public-sector corporations are significant within the Canadian economy – ranging in size from five employees to more than 45,000 (Treasury Board, 2005. p. 10) – and most use a board governance structure. Crown corporations typically have both an operational role – *what they do* – and a public interest role – *why they do what they do*. In a study of Crown corporation boards, Nadler found that they face a challenge to balance these roles (Nadler, 2006. p. 240). He notes that confusion and dysfunction can arise when board roles include both operational and public interest oversight. This makes role definition of utmost importance to board effectiveness in Crown corporations (Nadler, 2006. p. 241).

In relation to board evaluations, Nadler comments that Crown corporation directors have difficulty determining the right criteria to use in evaluating their effectiveness. “In many cases, the desired results and outcomes are public benefits rather than purely financial results” (Nadler, 2006. p. 242). He notes that other issues affecting evaluations include: the political makeup of a typical Crown corporation board; the dual reporting relationship of the CEO to the board and the minister responsible for the corporation; the fact that the board often has little say in appointments made to the board; and the fact that directors’ terms of office are typically fixed by legislation. These combine to make Crown corporation board performance evaluations especially challenging.

The literature highlight the importance of good governance in public sector organizations noting that the normal pressures of shareholders and market analysis are not present. In BC, one commentator noted:

Some argue that good governance is even more important in the public sector than the private sector. Most public-sector corporations do not compete in the traditional way, and therefore, their performance is not driven by factors such as market share, industry benchmarks or share value. Consequently, their performance is measured not just by financial metrics, but others that are more difficult to measure. For these reasons, directors must tackle their jobs with focussed intensity to drive the best possible performance of the organization while at the same time hold it to account financially and ethically (Watson, 2004).

Part VI – The “How To” Literature

This section broadly reviews the academic and normative literature that provides guidance on how to actually design and conduct board appraisals in practical terms.

Standards, codes, exchange listing requirements and best practice recommendations typically identify that there is value in good governance and stress the importance of evaluating governance performance over time. Some go so far as to specify the suggested frequency and scope of evaluations; and some now suggest the periodic use of external assessors or facilitators in the evaluation process. But, the specifics of how to do any of that is left to the discretion of individual boards.

Long notes that there has been ongoing resistance to adopting formal evaluations:

The concept of board evaluation has met with particular resistance; directors remain either unprepared or unconvinced of the benefits gained from evaluation, and are conscious of the difficulties concerning independent judgement and objectivity, the ability to benchmark, transparency and clarity of process, personal bias and existing sensitivities (Long, 2006. p. 551).

There is academic literature⁴ looking at the benefits of performance evaluations and the relationship between an effective board and overall firm performance (Aronson, 2003; Clarke, 2010; Felton, 1996; Ingley, 2002; Kim, 2010; Stybel, 2005(b); for example), however there is no clear consensus on the degree to which good governance drives good

⁴ Some academics are also consultants and the literature has some overlap as consultants' normative literature cites or is based in part on academic groundwork.

results. Kim *et al* note that academic research echoes dual sentiments and that “academic researchers are almost equally divided on whether or not board quality and firm performance are positively related” (Kim, 2010. p. 51).

In considering the effectiveness of boards, Petrovic points out that the definition of effective varies depending on the board context (Petrovic, 2008. p. 1374). Kiel notes that “despite mixed findings on the empirical links between firm performance and corporate governance, there is a discernible and growing belief in the investment community that good governance will enhance corporate outcomes” (Kiel, 2005(a). p. 4).

A recent survey of the literature looking at the relationship between good governance and firm performance has recently been conducted by Anita Anand at University of Toronto. She finds that research across a broad spectrum of governance practices suggests the importance of governance to the bottom line.

One might say that this is a chicken-and-egg issue since much of the empirical data is correlational, rendering it impossible to state definitively that corporate governance causes higher performance. Perhaps, for example, firms that perform well are better able to maintain strong governance practices. But this issue does not negate the importance of governance given the positive correlation between governance measures and firm value as well as the existence of studies suggesting that board structure (measured by outside directors and audit committees) may be causally related to firm market performance. In short, governance matters (Anand, 2013. p. 2).

Curtis notes that the effectiveness of board evaluations is not just in changes they may bring about in board composition or processes. He comments: “Perhaps most important, the evaluation process demonstrates to investors that the board is working to improve its governance skills and, by extension, it assures the owners that the board is paying attention to shareholder value” (Curtis, 2007. p. 62). Daily too notes the importance of evaluations to demonstrate good practice to shareholders, analysts, and other interested stakeholders (Daily, 2003. p. 8). Lang observes that effectiveness of boards “depends on intangible as well as tangible factors, and is difficult to measure quantifiably (Lang, 2012. p. 197).

In relation to individual evaluations in particular, some conclude that there are risks involved in evaluating individual directors (Aronson, Long) and that whole-board evaluations are sufficient; others see little value in whole-board evaluations (Carretta, 2010). Some see self-evaluation as valuable (Combes, 2006; Stybel, 2005(a)) while others see obvious flaws in that method and hence little value (Behan, 2004). Some note that directors fear peer evaluation will never work (Felton, 1995), and others find that there are real benefits to peer evaluation (Behan, 2004).

There is debate, too, about the use of external consultants (Aronson, 2003; Brown, 2006; Clarke, 2010; Demb, 1992; Muir, 2012; Neubauer, 1997). The current consensus would appear to be that external advisors provide good value, especially when dealing with peer evaluations, but are necessary only every few years (Clarke, 2010). Although, taking a contrary view, a 2006 Financial Times commentary noted that an external facilitator may not encourage directors to say what they think as much as an independent-minded

chairman (Brown, 2006). Kuprionis cites a 2010 NACD survey saying that one in five boards use an external facilitator (Kuprionis, 2011. p. 10).

Demb points out the importance of a clear agreement on the scope and nature of the engagement of an external consultant, suggesting that four questions need to be settled in order to make good use of a consultant: “Who sets the scope and mandate for evaluation? Who is the client? Who has responsibility for taking action after the discussion? Who decides when to bring in the consultant?” (Demb, 1992. pp. 180-181.) Stybel (2005(b)) notes the importance of using external help to design evaluation survey questions rather than creating them informally in-house.

Board Chairs also have differing views of the role of an external facilitator: “...the evaluator is interpreted by some chairmen as providing a simple service, and by others as a valuable adviser and critical friend to the board” (Long, 2012. p. 196). External evaluators themselves may take different approaches. Long notes:

There are contrasting approaches: some evaluators work with a template, which predetermines the role of the board and best practice for directors; others design a bespoke evaluation for every company. Some attend to the historic and/or current effectiveness of the board; others are forward looking, testing the board’s preparation for the future.

... There are no right or wrong methodologies, but there are different and decisive board requirements, levels of engagement, required skills and competences (from the evaluator), and necessary outcomes (Long, 2012. P. 196).

There does seem to be consensus on the idea that a simple “tick the box” evaluation usually fails to surface important governance issues and is of little value (Aronson, 2003; Behan, 2011; Clarke, 2010; Ingley, 2002). There is a view that evaluations must be based on standards (Kazanjian, 2000) and that the criteria being evaluated must be observable by those doing the evaluation (Neubauer, 1997).

So, one question that researchers face is: just what is performance? Demb puts forward this simple description:

What is the yardstick for board performance? In our view it can be deduced logically. First is the criteria that the board play a distinct role that adds value for the company and management. Second, that the board should constitute its membership and organize itself to play that role well. Form follows function. Third, the board should avoid the dysfunctional behaviour common to most small groups; that is, the board should be able to manage its structural tensions (Demb, 1992. p. 182.).

Ingley (2002) suggests that the debate on the value of board performance evaluations has now faded and Clarke (2010) notes that performance evaluations are becoming the norm in Australia. Certainly the US and Canadian survey data noted above reflect that evaluations are increasingly being done, at least at large firms.

It's accepted that evaluating a director is quite different than evaluating a manager (Clarke, 2010; Heracleous, 2002) and that one board differs from another and so evaluations must reflect the board culture (Long, 2006; Murray, 2004), be linked to board and director development (Felton, 1995; Nicholson, 2004), and reflect the particular

circumstances of the board (stability of composition, size, role) and the company (growth stage, competitive situation, level of investor scrutiny). Felton (1996) points out that institutional investors' view of the value of good governance practices can be linked to their investment characteristics (portfolio turnover, asset management philosophy, client base).

There is, then, a clear consensus that there is no one 'best' model for governance in general, or board evaluations in particular. This is reflected both in the academic literature (Aronson, 2003; Clarke, 2010; Hansell, 2003; Kazanjian, 2000; Neubauer, 1997; Petrovic, 2008) as well as the codes and principles issued in different nations. The normative literature also strongly reflects this need to tailor evaluations not only to individual boards, but to any specific board over time (Behan, 2004; Kiel, 2005(a); Nadler, 2006). Some suggest that the performance evaluation process need not be the same each year and that some variety will help to keep it fresh and keep directors engaged with it (Clarke, 2010; Neubauer, 1997). There is some consideration of applying a balanced scorecard (Kaplan, 1996) to measuring and managing board performance (Northcott, 2011). Others propose taking a risk management approach – assigning weighted scores for the seriousness of consequences of non-compliance to best practice, and the likelihood of such consequences materializing – to prioritize areas for board development (Sharp, 2010).

It is also noted that specialized boards, for example those managing mutual funds, need evaluation of factors not relevant to other boards (Mutual Funds Directors Forum, 2008). This consideration is at the heart of looking at evaluations for Crown corporation boards.

In the normative literature, Nadler calls board assessment both “a critical opening step and the concluding phase” of building a better board (Nadler, 2006. p.212). He suggests an initial evaluation to ‘take stock’ of the board’s current strengths and opportunities. This then becomes the basis for an action plan and objectives against which future evaluations can be measured. Nadler (2006) sets out three basic forms of evaluation: surveys, structured interviews and focus groups. He suggests that a less formal, annual, evaluation be conducted which can include brief, but regular, “How are we doing?” conversations at the conclusion of board meetings. In that context Kiel (2005(a)) suggests assigning the meeting evaluator role to a different board member at each meeting to lead a closing discussion to evaluate the effectiveness of the meeting and seek suggestions for improvements. He provides a sample checklist for this role.

Behan sets out three factors that must be considered in evaluating individual directors: Who sees the feedback? What format will be used for collecting and presenting feedback? Who will collect and deliver feedback? (Behan, 2011. pp. 91-92.) The need for clarity on these points is common in the normative literature. She notes that individual director evaluation can be effective, but is a problem when it is used as a trap for under-performing directors. If not used constructively, individual evaluation will not surface the issues that need to be discussed as directors will hesitate to be candid. She recommends that structured interviews are the best method to use.

Daily (2003) recommends that boards ensure that a document retention policy is both “established and rigidly followed” (Daily, 2003. p. 8) in recognition that board evaluation documents are ‘discoverable’ in the event of a lawsuit.

All the literature reflects the understanding that there are three levels to board evaluation: whole-board, committee and individual director. Some also include the evaluation of the board chair and of committee chairs. Aronson (2003) suggests that there is a natural progression that boards follow in terms of evaluating individual directors. He contends that boards typically begin by having the Chair (or perhaps the Chair of the governance committee) evaluate individual board members and provide confidential feedback. The next evolution would be some form of peer evaluation where board members evaluate and provide feedback to each other. And finally, a more mature stage allows board members to evaluate the Chair.

Taking a quality management approach to board and director evaluation is also considered in the literature. Conti advises making evaluation part of a robust corporate quality assessment “in the context of higher scope TQM/Excellence models, like the American MBNQA or the European EFQM” (Conti, 2003. p. 119). The same time, he is not convinced this approach will be effective:

Having said all that [about effective evaluations], a doubt arises: are we sure that defining board responsibilities, governance rules, best practice, self-assessment procedures, provides a reasonable guarantee against the occurrence of governance problems? Unfortunately the answer is no. The recent history of corporate failure seems to prove that just behaving according to the book does not guarantee success (Conti, 2003. p. 120).

This speaks to the level of intent. Board evaluation is only useful if boards have an intention to use the results to foster discussion and then determine actions to create improvement.

There is debate, too, about just what to evaluate in order to make evaluations effective. In common with Miller-Millesen cited above, Nicholson (2004) notes the different theoretical underpinnings which will influence what constitutes good performance for a director. Distinguishing between good and bad performance is essential before any evaluation process can bring value. Kiel sets out a comprehensive seven step path to developing a framework for board evaluations (Kiel, 2005(a). p. 17). In answering the seven questions, directors make key decisions which are relevant to all boards in implementing an evaluation process:

1. *What are our objectives [in conducting an evaluation]?*
2. *Who will be evaluated?*
3. *What will be evaluated?*
4. *Who will be asked?*
5. *What techniques will be used?*
6. *Who will do the evaluation?*
7. *What will you do with the results?*

Kiel suggests that firms tie board evaluations to strategy formulation so that the firm adapts performance expectations to fit the strategic needs of the organization (Kiel,

2005(a). p. 187). This idea that performance criteria will vary depending on the circumstances and strategies of the organization is reflected in most approaches to evaluation. Sexton makes the important point that the process “should be designed so that it actually works when the board has a problem - that is, the evaluation process should be designed so that it can cope with difficult situations” (Sexton, 2001. p. 69). Sexton also suggests that evaluations should not be done “more frequently than they can add value” and suggests every two years is generally appropriate.

Behan makes the assertion that “few board evaluations get to the heart of board performance issues in any meaningful way” (Behan, 2011. p. 78) and argues for a robust evaluation process that engages directors and results in an action plan developed by the board to make improvements. She argues that structured interviews are “unparalleled in terms of methodology” for evaluations (Behan, 2011. p. 101) and that other methods, be they surveys, follow-up calls, informal conversations or web-based tools have only marginal impact. She urges that if your objective is merely compliance with the most recent best practice recommendation, rather than a genuine effort to make your board function more effectively, then don’t waste your time on it!

The evaluation of directors’ behaviours, in addition to their skills, knowledge, effort and commitment, is coming to the forefront in more recent literature. Kuprionis notes that “having high performing individuals on the board doesn’t necessarily mean they work together as a group” (Kuprionis, 2011. p. 12); and so, evaluating individual behaviours in the context of group performance is important. Mirroring recent developments in performance assessment of management, it’s not just *what* is done, but *how* it’s done, that counts.

The revised UK Code includes assessing “how the board works together as a unit.”

Petrovic identifies a stream of research showing that board interaction is more important for effectiveness than board composition (Petrovic, 2008. p. 1377). Muir notes the value of an external assessor in looking at behaviour of directors:

Behavioural issues are harder to expose with internal evaluations. Chairmen are hopeful that external evaluations will help surface behavioural issues and provide suggestions for resolving them. External evaluators may find it easier to “tell it as it is”. However, few external evaluators and even fewer company secretaries are competent to evaluate both board process and board behaviour. This is a challenge for future evaluations, which need to examine the “how” as well as the “what” of board activity. (Muir, 2012. p. 7.)

Petrovic (2008) surveys the literature and identifies specific ‘high-effort’ behaviours that are related to high board effectiveness. He notes Forbes and Milliken’s (1999) concept of establishing norms for director effort. The shift to considering behaviour is related to recognition of the impact of a board’s social systems or Nadler’s (2006) ‘board culture.’

The literature also shows a need to engage in a process that is more than just a survey distribution (Behan, 2011; Kiel, 2005(a); Kuprionis, 2011; Treasury Board Secretariat, 2008). Directors must understand the purpose and the process of evaluation and buy-in to its value. Behan notes: The real value of a board assessment lies in engaging board members in thinking about and discussing how the board does its work, and finding ways to make the board even more effective” (Behan, 2004. p 1.).

Andrews, designing a self-evaluation process for a 15-member board in the healthcare sector, noted the importance of providing directors with a package of information which included their own attendance record for board and committee meetings, as well as other board events and activities during the past fiscal year. Andrews also proposes that each Committee Chair receive and respond to the individual director self-assessments, rather than the board Chair having to deal with them all (Andrews, 2006. p. 64).

In 2004, the London Stock Exchange offered a 76-page guide to corporate governance which included a useful chart of the characteristics of an effective board as well as those of several types of less effective boards. These provide a framework within which boards can evaluate their own performance (Carey, 2004. p. 11). The guide poses questions to consider in assessing how well a board is working together as a team and suggests consideration of an external facilitator;

The evaluation should also consider how well the board works as a team. Is constructive challenge welcomed or is it seen as dissent? Does it feel like a unitary board or is there evidence of different factions? Are there any dominant players that might – even accidentally – be restricting the contribution of others? Some boards may find it useful to involve an external facilitator in the evaluation process (Carey, 2004. p. 10).

Neill notes that more research is required regarding personal and inter-personal dimensions of directors' behaviour and board effectiveness (Neill, 2010. p. 294).

Based on research with boards of non-listed companies, Neill identifies eighteen of forty-five behaviours “relevant to effective board behaviour and process” that are preferred for an “ideal” board (Neill, 2010. p. 298). In ranked order of importance, they are:

1. *Directors are keen and free to ask questions*
2. *Board is willing to take tough decisions*
3. *Shared ownership of vision, mission and values*
4. *Personal relationships are harmonious*
5. *Board knows exactly how it adds value to the business*
6. *The board operates as a cohesive team*
7. *High level of candour and openness*
8. *Chairman’s style invites initiatives from board colleagues*
9. *Genuine listening is consistently achieved*
10. *Bad news is confronted readily*
11. *Debate is incisive and adds value*
12. *Good time-management*
13. *Board fully responsive to ethical standards re. conduct*
14. *High level of trust and loyalty between colleagues*

15. Personal and company values coincide

16. Creative ideas encouraged

17. Clear dialogue and communications

18. Voting results in full commitment of all to decisions

A strong evaluation process would include an assessment of the board on these behaviours.

He notes that “the finding that harmonious personal relationships between board members were also viewed as highly important raises the view that relationships are a crucial, yet often neglected, driver of board effectiveness.” (Neill, 2010. p. 302).

In reflecting on the significant governance failures which, in part, have contributed to the growing importance of board evaluations, Kiel identifies four categories of corporate governance failure: strategic failure, control failure, ethical failure, and interpersonal relationship failure (Kiel, 2005(b). p. 614). These categories should inform the design and content of board evaluations.

This section has identified the breadth of considerations to be taken into account in developing and implementing a formal board performance evaluation. There is growing consensus on the value of board evaluation, but no widely-accepted standards on how they should be conducted or what attributes are to be evaluated. It is against this backdrop that we now turn to consider a specific case study of a Canadian commercial Crown corporation.

CASE STUDY

The Nova Scotia Liquor Corporation (NSLC) is a provincial Crown corporation created pursuant to the province's *Liquor Control Act* (LCA) and Regulations. It currently employs some 1,500 people and operates more than 150 retail liquor outlets, either in the form of corporate retail stores or through agency agreements with independent retail operations. In addition, it directly serves over 2,000 wholesale customers.⁵

Originally established as a government Commission, the NSLC began operations in May 1930. It came into existence with the enactment of the *Liquor Control Act* (“An Act to Provide for the Regulation and Sale of Alcoholic Liquors”) and was created for the express purpose of implementing government control of the distribution and marketing of alcoholic beverages (NS Government, 2013). By the end of 1930 the NSLC was operating 33 retail stores across Nova Scotia (NSLC, 2013).

In 2001 the LCA was amended to reconstitute the NSLC as the Nova Scotia Liquor Corporation, a provincial Crown corporation at arm's length from government with oversight from a newly-created board of directors.

Legislative Framework

The revised LCA continued the NSLC as a body corporate and “an agent of Her Majesty in right of the Province” (LCA Section 4(2)). It established the legislative ‘objects’ of the corporation to be:

⁵ Much of the information relating to the NSLC board of directors comes from the author's direct knowledge and experience in his role over the past decade as the NSLC's VP – Human Resources.

- (a) promotion of social objectives regarding responsible drinking;*
- (b) promotion of industrial or economic objectives regarding the beverage alcohol industry in the Province;*
- (c) attainment of suitable financial revenues to government; and*
- (d) attainment of acceptable levels of customer service. (LCA Section (4.3))*

Board of Directors

The new Act created a board made up of nine directors including the President⁶ and a Deputy Minister, neither of whom is a voting member. The voting members of the board are all non-executive directors; that is, they do not hold any other position in the company. In 2012 the Act was amended to create two additional director positions, as well as allow the appointment of one director as Vice-Chair of the board. As a result, the board currently consists of nine voting members and two non-voting members.

The LCA sets out the responsibilities of the board of directors and says, in part:

The Board of Directors is responsible for ensuring that the affairs of the Corporation are administered on a commercial basis and that all decisions and actions of the Board are based on sound business practices in accordance with the objects of the Corporation (LCA Section 7(2)).

⁶ The LCA refers to and defines ‘President’ but also notes in Section 7C(2) that “the President is the Chief Executive Officer of the Corporation.” The terms President and CEO are used interchangeably in this report in the context of the NSLC.

The mandate to administer the Corporation’s affairs “on a commercial basis” was one of the fundamental changes enacted when the LCA was amended to create the new Crown corporation.

Appointment of Directors

The voting members of the board (the “Directors”) are appointed by the Governor in Council⁷ to hold office for a term of not less than two years and not more than five years. One Director is appointed by the Governor in Council to be the Chair of the board. The Deputy Minister is appointed “from time to time by the Governor in Council” and is generally the deputy to whichever Minister is assigned the supervision of the administration of the Corporation. Currently, and in recent years, the Minister of Finance has been assigned this responsibility.

NSLC directors are selected through a recruitment process established and managed by the province’s Executive Council Office (ECO). The ECO manages the recruitment and selection process for all government appointees to provincial agencies, boards, commissions and other non-governmental agencies including Crown corporations. The process, as set out on the ECO website (NS Agencies, 2013) entails an initial screening by members of the government department responsible for the organization (the Department of Finance in the case of the NSLC). In practice, the Chair of the NSLC board and the CEO have some input at this stage of the process. The screening is based on

⁷ The Executive Branch of Government is generally referred to as the government. Technically, the word government means the Lieutenant Governor acting by and with the advice of the Executive Council, correctly referred to as the Governor-in-Council. Executive Council is the decision-making authority for the Government of Nova Scotia. Members of the Executive Council, known as ministers, collectively form the Executive Council, also known as Cabinet (Executive Branch, 2013). Thus, appointment by the “Governor in Council” is effectively appointment by the government of the day.

basic qualifications only and does not rank or compare candidates who meet basic requirements. A list of qualified candidates is presented to the applicable minister and the minister makes a selection and forwards a recommendation to Executive Council (Cabinet) for approval. Once approved by Cabinet, appointments are sent for final approval to an all-party standing committee of the legislature, the Human Resources Committee.

In the event of a vacancy, the NSLC board has an opportunity, early in the process, to consider its skills matrix, identify any gaps existing as a result of the vacancy or new business requirements, and recommend to the minister the specific skills and experience that would be most valuable to the board at that time. However, the minister retains ultimate authority for the specific appointment recommendation taken forward to Cabinet.

As a result of the addition of the two new positions as well as some turnover, the minister has appointed five new board members in the past eleven months.

Section 7 of the LCA establishes the conditions under which directors may be removed from office and how ensuing vacancies are to be dealt with:

The Chair and each member of the Board of Directors ... shall enjoy tenure during the term of their appointment but may be removed at any time for misbehaviour, incapacity or inability to perform their duties properly by the Governor in Council.

Each member of the Board of Directors ... shall remain in office, notwithstanding the expiry of the member's term, until re-

appointed or replaced and, when a vacancy occurs on the Board, the Governor in Council may appoint a person to fill the vacancy for the balance of the term of the member of the Board replaced.

President and CEO

One of the distinguishing features typical of a Crown corporation is that the CEO is not appointed by the board of directors. The LCA sets out at Section 7C:

The Governor in Council shall, by order and upon the recommendation of the Minister, appoint a President of the Corporation who shall be selected on merit and in accordance with the fair-hiring practices of the Province.

Not uncommon to Crown corporations, the President of the NSLC has a dual reporting structure also set out in LCA Section 7C: “The President is accountable to the Minister and reports to the Board of Directors.”

The board has an opportunity to participate in a search process to fill a CEO vacancy; in fact, the board may lead the process on behalf of the minister, but it can only recommend a short list of candidates for the minister to choose from if he or she wishes. Ultimately, it is the minister’s decision what recommendation goes forward to Cabinet and the minister is not limited to consideration of the short list brought forward by the board. In the same way, the board has no independent authority to remove the CEO.

Similarly, the compensation for a new CEO is a matter for the government as it is a government appointment. The CEO is not an employee of the NSLC in the normal sense.

The board is free to bring forward a recommendation regarding the CEO's compensation but has no direct authority in the matter. However, the Minister has delegated to the board certain authority in relation to determining any annual salary increases granted to the CEO, provided the salary remains within the range established by contract. Like the NSLC executive team compensation, the CEO's compensation is a base rate only and has no bonus structure or at-risk component; and, of course, there are no shares granted as compensation.

Committees

The board has three standing committees which meet separately from, and report to, the full board: Audit, Governance and Human Resources (GHR), and Corporate Social Responsibility (CSR). Ad Hoc committees are established as needed for specific tasks.

The Act sets out compensation for directors and, as noted above, CEO compensation is generally beyond the purview of the board; so unlike private sector boards, the NSLC board does not have a compensation committee.

The Audit committee consists of four Directors, including the board Chair. The CEO, VP – Finance and the Director of Internal Audit generally attend Audit meetings but are non-voting. Both other committees are made up of three Directors appointed by the Chair of the board, and the CEO. The Corporate Secretary attends all committee meetings. The GHR committee includes the VP-HR as a non-voting member; and the CSR committee includes the VP and the manager responsible for CSR initiatives, also as non-voting members.

Processes

Typically, the board meets five times per year with additional meetings only as required. Special meetings may be held, for example, as part of a strategic planning exercise or developing annual business plans. The board distributes meeting materials to all members at least one week in advance of meetings and has recently adopted a web-based application for the distribution, sharing and maintaining of board documents.

Board committees meet anywhere from two to five times per year. The executive assistant to the CEO also serves as executive assistant to the board, working with the Corporate Secretary and reporting to the board Chair in that capacity. This role records, distributes and maintains records of all board and committee meetings.

The board has a written Board Governance Charter setting out the responsibilities of the board. Each standing committee also has a charter setting out its responsibilities, composition and other expectations. These charters are being updated to reflect the changes to board composition enacted with the 2012 revisions to the LCA. This is a task assigned to the GHR Committee.

Performance Evaluation

The board's charter document identifies that the board has responsibility to "evaluate the effectiveness and efficiency of the board and its committees as a foundation for annual goal-setting by the board." This responsibility is effectively delegated to the board's Governance and HR committee which is responsible for leading the board in its periodic

review of the performance of the board and its committees. The GHR committee charter specifies:

The Committee will develop a process for the board's evaluation of its own performance and undertake this process annually. The Committee will develop a common understanding of the role of the board and its members, and assess the performance of the board in that context. In doing so, it shall take into account both the performance of board members but also the appropriate relationship between the board, the Chief Executive Officer, and staff of the NSLC. From time to time it will review and advise on the effectiveness of that relationship.

The formal commitment to an annual review is relatively recent and the specifics of the evaluation process have evolved over time. Typically survey-based, with a combination of numeric response questions and open-ended questions, the evaluations have addressed both whole-board and committee evaluation and have included a director self-evaluation component. The survey has addressed a wide range of performance elements including basic task effectiveness (meeting agendas, schedules, distribution of board information packages) as well as broader role effectiveness (scope and timeliness of board discussions, open and frank discussion, willingness to question and debate in respectful manner, level of strategic leadership, appropriate skill mix). It has also included an assessment of the board Chair and of committee Chairs.

The Corporate Secretary, or the Chair of the GHR committee, has typically been tasked to pull the results together and review them with the board Chair in advance of a full-board discussion of the aggregate results. The presentation of evaluation results have been generally limited to a numeric average of survey responses with the addition of verbatim presentation of any 'write in' remarks from the survey's open ended questions,

The results have been used as input into board development planning and in updating the board's skills-matrix and annual board and committee work plans. In addition, the GHR committee has used evaluation results as input into refining the director orientation program. Evaluation surveys have, in an informal way, been followed-up with individual discussions between directors and the board Chair.

Individual director self-assessments, when included in the process, have been shared only with the board Chair and are intended primarily for director self-reflection and for use by directors in developing their individual performance development plans in conjunction with budget planning.

Board assessments have not been the subject of annual reporting.

Current Situation

The board Chair and the GHR committee wish to review and update the board evaluation process. The survey format can be lengthy and directors want to ensure that the appropriate topics are being addressed, and appropriate follow-up initiated. Consideration has been given to engaging external expertise to assist in conducting the evaluation and follow-up discussions.

ANALYSIS

Good Governance Matters

A review of the literature demonstrates that corporate governance in general, and board evaluations in particular, have been growing in importance in the corporate world. While the jury may still be out on the exact relationship between good governance and firm performance, it's clear that investors, regulators, governments and the business community are increasingly seeing value in good governance; and that evaluating the effectiveness of boards of directors is a key component of good governance.

For the purposes of this analysis I accept the premise that good governance is a positive thing for organizations and their owners. And, further, that evaluating a board's performance – however defined – will help that board to perform even better over time. Thus, the academic debates about the relationship between board performance and firm performance; and about the value of performance evaluations themselves, are both beyond the scope of this paper.

Accepted Wisdom

Certain things emerge in looking at literature on board performance evaluations. These may not all be accepted as proven fact, but they do approach the status of accepted wisdom:

- It's critical to understand what performance means in the context of any particular board before attempting to evaluate the board's performance. Performance measures vary between boards and over time.

- Intention to improve is important: if boards are conducting an evaluation just to ‘tick the box’ and report that evaluations are complete, the effort is likely a waste of time. Evaluations are valuable only if there is an honest intent to use the results to seek improvement.
- In general, boards are looking for performance improvements in three areas: board processes, director skills, and relationship building.
- Best practice is to evaluate at three levels: whole-board, board committees, and individual directors; evaluation of board and committee Chair roles is becoming more common.
- Board evaluations can – and should – evolve over time. That is, in introducing evaluations, it is important to build up trust and understanding of the process. A simple self-evaluation may work fine for a start, but more sophisticated evaluations should follow if the process is to deliver the best value.
- Surveys are good, but structured interviews – or a combination of both methods – are better.
- Peer evaluation yields better results than self-evaluation.
- The use of a skilled external facilitator can assist in getting the most out of an evaluation process (especially in conducting structured interviews); however, external assistance is not likely required every year.

- The use of focus group discussions may be helpful, especially for evaluating committees.
- Evaluations must address task-related basics (How well are meetings run? Does the board get the information it needs from management? What about meeting frequency, scheduling and duration?) as well as higher-level questions about board functioning, director behaviour and inter-personal relationships that affect the board's effectiveness.
- Evaluations are more useful if presentation of results have an appropriate degree of analysis and clarity. For example, just reporting an average score from a survey question is not as helpful as including the range of scores and the standard deviation. See Appendix A for an illustration.
- Group discussion of results should be limited to whole-board and committee evaluations; individual director evaluations are for individual consideration and one-on-one coaching conversations.
- A full discussion of the results by the board as a whole, leading to a prioritized list of key issues and an action plan is essential.

The basic principles of board evaluations apply whether the board is private sector, not-for-profit or commercial Crown corporation. Well planned, well executed evaluations, with good follow-up, will yield positive results to building a better board. Investing the time to engage board members in the planning and design of the evaluation process;

creating an atmosphere of trust and treating directors with respect in conducting and discussing the evaluations, are important elements in making evaluations useful.

What to Evaluate?

Recognizing that evaluations should be tailored to the specific board situation, no list of evaluations topics will be appropriate for all evaluations. That said, a partial list of topics that could be covered in a board evaluation is included in Appendix B. Appendix C sets out a list of statements proposed by Kiel (2005(a)) that firms can use in designing survey questionnaires or a framework for structured interviews. This list is not a questionnaire, that is, an evaluation should not include all these items, but the list provides an ‘inventory’ to draw from or to inspire new survey elements.

In considering what to evaluate it’s important for a board to have a common understanding of its objectives in conducting an evaluation. The basic objectives can often be categorized as either *corporate leadership* or *problem resolution* (Kiel 2005(a). p. 30). Having a clear and shared understanding of the objectives assists the board in determining what to evaluate and who should be asked for evaluation input.

Evaluation for a Commercial Crown Corporation

The distinction between what works in the private sector and what works for a Crown corporation lies in the clear articulation of what good performance looks like in the particular circumstances and how to measure it. In the end, the differences are relatively minor, but nonetheless important if board evaluations are going to be useful in the context of a Crown corporation.

The public-sector and political environment of a Crown corporation, as well as its fundamental public policy role, dictate that directors must be evaluated on factors which are not as applicable in the private sector. At the same time, there are measures of performance which work well for a private sector firm, but which are out of context in a Crown corporation.

Examples of performance measures not generally applicable to a Crown corporation:

- Shareholder value as measured, for example, by share price
- The effectiveness of corporate compensation policies and the links between shareholder value and CEO compensation or long-term incentive plans
- Effectiveness of directors' communications at the Annual General Meeting
- Board effectiveness in recruiting and selecting appropriate new board members
- Board effectiveness in relation to mergers and acquisitions, or in adopting significant changes in overall business direction
- Effectiveness of corporate treasury functions and financial market interactions
- Health of board and Chair's relationship with financial analysts covering the company
- Completeness of shareholder communications and periodic regulatory filings, including disclosure related to governance requirements

Examples of performance measures that are of significance only in the Crown corporation context:

- Assessment of board's role in ensuring the Crown corporation effectively met the public policy objectives for which it was created
- Ability of board to keep informed of government's direction and policy objectives as it relates to the Crown corporation's mandate
- Board's success in ensuring the minister is kept sufficiently informed of corporation's activities; and that the board is kept informed of government decisions affecting the corporation
- Directors' understanding of relationship between minister, board and CEO
- Understanding the role of a Crown corporation and its relationship with the minister responsible
- Individual directors' political acumen and knowledge of how to get things done in the government context
- The board's ability to respond to government directives and changes in policy direction
- The board's ability and track record of proactively making recommendations to government on its corporate mandate and relevant public policy issues

- Ensuring corporate performance metrics reflect the corporation's objectives in relation to public policy
- The ability to incorporate the corporate mandate and general government priorities into strategic planning
- Effectiveness of processes to include the government perspective on how well the corporation has fulfilled its mandate
- The board's success in effectively contributing to the minister's selection process for new board members or a new CEO

Overall, the process of designing and implementing a board evaluation program is really no different no matter what sector the board works in. The key is to ensure that relevant performance factors are being effectively assessed and that the board engages in robust discussion to enable the evaluation results to contribute to improving the board's performance.

NSLC Board Evaluation

The NSLC board has been in existence about a dozen years and its evaluation process has been evolving as the board establishes and refines its governance processes. It reflects many elements of current best practice as identified in the academic and normative literature. The fact that the board continues to review the process and seeks to refine and improve it is, itself, a best practice.

The survey format used to date has its limitations and improvement could be made both in survey format (online rather than paper-based, for example) and the level of analysis and reporting of survey results. A survey that was easier to complete and subject to stronger analysis and reporting would be beneficial to the board's ability to use the survey as a basis for broad discussion.

The introduction of periodic use of an external facilitator would assist the board to more fully leverage the potential benefits of a board evaluation. As the literature suggests, this is not likely required annually, but would be beneficial perhaps every third year with less formal evaluations in between.

There are other factors which may influence board effectiveness in the context of a Crown corporation in general and the NSLC in particular. These include both corporate and board culture, the political environment, and broad public policy considerations. Consideration should be given as to how best to incorporate these elements into a board evaluation, with the objective of identifying opportunities for increased effectiveness of the board by better understanding the impact of these factors.

The introduction of peer evaluation of individual directors is another area for consideration. The literature indicates many boards are wary of this step for fear of damaging interpersonal relationships and the collegial atmosphere necessary to an effective board. But the potential benefit exists of a more open discussion about appropriate development plans for directors as a group. The use of an external facilitator is likely an effective way to introduce the concept of peer evaluation and may provide a level of comfort to directors that would enable open and honest feedback. Clear

articulation of the purpose and nature of a peer evaluation, along with a common expectation of follow-up, would be essential. Engaging the full board in discussions leading to consideration of peer evaluation would be beneficial.

The literature reflects a growing recognition that board evaluations must address group dynamics and individual director behaviours. Documenting the board's expectations for director behaviour is a good start to encompassing them in future evaluations. As noted in the literature, to the extent possible, the expected behaviours should be observable by fellow board members.

Private sector boards are striving to improve their level of ethnic, cultural, linguistic and other diversity. As a retailer, the NSLC strives to reflect the diversity of the communities in which it operates and the board might consider how this translates to the board level. This subject may be worthwhile to include in a board evaluation process, recognizing though, the limited scope the board has for selecting new members. However, understanding if there is a shared perspective amongst existing board members about the notion of board diversity could be a starting point for the discussion. Potentially, diversity considerations could be integrated into the board's skills matrix for recruitment purposes.

CONCLUSION

The best practice principles of board evaluation are pretty consistent regardless of what sector a board works in. The best practice processes for designing, implementing and reporting on board evaluations are varied but have common themes: engage directors in the process; determine what performance looks like and how to measure or observe it; tailor the assessment method and tools to the circumstances of the specific board; evaluate at all three levels (whole-board, committee and individual director); use evaluation to generate discussion and an action plan. It's not rocket science.

The specific determination of what results or behaviours constitute good performance will vary from one board to another and, for any given board, will vary over time. The results, characteristics and behaviours of an effective board in a small not-for-profit organization will be very different from those of a global commercial enterprise, or a start-up entrepreneurial firm. All three will be different than the effective board of a commercial Crown corporation.

Applying the principles and processes will lead to developing appropriate indicators of an effective board which can be evaluated. For a commercial Crown corporation, the political and public policy environment will dictate certain characteristics of an effective board, but many success factors will be similar or identical to those of the board of any large private sector firm.

The NSLC has an established evaluation process which covers many of the best practice elements identified in the literature. There is room for improving the engagement of the board in designing the process, while still delegating the execution to a committee. There

is an opportunity to step back and ensure alignment on the performance criteria to be evaluated, especially given the recent change in composition of the NSLC board. The periodic use of an external facilitator will aid the process. Director self-evaluation is sufficient for the moment, but evolving to peer-evaluation should be an objective.

This paper has looked at the range of evaluation criteria suggested in the academic and normative literature to identify those which are best suited to a Crown corporation like the NSLC. Then, in consideration of the particular nature of a Crown corporation environment, this research has identified examples of performance criteria which may apply primarily in that setting and be less relevant to other sectors. Further research might consider the impact of the Crown corporation environment on interpersonal relationships and group dynamics at the board level which may impact board performance.

Ultimately, the elements of strong board evaluations common between the private sector and a Crown corporation environment are far more numerous than the differences. The application of common principles of best practice will guide the development of performance criteria specific to each setting.

Recommendations

The NSLC has a solid board evaluation process in place and the following recommendations are designed to allow the board and individual directors to derive even greater value from it.

Recommendation #1: Engage the board in refining the evaluation process

There is value in the board having a common understanding of the objectives, process and desired outcomes of board evaluation. Adopting a framework for board evaluation such as one proposed by Kiel *et al* (Kiel, 2005(a). p. 16) would provide a roadmap for the GHR committee to follow in advancing its board evaluation process.

This work will include determining the objectives of evaluation; who will be evaluated; what will be evaluated; who will be asked; what techniques will be used to gather input; who will conduct the evaluation; and what will be done with the results. Careful consideration should be given to ensure the evaluation criteria reflect current overall best practice as noted above, as well as the evaluation criteria more specific to a Crown corporation environment.

Recommendation #2: Engage an external facilitator for the evaluation process every three years

The periodic use of an external facilitator adds value to the evaluation process. Given the recent influx of five new members and the pending retirement of another member, this year would be good timing for a broad discussion of the board's objectives and goals against which board performance might be measured going forward. An external

facilitator would assist with this process. A combination of survey and structured interview process followed by full board discussion would serve best.

Evaluations in the following two years could be led by the GHR committee with the Corporate Secretary assigned responsibility for gathering and aggregating evaluation input (or an external resource could be used for this administration).

Recommendation #3: Continue to conduct an evaluation of the whole board, its committees and chair roles; as well as facilitate a self-evaluation for individual directors. Consider moving to peer-evaluation of directors over time.

The NSLC should continue with its practice of annual board evaluations. In particular, there is opportunity to align board evaluation criteria with the development of the new 2015-2020 strategic plan. This is an opportunity for the board to ensure that its objectives and evaluation criteria match with the corporation's strategic objectives.

With the recent additions to the board, a director peer-evaluation may be premature. A structured self-evaluation used to develop individual director development plans (facilitated by the GHR committee) should suffice. An informal assessment of the board's readiness for director peer-evaluation could be conducted mid-year with an eye to including it in the board evaluation process the following year.

The evaluation format should flow from discussion based on Recommendation #1, but would likely include a survey with scaled as well as open-ended questions, and a structured interview to supplement the survey results.

Recommendation #4: Increase the level of analysis in presenting evaluation results back to the board.

Reporting of the results should be designed to assist the board to identify top priorities and develop an action plan accordingly. In addition to reporting individual scores, the presentation of results should evolve to include ranges and standard deviation to provide more meaningful feedback for discussion. Items where the average is high may still be worth further discussion if the level of consensus is low.

Recommendation #5: Develop a formal document retention policy with regards to evaluation results

As part of the further refinement of the board evaluation process, the board should reach consensus on, and document, a policy establishing retention rules for evaluation results. It's recommended that individual responses be retained for only the minimum period required to aggregate the data. The confidentiality of individual responses is important in promoting candid – and therefore useful – feedback from directors. Aggregate results and the action plans stemming from them should likely be retained for three years in order to allow the board to track trends and improvements.

Recommendation #6: Include in board and committee charters a description of the director behaviours considered important for an effective board or committee

A clearer articulation of the behaviours that support a high-performing board will assist directors to self-evaluate their own performance in that regard and will establish a

common understanding of expectations amongst the group. This is also an important step towards introducing individual director peer-evaluation.

Recommendation #7: Adopt a policy to disclose the evaluation process in the annual report or elsewhere

Disclosure of the fact that NSLC conducts annual board appraisals and the process involved in conducting those appraisals is best practice. There should be no disclosure of individual appraisal content.

APPENDIX A – Illustration of Survey Report Format

(Referenced on Page 65.)

This presentation format, using imaginary survey responses, includes both visual and numeric formats. The green bars indicate the range of responses, with the black diamond indicating the average response on a five-point scale. The narrower the range, as indicated by the green bar, the greater the consensus there is amongst survey respondents.

The numeric information adds two additional elements: the number of responses for each item (note that Question 5 had fewer respondents); and the standard deviation for the set of responses. The smaller the standard deviation, the greater is the consensus. The use of standard deviation allows the reader to distinguish the level of consensus between two questions with identical ranges (Q2 and Q4 for example).

Note the wide range of responses on the question of team spirit: the average is high, but the range and standard deviations indicates that some responses were outliers. This is a red flag indicating a need to further explore this issue.



Appendix B – Sample Topics for Evaluation

(Referenced on Page 66.)

Kuprionis proposes the following broad areas to be addressed in a board evaluation

(Kuprionis, 2011. pp. 10-11):

Governance Guidelines - If the company has governance guidelines, does the board do what the guidelines prescribe? If specific board performance objectives were set, how did the board execute?

Board Skills - Does the expertise and skill that each director brings to the table add value to the company and promote the exchange of differing ideas and perspectives vs. adding to "group think?"

Free Discussion - Asking directors to comment and measure the "constructive interaction" that is displayed among board members at meetings may make directors more aware of the effect of dominant and non-participatory directors, if there are any.

Oversight - How does the board rate its oversight of key issues? Does it "oversee" or try to manage? To understand the metric, directors will need to look at how key issues are monitored and ask if the board contributed to ensuring a robust and effective risk management process.

Information - Does the board receive the information it needs to understand issues or is the information written in a "please rubber stamp this proposal, it's the right way to go" style?

Education - The board can measure the sufficiency of its initial orientation and its continuing education. Directors might also assess what it does outside of the boardroom to know the company.

Follow-through - Did the board do the things it said it was going to do after the preceding year's board evaluation? Looking at what the key substantive issues were that the board identified at the time of the last board evaluation, or the beginning of the year, and measuring what progress has been made is another worthwhile metric.

Long-Term Planning - The board might ask what its contribution was to the development of long-term strategy. Board meeting agendas can easily fill-up with day-to-day operations reporting. Asking if the board has spent sufficient time on long-term planning or asking directors to comment on strategic issues they believe should be on the agenda may not be an ideal metric, but it can lead to good discussion.

Crisis - Has the board responded to any problems or crises that have emerged or should have been foreseen? How did it do? Has the board reviewed management's crisis management plans?

Communication - How well does the board communicate with the CEO and the management team? Would management agree that the board is a strategic asset?

Appendix C – A Sample Inventory of Evaluation Statements

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Kiel *et al* (Kiel 2005(a)) provide an inventory of sample statements to consider for a board assessment.⁸ It is not intended that these all be included in an assessment, but they provide a list from which to draw statements or topics which may be relevant to a particular assessment.

Whole-Board Evaluation

Strategy & Planning

1. The board understands the company's mission and vision.
2. The board is committed to the company's mission and vision.
3. The board disseminates the mission and vision of the company.
4. The board has a clear understanding of the company's goals.
5. The board is committed to the company's goals.
6. The board clearly enacts the company's goals whenever possible.
7. The board keeps abreast of trends and issues affecting the market in which the company competes.
8. The board has strong business experience.
9. The board fully understands the changes facing the industry.
10. The board understands the company's customers.
11. The competitors of the company are well understood by the board.
12. Business plans and strategy proposals are clear and precise when presented to the board.
13. There are adequate planning processes in the company.
14. The board understands the elements of the business that are essential for its success.
15. The measures of performance used by the company reflect areas critical for its success.
16. Current business plans define performance indicators.
17. The board understands the measures of performance the company employs.
18. The board understands the strategies the company uses.
19. Strategic plans presented to the board are reviewed regularly.
20. The board is sufficiently involved in the company's strategic planning.
21. The board understands the business that it is governing.

⁸ Permission to reproduce this copyright material from *Board, Director and CEO Evaluation* (Kiel, 2005(a)) was kindly granted by Effective Governance Pty Ltd. in Brisbane, Australia.

22. The company is well positioned for growth in the next three years.
23. The directors' role in strategic planning is appropriate.

Board Structure and Role

1. The board is large enough to carry out the work required of it.
2. The board is small enough to carry out its duties effectively.
3. The spread of talent within the board reflects the company's needs.
4. All board members bring valuable experience and skills to the company.
5. As a board member I feel I bring value to the board and the company.
6. The role of the chairperson is clearly defined.
7. The role of the CEO is clearly defined.
8. The board has a clearly articulated performance appraisal and reward system for the CEO.
9. The CEO performance appraisal and reward system is regularly reviewed.
10. The role of a board member is clearly defined and well understood.
11. There is a clear delineation between the role of management and the role of the board.
12. The trigger level for board or committee involvement in major business policies and decisions is appropriate.
13. The number of committees is correct for good governance.
14. The roles of all committees are clearly defined.
15. The purpose of all committees is known and understood.
16. Committees perform a necessary function in the governance process.
17. Committees perform their required functions effectively.
18. The board could discharge good governance with less frequent board meetings.
19. Board meetings are not held often enough to ensure good governance.
20. The board has a succession plan in place for the chairperson.
21. The board has a director succession plan in place.
22. There is a clearly documented policy on director remuneration.
23. Director remuneration is appropriate.
24. Directors are paid too little, given the duties required.
25. The type of director remuneration is appropriate.

Meeting Process

1. There is an effective agenda prepared and circulated in advance of each board meeting.
2. The board agenda is followed at the meeting.
3. The board agenda is effective.

4. A clear and accurate record of each board meeting's proceedings and decisions is maintained.
5. All board members have timely access to board minutes.
6. Board papers contain the correct amount and type of information.
7. Board papers are supplied sufficiently in advance of board meetings.
8. As a board member, I feel sufficiently prepared for board meetings.
9. Board members are diligent in preparing for meetings.
10. The views of minorities are respected during discussions of the board.
11. Matters relating to the company are discussed in a structured manner.
12. Board meetings are conducted in a manner that ensures open communication.
13. Board meetings are conducted in a manner that ensures meaningful participation.
14. Board meetings are conducted in a manner that ensures timely resolution of issues.
15. Board meetings are run efficiently.
16. Board meetings are effectively.
17. The day, time and location of board meetings are known sufficiently in advance.
18. There is an adequate policy in place when conflicts of interests arise.
19. The board's conflict of interest policy is sufficient to ensure impartial decisions.

Performance Monitoring

1. The types of financial reports received by the board are adequate for it to discharge its governance duties.
2. The board monitors appropriate financial indicators.
3. The board regularly monitors the company's financial statements, balance sheet and cash flow.
4. A written report regarding the budget and any variances is received, reviewed and discussed at every board meeting.
5. The board reviews and adopts an annual capital budget and received regular written or oral reports of performance against it throughout the year.
6. Detail in financial reports is sufficient to ensure the board can discharge its governance function.
7. Financial reports are received frequently enough to allow the board to take appropriate actions.
8. The board has a clearly defined list of non-financial performance measures that it monitors.
9. The board monitors an appropriate number of non-financial performance indicators.
10. Non-financial performance indicators provide insightful feedback for the board.
11. Non-financial performance indicators used by the board are accurate.

12. The board regularly reviews the ethics of senior management personnel.
13. The company has relevant internal reporting and compliance systems.
14. The company has reliable internal reporting and compliance systems.
15. In tracking company performance the board regularly considers the performance of peer companies.
16. Benchmarking is a useful method of assessing the company's performance.
17. There is a clear understanding of the company's business risk.
18. There are sufficient systems in place to ensure substantial risks to the company are brought to the attention of the board.

Board and Director Responsibilities

1. The board ensures there are policy guidelines in place for all major business decisions.
2. The board regularly reviews its policies to ensure they are current.
3. The board has sufficient access to the CEO.
4. The board has sufficient access to senior executives.
5. Board members actively engage in networking for the benefit of the company.
6. The board has approved the CEO succession plan.
7. The board has approved the senior management succession plan.
8. There is a defined director induction process within the board.
9. Having reached decisions, directors demonstrate cohesion in accepting and supporting the board's position.
10. The development priorities of all directors have been clearly identified.
11. The balance of responsibilities between the board and senior management is appropriate.
12. All directors clearly understand their individual roles within the company.
13. The board provides appropriate mentoring to senior management.
14. The balance of responsibilities between the board and senior management is understood.
15. The balance of responsibilities between the board and senior management is working well.
16. Directors regularly undertake performance evaluation.
17. The board set out a development plan for directors.
18. The respective decision-making powers of the board and executive director are clearly understood.
19. All declarations of conflicts of interest are full and timely.
20. Board members understand their roles and the requirements of good performance.
21. The board adequately tests possibilities and opportunities.
22. The board demonstrates strong ethical standards.

23. Directors are encouraged to continue in professional development.
24. The director induction program sufficiently prepares new directors for their roles and responsibilities.

Board Culture & Relationships

1. There is a sense of collegiality and team spirit between board members.
2. There is a sense of collegiality and team spirit between the board and senior management.
3. Board members show sufficient courtesy to senior management.
4. Senior management show sufficient courtesy to the board.
5. The board clearly identifies and communicates its information needs.
6. The board clearly identifies and communicates the issues that it wants addressed.
7. The board believes that the senior management team has the ability to deliver the company's strategic direction and business plans.
8. The board avoids risk.
9. I find that my values and this board's values are very similar.
10. The emphasis here is on achieving results.
11. Overall this is a harmonious board to work on.
12. The board responds quickly to external changes.
13. Minority viewpoints are respected during discussions of the board.
14. All board members publicly support decisions of the board.
15. The board's culture promotes trust and candour.
16. Communication between the board and management is constructive and open.
17. Everyone's view is respected during discussions of the board.
18. Board members treat each other with courtesy.
19. The board has a constructive relationship with the external auditor.
20. The board clearly communicates expectations to management.
21. Board members contribute sufficiently to the company outside board meetings.
22. The board understands what senior management believes are the significant problems facing the company.
23. New ideas are highly valued here.
24. Participation in strategic planning is encouraged here.
25. Management in this company sets precedents for others.

Individual Director – Self-Assessment⁹

Strategy & Planning

1. I understand the role that a board plays in governing a company.
2. I understand my role as a company director.
3. I understand the strategic needs of the company.
4. I contribute to the development of sound strategies.
5. I contribute to the development of sound policies.
6. I understand the company's mission and vision.
7. I actively disseminate the company's mission and vision.
8. I have a sufficient understanding of the strategic processes that are employed by the board.
9. I understand the functions that are critically important to the success of the company.
10. I understand the measures of performance that are employed by the board.
11. I have a sufficient understanding of the market in which the company operates.
12. I keep abreast of trends and issues affecting the market in which the company competes.
13. I understand my company's major competitors.
14. I understand my company's customer needs.
15. I have a sufficient understanding of the people processes used by the company.

Directorial Duties & Responsibilities

1. I am aware of my legal duties as a director.
2. I am aware of my financial duties as a director.
3. I actively contribute to the financial discussions.
4. I am aware of my financial accountability as a director.
5. I have a sufficient understanding of accounting to discharge my reporting responsibilities.
6. I am aware of how to conduct myself should the company experience financial difficulties.
7. I am aware of my compliance duties as a director.
8. I am aware of my risk assessment duties as a director.
9. I clearly understand the company's business risk.

⁹ The same statements re-phrased for "the Director" rather than "I" can be used for director peer-evaluation.

Personal Attributes

1. I bring valuable skill to the board.
2. I bring valuable experience to the board.
3. I actively contribute to the effectiveness of the board.
4. I have a network of contacts that is wide enough to assist me in my role as a director.
5. I use my network of contacts to assist me in my role as a director.
6. I prepare adequately for all board meetings.
7. I devote sufficient time to my directorial duties.
8. I am consistently prepared and briefed for all matters to be discussed.
9. My contributions are succinct and to the point.
10. I regularly undertake relevant professional development.
11. I regularly undertake personal performance evaluation.
12. I have good listening skills.
13. I communicate openly and honestly.
14. My skills are well utilized on this board.

Board Teamwork & Process

1. I maintain good relations with colleagues.
2. I maintain good relations with management.
3. I display confidence in other directors' abilities.
4. I am sufficiently assertive in representing my point of view.
5. I am committed to doing my best for the company.
6. I trust and respect other directors.
7. I share information willingly.
8. I listen attentively to the ideas of others.
9. My contributions to committee work are of value.
10. I regularly visit the company's operations.
11. I regularly contact appropriate executives.
12. I have no actual conflict of interest with the company.
13. I have no potential conflict of interest with the company.
14. My contributions are valued by board members.
15. I undertake my fair share of committee work.
16. I have sufficient opportunity to employ my talents on the board.
17. I have sufficient access to senior executives.

Neubauer (1997) proposes items to be considered when evaluating the Chair of the board.

Some of these could be redrafted for use in evaluation of committee chairs.

Board Chair Evaluation

The Chair ...

1. Makes sure that the board addresses appropriate (strategic) issues.
2. Has a strong sense for the priorities among strategic issues.
3. Makes sure that board meetings are well prepared.
4. Makes sure that there is sufficient time to discuss important items on the agenda.
5. Knows when to summarize and conclude discussions.
6. Encourages contributions by board members and gets the best out of everybody around the table.
7. Sees to it that there is an effective and efficient management and controls system in place to ensure the achievement of corporate objectives.
8. Makes sure that top management succession is secured (availability of the right calibre and number of top managers).
9. Sees to it that the management has challenging yet realistic strategies for the company.
10. Clearly takes charge of upgrading the board (evaluation and coaching of board members).

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