2009 Scoring Criteria for Small- and Medium-Sized Enterprises

In 2007, the Clarkson Centre for Board Effectiveness (CCBE) began researching corporate governance best practices in Small- and Medium-Sized Enterprises (SME). CCBE developed a scoring criteria specific to challenges faced by SMEs through interviews with directors and investors. Many of the expectations in the survey are far beyond current standards, but we feel they are nonetheless essential in order for shareholders to be fully represented and informed.

The following outlines the scoring criteria used by CCBE to measure corporate governance in SMEs:

SECTION 1: INDIVIDUAL POTENTIAL

a) Director Independence:

Director Independence measures the independence of individual Directors from one another, as well as from company management. Relationships with management increase the potential risk that a Director will put executive interests before those of the shareholders. If a Director meets any of the following criteria, she/he is considered related to management:

- Employee of the company or a related company (currently or within three years)
- Executive of any affiliated company
- Director or Director's firm has provided services (e.g. legal, auditing, or consulting) to the company within the last 3 years
- Kinship to CEO
- Received consulting fees during the most recent fiscal year
- Any other relationship deemed material by CCBE not falling under the above categories.

Director Independence	Score
2/3 or more of the board are independent	10
1/2 or more of the board are independent	5
1/3 or more of the board are independent	3
Less than 1/3 of the board are independent	0

b) Stock Ownership

A Director, however independent and experienced, requires motivation to act in the best interest of shareholders. This motivation is measured as a function of a Director's stock ownership in the company. If the company grants their Directors annual retainers (including cash, any grants of shares or deferred share units, as well as the fair value of option grants), full marks are received for the following:

Director's Term to Date:	Holdings:
5+ years	3 times total annual fees
2-4 years	2 times total annual fees
Less than 2 years	No requirement

If the company **does not** grant annual retainers, full (8) marks are received for the following:

Director's Term to Date:	Holdings:
5+ years	$10,000
2-4 years	$5,000
Less than 2 years	No requirement

Director Ownership
2 marks deducted per director that doesn't meet requirements to a max of 8

c) CEO/Chair Split

As the potential for the Board's independent operations is perceived as increased when the CEO and Chair positions are separate.

CEO/Chair Split	Score
Chairman is fully independent	10
Positions are split, Chairman is related and a lead director has been appointed	5
No split and lead director has been appointed	3
Positions are split and no lead director appointed	3
No split and no lead director	0

d) Audit Committee Independence

A board must have a fully independent audit committee to ensure the integrity of their books and avoid any potential conflicts of interest.

Audit Committee Independence	Score
Audit committee is fully independent	5
1 or more related directors on the audit committee	0

e) Compensation Committee Independence

A fully independent compensation committee encourages the board to remain objective while developing an appropriate compensation package for its executives. In the case of the compensation committee, executives of the parent company are considered to be independent.

HR Committee Independence	Score
HR committee is fully independent	5
1 related non-management director on the committee	1
2 or more related directors on the committee	0
Management director on the committee	0

SECTION 2: SHARE STRUCTURE

Many companies have multiple classes of shares, and occasionally the different classes do not have equal voting rights. An imbalance of voting rights decreases shareholder influence on Board decisions. Deductions for this question are graduated— as the disproportion between shares and voting rights increases, so does the deduction. No deduction is made for companies whose multiple share classes are allowed the same number of votes per share.

Share Structure	Score
No dual class or subordinate share structure	10
More than 50% of shares holds more than 50% voting power	10
Less than 50% of shares holds more than 50% voting power	3
40% or less of shares holds more than 60% voting power	2
Less than 20% of shares holds more than 80% voting power	0

SECTION 3: OUTPUTS

a) Dilution

Dilution occurs when options granted represent a significant proportion of outstanding shares, thus diluting returns that would otherwise go to shareholders.

Dilution	Score
Options outstanding represent 10% or less of outstanding shares	5
Options outstanding are more than 10% of outstanding shares	0

b) Option Re-pricing

When a company's share performance has suffered, the cost of exercising stock options can be greater than the cost of purchasing stock at market value. In such a case, a company may decide to lower an option's exercise price in order to align it with the stock's market value. Option re-pricing is perceived as relieving Directors and executive officers of their responsibility for the company's financial performance.

Option Re-pricing	Score
No options have been re-priced in the past 3 years	3
Options have been re-priced in the past 3 years	0

SECTION 4: PROCESSES

a) Evaluations

A regular and formalized performance assessment process can help even small or well-established boards enhance their effectiveness. In order to receive full marks for this question, the company must have in place a regular and formalized process through which both the full board and individual directors are evaluated. Scoring is based on disclosure of details of the processes used to evaluate boards and directors, and thus simply mentioning that a process is in place is not sufficient for credit.

Evaluations	Score
Formal evaluation process for both board and directors is disclosed	10
Formal evaluation process for board but not directors is disclosed	5
Formal evaluation process for directors but not the board is disclosed	5
No formal evaluation processes disclosed	0

b) Director Orientation

A formalized and/or substantial orientation process will allow new directors the opportunity to perform more effectively. Even if board turnover is low, the establishment of an orientation process will prove facilitative should the need for new membership suddenly arise.

Director Orientation	Score
Formal process for director orientation is disclosed	2
No formal process disclosed	0

c) CEO Succession

Many boards of directors identify a lack of formal CEO succession planning as a key weakness. Having such a plan in place allows the board to ensure effective leadership of the company in case of unexpected turnover.

CEO Succession	Score
Discloses who is responsible for CEO succession planning and details of the plan	3
Discloses who is responsible for CEO succession planning but no details regarding the plan	2
Discloses details of the succession plan but not who is responsible for succession planning	1
No disclosure of who does succession planning or details of the succession plan	0

d) Director Nomination

Similar to the Director Orientation question, even boards with low turnover can benefit from the establishment of a formalized process for nominating new Directors.

i) Who is responsible for Director Nomination?

A separate nominating committee which is able to focus its attention on the needs of the board can more readily assess the strengths and weaknesses of the board and find potential new directors if needed.

Nomination Responsibility	Score
Nominating process handled by a committee	2
Nominating process handled by whole board	1
No disclosure of nominating process responsibility	0

ii) Is the nomination process disclosed?

A disclosed nomination process indicates that a board has a plan in the event that a new director is needed.

Nomination Process	Score
Nomination process disclosed	1
No disclosure of a nomination process	0

e) CEO Evaluation

In many cases, it is unclear how the assessment of the CEO's performance is assessed. In order to get full marks, a company should disclose the process for assessing the CEO's performance and not just the metrics used to do it.

CEO Evaluation	Score
Disclosed who is responsible for assessing CEO's performance and process	2
Disclosed responsibility for assessing CEO's performance but no disclosure of process	1
Disclosed process for assessing CEO's performance but no disclosure of responsibility	1
No disclosure of CEO performance assessment responsibility or assessment process	0

f) Annual Elections

It is becoming increasingly uncommon for Directors to be elected to terms of more than one year. Annual elections ensure that Directors remain accountable for their performance, and provide shareholders with a greater input as to board composition.

Annual Elections	Score
Directors are elected annually	2
Any directors have a term lasting more than 1 year	0

SECTION 5: DISCLOSURE

a) CEO Position Description

Boards frequently have issues with clearly delineating the roles of the responsibilities of the CEO and the Board. In order to have a clearer understanding of the responsibilities of the CEO, the board should have a written CEO position description.

CEO Position Description	Score
Discloses that the company has a CEO position description	2
No CEO position description in place	0

b) Board Mandate

To help in formalizing the role of the board, it is important that the board have a proper mandate indentifying its responsibilities. This mandate should be disclosed to assist shareholders in understanding the board's role within the company.

Board Mandate	Score
Full mandate is disclosed	2
No mandate but a significant description of board responsibilities is included	1
No disclosure of board mandate or responsibilities	0

SECTION 6: COMPENSATION

a) Compensation Consultants

Have compensation consultants been retained at any time during the past five years to provide guidance and expertise in regards to executive compensation? (To have the company only take part in or purchase surveys by compensation consultants is not sufficient). In seeking this information, we have referred back to information disclosed in previous proxies.

Compensation Consultant	Score
Company has retained a compensation consultant for executive pay in the past 5 years	5
No compensation consultant retained in the past 5 years	0

b) CEO Bonus Related to Performance

In order to assure shareholders that CEOs are being appropriately compensated based on the company's performance, it is important to disclose a connection between the elements of variable pay to performance measures. Disclosing the metrics used to determine bonus gives shareholders an idea of the focus of the board as well as highlighting the link between pay and performance. An indication that performance is at least connected to company performance is necessary, even if the metrics are not disclosed.

CEO Bonus Related to Performance	Score
Discloses metrics used for determining bonus	10
No metrics disclosed but bonus based on company performance	5
No connection between bonus and company performance	0

c) Bonus Not Awarded if Targets Missed

If annual bonus is truly at-risk, it should have the potential for $0 payout in the event that the company misses its performance targets. Full marks are awarded if it is made explicit that the CEO does not receive any bonus if performance targets are missed. No marks are awarded if there is no mention of this. Full marks will also be awarded if the CEO never receives a bonus.

Bonus Not Awarded if Targets Missed	Score
Clearly states there is a potential for $0 bonus	3
No indication that bonus can be $0	0

TOTAL SCORE

Each company is given total score out of 100 marks based on the totals of the whole scoring criteria.