WHAT QUESTIONS DO BOARD MEMBERS IN PUBLIC SERVICE ORGANIZATIONS ASK ABOUT EXECUTIVE COMPENSATION?

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Abstract

The purpose of this study is to investigate the governance questions that board members in public service organizations ask as they go about fulfilling their responsibilities for the *oversight* of executive compensation. The research uses 24 of the questions – as proposed by the Canadian Institute of Chartered Accountants - that directors *should* ask about executive compensation and investigates both their usage and perceived importance by board members. The study is based on a usable sample of 47 board members from public service organizations who were attending a Canadian director training program. The research finds that, *insofar as public service organizations are concerned*, not all of the recommended executive compensation governance questions were asked with the same frequency nor were they considered equally important. Additionally, the relationship between a question's usage frequency and its perceived importance was not perfect. However, there appears to be a significantly positive relationship among the number of executive compensation governance questions asked and selected elements of a board's governance structure.

Keywords: Governance; Board of Directors; Executive Compensation; Public Service Organizations

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INTRODUCTION

In Canada, the Government of Ontario was among the first of all provincial governments to pass the Public Sector Salary Disclosure Act, 1996 (subsequently renamed the Public Sector Salary Disclosure Amendment Act, 2004). The legislation was designed to make Ontario's public sector more transparent and accountable to taxpayers. Other provincial governments in Canada have since passed similar legislation requiring organizations which receive public funding to provide disclosure on the salary and taxable benefits of employees earning over a specific amount in a calendar year. Ontario's legislation, however, is the most extensive in terms of disclosing in an annual *Sunshine List* the number of individuals[65] whose compensation exceeds $100,000. The Act covers not only public sector organizations[66] but also not-for-profit and charitable organizations (collectively defined here as 'public service organizations') which receive significant funding from the Government of Ontario. Not surprisingly, media attention on Ontario's *Sunshine List* has continued to grow over the years, expanding from local to national coverage.[67]

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[65] Artuso, A. 63,000 public servants hit six figures. ***The Toronto Sun***. April 1, 2010. (http://www.torontosun.com/news/canada/2010/03/31/13427606.html, accessed on June 15, 2010.)
[66] The Act covers city and other local governments, universities and colleges, school boards, hospitals and Crown agencies. It also applies to the Provincial Government ministries and members of the Assembly. (Government of Ontario, Ontario's Public Sector Salary Disclosure, http://www.fin.gov.on.ca/en/publications/salarydisclosure/pssd_info.html, accessed on June 15, 2010.)
[67] About 106 million results were reported with a search of the *Sunshine List 2014* on Google whereas 3.38 million results were found with a search of the *Sunshine List 2001*.

For example, in 2009, a furor erupted when it was revealed that the province's highest-paid public sector employee was the former president of Ontario Power Generation. Her compensation of $2,150,000 was more than 10 times that of the government's top political official, the Premier of Ontario.[68] Eyebrows were also raised when it was discovered that the top executives from the university and healthcare sectors took home pay over $970,000 and $830,000, respectively.[69] It has been difficult for Ontario taxpayers to understand the ostensibly overgenerous levels of pay and perks that their public sector executives have received, especially when their government has budgeted billion dollar deficits to stimulate the economy during the recent recession.[70]

Generally, the compensation for most civil servants is determined directly by the government. However, for a unique subset of these employees (i.e., publicly-assisted universities, healthcare organizations and crown corporations), executive-level pay is set separately through a delegation of authority by the government to their organization's board of directors. A similar delegation occurs for charitable and not-for-profit organizations whose donors and funders contribute the funds that pay their organization's Executive Director ("CEO") and staff. The critical question for these governments and donors is: are the boards exercising proper oversight when assessing and setting levels of pay and perks for their senior executives' compensation? The objective of the research underpinning this paper, therefore, is to determine the extent to which the boards of *public service organizations* follow a governance 'oversight framework' when setting the compensation of their top executives. Since such framework is lacking in the public service sector, this study is based on one developed for publicly listed corporations. We do so based on the view that "fundamentally, governance is governance" (Lindsay, 2007: 30). As a recent publication by the Canadian Institute of Chartered Accountants has argued (Lindsay, 2007: 30):

> "There is no substantive difference in good governance between the corporate and not-for-profit sectors…Many not-for-profit organizations have governance practices that equal the best in corporate governance. There is more variation in governance within a sector (business or not-for-profit) than there is between sectors. A director of a large public company would probably feel more at home on the board of a large not-for-profit than on the board of a small, start up business."

Moreover, despite some of the alleged differences between public service organizations and for-profit corporations, many of the management models/tools (e.g., strategy mapping, balanced scorecard, lean manufacturing) developed for and embraced in the for-profit sector are often modified and adopted in the public service sector.

This paper, therefore, begins with a discussion of various best practices for administering executive compensation as recommended by several leading advocates of good governance. It is followed by a review of executive compensation trends in public service organizations. We then present and discuss the results of our survey on how directors from selected public service organizations[71] provide executive compensation oversight utilizing a list of prescribed governance questions. The paper concludes with a listing of implications for both board members and future research.

GOOD GOVERNANCE AND EXECUTIVE COMPENSATION

Executive compensation of for-profit and publicly listed corporations has drawn media attention long before those of public service organizations. This is due to the fact that compensation for the former is usually massively higher than the latter. For example, in 2007, the total take home pay for the top five

[68] Keshen, A. 2010 Ontario Sunshine List up from last year. ***The National Post***, April 1, 2010. (http://network.nationalpost.com/NP/blogs/toronto/archive/2010/03/31/ontario-releases-2010-sunshine-list.aspx, accessed on June 16, 2010.)

[69] Ontario Ministry of Finance. ***Public Sector Salary Disclosure 2010 (Disclosure for 2009).*** (http://www.fin.gov.on.ca/en/publications/salarydisclosure/2010/, accessed on June 16, 2010.)

[70] Bernard, M.-C., Browarski. S. & Stewart, M. Ontario budget 2009: big stimulus, big deficit. (The Conference Board of Canada, http://www.conferenceboard.ca/topics/economics/budgets/on_2009_budget.aspx, accessed on June 16, 2010.)

[71] In addition to organizations included in the *Public Sector Salary Disclosure Act,* 1996, public service organizations for this study would have also included crown corporations (e.g., Ontario Hydro), not-for-profit professional organizations (e.g., Canadian Medical Association), and charitable organizations (e.g., United Way); the objectives of which are to act in the best interest of the public as well as to provide service to the public and their constituents.

Canadian corporate CEOs was over $200 million with an average of $40 million.[72] Moreover, annual compensation for the top 50 Canadian CEOs from 1995 to 2007 increased five-fold from an average of about $2.7 million to $16.0 million.

Interestingly, in 2008 as a result of the global recession, executive compensation actually decreased. The top five Canadian CEOs' pay fell over 50% compared to 2007 (McKenzie, 2010b), and the average compensation of the top 50 Canadian CEOs dropped to $9.9 million (Mackenzie, 2010a). The Canadian Centre for Alternative Policies also reported that Canada's top 100 CEOs each received an average pay of $7.3 million in 2008 - a 30% decline from $10.4 million in 2007.

Nevertheless, the compensation awarded to Canadian CEOs of for-profit organizations is still considered 'astronomical' especially when compared to the 2008 average Canadian income of $42,305 (Mckenzie, 2010b). For instance, despite the worst global financial crisis since 1929, the two highest paid Canadian bankers still received a pay of about $10 million in 2009.[73] These numbers appear to lend support to the claims by critics that executive compensation has become uncontrollable and that this, in turn, is due to a lack of restraint and accountability – particularly by the boards of directors ultimately responsible for approving their CEO's pay. After all, the ultimate purpose of an organization's governance structure and practices is both to safeguard an organization's resources and to supervise/motivate managers to improve organizational performance (Fama and Jensen, 1983). Directors however appear to be failing those who are relying upon them to ensure that proper compensation practices are in place.

The Canadian Coalition for Good Governance (CCGG), which was formed to promote good governance in Canadian publicly listed companies, has developed a set of policies and principles for board members to use in designing an effective executive compensation package. The first set was issued in 2005 (*Good Governance Guidelines for Principled Executive Compensation)* with the following five recommendations for corporate boards (CCGG, 2009: 3): (1) build an independent Compensation Committee; (2) develop an independent point of view; (3) test pay to performance linkages; (4) establish share ownership guidelines; and (5) disclose all facets of the compensation regime. As a further supplement to guide boards in the design of their executives' compensation, CCGG developed the following *Executive Compensation Principles* in 2009 (CCGG, 2009: 4):

(1) "Pay for performance" should be a large component of executive compensation.
(2) Performance should be based on measurable risk adjusted criteria, matched to the time horizon needed to ensure the criteria have been met.
(3) Compensation should be simplified to focus on key measures of corporate performance.
(4) Executives should build equity in their company to align their interests with shareholders.
(5) Companies should limit pensions, benefits, and severance and change of control entitlements.
(6) Effective succession planning reduces paying for retention.

Not all of CCGG's governance guidelines and principles on executive compensation, however, are applicable in public service organizations, such as, for example, the requirement to build equity in order to align the interest of executives with shareholders.

Besides CCGG, the Risk Management and Governance Board of the Canadian Institute of Chartered Accountants (CICA) has also developed a monograph series under the overarching title *20 Questions Directors Should Ask*. This series was created to give boards of publicly listed corporations *and* not-for-profit organizations a comprehensive framework of governance questions with which to diligently carry out their fiduciary duty and oversight responsibilities. Directors who might previously have felt nervous asking certain questions (out of fear of appearing incompetent) now have permission - even an obligation - to raise them in the boardroom. As part of this series, the CICA published *20 Questions Directors Should Ask About Executive Compensation* ("*20 Questions"*) (Greville and Crawford, 2005). When this

[72] Mohammad, S. & Hood, D. Cashing in: Canada's CEO salary surge. ***Maclean's***. May 1, 2009. (http://www2.macleans.ca/2009/05/01/the-rising-salaries-of-canadas-top-50-ceos/, accessed on June 16, 2010.)
[73] Pasternak, S. B. Canadian bank CEO pay rises 10% as TD, Royal top Goldman Sachs. ***The Financial Post***. March 4, 2010. (http://www.financialpost.com/story.html?id=2645006, accessed on June 16, 2010).

publication's various 'sub-questions' are also included, there are actually 30 questions[74] in total. The questions focus on:

- an organization's governance structure and processes (e.g., board responsibilities and independence; the need for independent executive compensation advisors; and adequate executive compensation disclosure);
- the board's understanding of an executive compensation program's design (e.g., market competitiveness; selection of comparator group(s); and elements of compensation); and
- the board's understanding of the effect of special circumstances (e.g., mergers) on executive compensation.

Directors are challenged and exhorted to ask these questions in meetings of either the full board or their Compensation Committee. Due to the heightened degree of accountability expected from directors in making compensation decisions, any failure to ask these questions could expose directors to a host of personal, professional and organizational risks, such as: (1) reputational risk; (2) the inability to attract and retain a strong and effective management team; (3) inappropriate executive behavior or decisions; and (4) personal financial liability.

As with the CCGG's governance guidelines, not all executive compensation questions raised by the CICA are relevant to directors of public service organizations. For instance, the *disclosure requirement* on executive compensation of public service organizations is relatively less stringent when compared to those of publicly-listed corporations. Moreover, questions concerning stock options, share ownership, share transactions, hedging and the impact of 'change of control' are typically not applicable to public service organizations. Indeed, imposing the governance framework for publicly listed corporations on public service organizations *in a wholesale, unmodified fashion,* may undermine the latter's overarching objectives in serving the public. Nonetheless, the simple act of *asking questions* in board meetings is considered an essential, and universal, part of a director's due diligence. Thus, despite some limited differences in the governance of public and not-for-profit organizations (Hyndman and McDonnell, 2009), the list of questions proposed by the CICA can still be regarded as an established and recognized framework within which a board could diligently examine and carry out its legal and statutory oversight responsibilities for executive compensation. We also note that, as the 20 Questions document itself acknowledges: "These questions are not intended to be a precise checklist, but rather a way to provide insight and stimulate discussion on important topics. In some cases, Boards will not want to ask the questions directly." (Greville and Crawford, 2005: *How to Use This Publication).*

After eliminating the questions not applicable to public service organizations, we settled on 24 of the CICA's executive compensation questions[75] to guide our research. We then developed a survey to help determine both the extent to which board members in our sample of public service organizations asked these questions and the degree of importance they placed on them.

EXECUTIVE COMPENSATION IN PUBLIC SERVICE ORGANIZATIONS

For many years, "base salary" in public service organizations has been the only, and most significant, element of executive compensation. More recently, bonuses, severance/termination payments and pension/post-retirement benefits have become important considerations. For instance, the total board approved compensation for the CEO of the Art Gallery of Ontario (AGO) was $1,070,000 in 2009,

[74] Some of the more complex questions in the *20 Questions* framework are restructured into a number of simpler questions, since questionnaire survey cannot capture the breadth of discussion on complex questions in a board meeting as anticipated by the *20 Questions* framework.

[75] The six questions that were not included in the analysis were: (1) Has responsibility for completing the report on executive compensation for the Management Proxy Circular been explicitly set out in the Board and/or Human Resources/Compensation Committee mandate, as applicable? (2) Does the design and size of the CEO's stock option awards make sense in light of the strengths and weaknesses of the organization's incentive programs? (3) Does the design and size of the CEO's stock option awards make sense in light of competitive practice? (4) Should there be guidelines governing how and when the CEO's (or other executives') stock options should be exercised? (5) Should there be guidelines governing how and when shares acquired by the CEO's (and other executives') stock options should be sold? (6) Are there appropriate rules and guidelines in place for the CEO (and other executives) with respect to share ownership and share related transactions?

including a performance based bonus of $665,000.[76] In another example, the Hospital for Sick Children Foundation Board in Toronto gave its former president a $2.7 million 'golden parachute'. This sum included a 'final salary' of $600,000 and a $2.1 million severance payment to compensate the CEO for any 'early departure' prior to the expiry of his contract. Both the salary and severance payments were included in the contract approved by the Foundation Board in 2003.[77] More recently, Concordia's University President, who was let go abruptly, received a severance package of approximately $700,000, the equivalent of two years' salary.[78] With the departure of two presidents in three years, the Quebec Education Minister has asked Concordia's board of governors to better understand its responsibilities and to be vigilant in managing university funds, a large part of which are public funds.

Not all terminations, however, go smoothly. In June 2002, the Government of Ontario passed the 'Hydro One Directors and Officers Act' which contained a section imposing a maximum on amounts which senior officers of the provincial electric utility could claim as a supplementary pension.[79] The law was created in response to public concern over the perceived excessive compensation of $2.2 million paid to the former CEO of Hydro One in 2001. At present, the former Hydro One CEO is suing the government arguing that it is "pure vindictiveness" for the government to cap her pension at $308,000, which she claims should have been $464,000.[80]

Except for the non-applicability of equity-based compensation, the boards of public service organizations have approved executive compensation contracts resembling those of publicly listed corporations – including large cash bonuses, handsome golden parachutes and lucrative supplementary pensions. Board members of these organizations would argue that such compensation packages are imperative to attracting the outstanding executives needed to lead their organizations (Fama and Jensen, 1983). Critics, however, contend that the directors of these public service boards did not exercise appropriate due care in discharging their responsibilities regarding CEO compensation and therefore should be viewed as negligent.

There was legislation before the House of Commons in Canada which is designed to contain and manage excessive executive compensation of charitable organizations. Bill C-470 "amends the *Income Tax Act* to revoke the registration of a charitable organization, public foundation or private foundation if the annual compensation it pays to any single executive or employee exceeds $250,000".[81] The enactment of this legislation would have a major impact on both the hospital and university foundation sectors which, somewhat ironically, solicit private donations to compensate for reduced government funding and whose CEOs' compensation typically well exceeds the proposed federal limit.

It is argued that this legislation might have been avoided if the public (through their elected governments) had more confidence in the boards of charitable organizations and the latter's ability to competently discharge their oversight responsibilities with respect to executive compensation. One way of assessing this competence – and oversight - is *to determine the extent to which 'public service directors' have asked the appropriate governance questions on executive compensation as proposed by the CICA*. We set about to determine this. What follows is a description of our study using the CICA's '*executive compensation questions' framework*.

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[76] Knelman, M. Big bonuses at AGO raise questions. ***The Toronto Star***. April 8, 2010. (http://www.thestar.com/entertainment/article/791926--big-bonuses-at-ago-raise-questions, accessed on June 16, 2010.)
[77] Donovan, K. Sick Kids charity boss gets $2.7 M send-off. ***The Toronto Star***. October 1, 2009. (http://www.thestar.com/news/gta/article/703659, accessed on June 16, 2010).
[78] Hamilton, G. Concordia defends controversial departure of latest president. ***The National Post***. January 10, 2011. (http://www.nationalpost.com/m/story.html?id=4088392, accessed on January 12, 2011.)
[79] Jones, A. Fired Hydro One CEO fights for bigger pension. ***The Globe and Mail***. June 13, 2010. (http://www.theglobeandmail.com/news/national/fired-hydro-one-ceo-fights-for-bigger-pension/article1602418/, accessed on June 16, 2010.)
[80] Ibid.
[81] Levy-Ajzenkopy, A. Bill C-470: Transparency, salary capping or knee-capping for the charitable sector?. Subsequently, Bill C-470 passed third reading at the House of Commons in March 2011, but it did not become law. (Charity Village. http://www.charityvillage.com/cv/archieve/acov/acov10/acov1012.asp, accessed on June 8, 2010.)

A SURVEY OF QUESTIONS ASKED BY DIRECTORS ABOUT EXECUTIVE COMPENSATION

The research objectives of this exploratory study are to investigate:

- the extent to which board members of public service organizations ask the 24 relevant executive compensation governance questions as specified by the CICA;
- the degree to which the 24 executive compensation questions are considered important by the board members of public service organizations; and
- whether or not the number of the executive compensation questions asked are associated with specific attributes of a public service board – including the directors themselves.

To carry out our investigation, we developed a paper-based survey which was administered to a sample of 120 board members who were attending a Canadian director training program. The survey[82] asked board members to refer to a single organization (the one they were most familiar with as a director) and collected data on two issues: (1) descriptive data on the board member's personal information and board experience as well as characteristics of the organization and board on which he/she served as a director; and (2) the usage and perceived importance of the 24 relevant executive compensation questions proposed by the CICA – hereinafter referred to as 'the 24 questions'. These questions are listed in Table 2. Sixty-nine participants completed the survey (a 57.5 percent response rate) and produced 47 usable questionnaires pertaining to public service organizations.

Our assessment of the 24 questions was done by asking survey participants (a) to indicate whether or not each question was raised/considered by their board (1 = "yes"; 0= "no"); and (b) to rate the importance of each question - using a 7-point Likert scale ranging from "1 (really unimportant) to 7 (extremely important)".

Given the nature of the sample size and method of data collection, caution must be exercised in terms of interpreting our findings and their generalizability. The practices that we observed, however, are believed to be representative of Canadian and, generally speaking, North American public service boards.

RESULTS

Characteristics of the Respondents

The sample's respondents can be considered as a group of professionals who are both well educated and have management/business/professional experience. About two-thirds have post-secondary education, and 16 respondents have professional designations. Close to 80 percent indicated that, in their "day jobs", they are either senior managers (i.e., CEO, COO, CFO, President, Vice-President, Partner) or owners of an organization. About half of the respondents reported an annual personal income of $150,001 or more. All but two respondents reported that their annual board fees are less than $50,000 while 11 stated that such fees are 'not applicable'. This latter finding is consistent with the perception that the motivation for individuals who volunteer their time to serve as board members of public service organizations may be somewhat more generous and selfless in nature (Brower and Shrader, 2000).

The work experience of the respondents can be regarded as extensive since 41 are at least 40 years old or older. Their experience as board members also varies greatly from a low of two years to a high of 28 years with an average of 13.8 years (see Table 1). In addition, while 20 respondents indicated that they are serving on only one board, nine currently serve on two, and eight are sitting on four or more boards concurrently. Close to 55 percent of the respondents have previously served on four or more boards. Moreover, nine respondents (19 percent) indicated they were either the Chair or a member of the Human Resources/Compensation Committee of their specific boards.

Thus, the respondents' overall board experience is judged to be fairly wide-ranging. Along with their known commitment to governance education and training, the directors participating in the survey seem to have a fairly good understanding of both their fiduciary duties and the need to diligently discharge their

[82] A copy of the survey is available from the authors upon request.

responsibilities as board member – among which is the appointment, performance evaluation, compensation determination, and succession planning of the CEO.

Table 1. Board Experience of Respondents and Characteristics of the *Specific* Board/Organization[83]

N = Total Number of Responses

	Mean (N)	Standard Deviation	Minimum	Maximum
Years of experience as board directors	13.8 (46)	7.64	2.0	28.0
Board tenure: Years of experience on *specific* board	3.8 (45)	3.34	0.3	18.0
Board size	9.9 (47)	3.11	5.0	18.0
Separation of positions between CEO and Board Chair	44 (47)			
Percent of external/non-management directors on *specific* board	96.5% (45)	8.5%	60.0%	100.0%
Number of regularly scheduled meetings of *specific* board	6.6 (47)	2.84	1.0	12.0

Characteristics of the Sample Boards/Organizations

Types of organizations. For the 47 boards represented in our sample (the 'specific boards'), 27 (57.4 percent) are labeled as 'government owned crown corporations' and 18 (38.3 percent) as not-for-profit organizations, with two other charitable organizations. By and large, no significant differences in the board members' responses were found between not-for-profit organizations and crown corporations. However, 26 respondents (55 percent) indicated that their specific boards employed the services of independent compensation consultants (other than those providing service to management) in determining CEO compensation.

Board experience and tenure. The respondents have served on their specific boards for an average of 3.8 years with a range of four months to 18 years. While 14 respondents (29.7 percent) have served for over three years on their specific boards, the majority is in their first term (three years or less) as a director. Their average total current board membership is two. The tenure of the respondents on their specific board is therefore deemed to be relatively short.

Board independence. There is a separation of positions between the CEO and the board chair in 44 (93.6 percent) of the specific boards. For the remaining three boards, a lead director is appointed to chair meetings of the independent directors. Interestingly, lead directors are also appointed for 24 of the 44 organizations at which the Board Chair and CEO positions are separated. In addition, 33 (70 percent) of the specific boards are completely made up of independent (i.e., external/non-management) directors and, in all but three boards, over 80 percent of the directors are considered as independent. Over 90 percent of the respondents also indicated that board meetings, or a portion thereof, occurred without management being present. These findings demonstrate that the specific boards in our sample have many structures in place to enable their board members to act independently of management.

Board size. Board size in our sample ranges between 5 to 18 directors with an average of ten board members. This is consistent with the average board size in Canada which has remained around 11 for many years (The Conference Board of Canada, 2002).

Meeting frequency. Forty-four (93.6 percent) of the respondents indicated that their specific boards meet at least quarterly while more than half (55.3 percent) claimed to meet at least six times a year. These statistics suggest that the specific boards in the sample are moderately active – as opposed to being passive, minimum engagement ones.

[83] *Specific* Board/Organization refers to the board/organization that the subject is either currently serving as a board member or he/she is most familiar with.

The Executive Compensation Questions

Frequency. Table 2 shows that 21 of the 24 questions (87.5 percent) are asked by more than half of the responding board members. Six questions (1, 2, 4, 16, 17, and 20) are the most often asked with frequencies greater than 80 percent while five questions (7, 8, 12, 14, and 24) were raised the least with frequencies less than 55 percent. These findings therefore suggest that, for this sample of public service organizations, the directors appear to be significantly more concerned about (a) defining appropriate executive compensation roles and responsibilities for the board, and (b) addressing specific elements related to determining CEO compensation (i.e., payment process, and comparator group). Conversely, they appear to be considerably less interested in the board's role in selecting - and periodically evaluating - compensation advisors and assessing the impact of any special circumstances on executive compensation.

Total number and percent. The average number of executive compensation questions asked by the responding board members was 15 (or 62 percent of the 24 questions) with a standard deviation of 6 and a range from 0 to 24 questions. More than one-quarter of the respondents (13) claimed to have asked between 19 and 21 questions while four (8.5 percent) indicated that their boards deliberated more than 90 percent (21) of them (see Table 3).

Table 2. The 24 Relevant Questions Directors of Public Service Organizations Should Ask about Executive Compensation

For each question, please indicate whether:

- The Board of Directors of the organization you selected has considered this question (or a similar one) about executive compensation.
- How important is this questions? (from 1 = really unimportant to 7 = extremely important)

		Times (% of Respondents) Questions Asked	Degree of Importance Mean (Ranking)
1.	Where does the responsibility for oversight of executive compensation ultimately reside?	40 (87.0%)	5.73 (5)
2.	Are the respective roles of the Board and Human Resources/Compensation Committee clearly defined?	40 (85.1%)	5.82 (3)
3.	Are the respective roles of the Board and Human Resources/Compensation Committee clearly understood?	34 (75.6%)	5.74 (4)
4.	Are the directors sufficiently independent for purposes of serving on the Human Resources/Compensation Committee?	39 (83.0%)	5.91 (1)
5.	Has the need for independent advice to the board been considered for determining executive compensation?	32 (69.6%)	5.20 (17)
6.	Has the Board and Human Resources/Compensation Committee considered the purpose for which independent executive compensation advice is required?	32 (71.1%)	5.28 (13)
7.	Has the Board considered the nature of the overall business relationship between the organization and Management's compensation advisors?	21 (51.2%)	4.36 (23)
8.	Has the Board considered what its role is in selecting and periodically evaluating independent executive compensation advisors?	15 (35.7%)	4.34 (24)
9.	Is it clear to the Board who (i.e., Management and/or the board's advisors) is recommending or supporting (the reasonableness of) any executive compensation recommendations?	33 (76.7%)	4.97 (20)
10.	Is there clear consensus among the organization's directors as to best practices for the Board and/or Human Resources/Compensation Committee in discharging their responsibilities for executive compensation?	28 (68.3%)	5.08 (18)

		Times (% of Respondents) Questions Asked	**Degree of Importance Mean (Ranking)**
11.	In discharging their responsibilities for executive compensation, have the best practices for the Board and/or Human Resources/Compensation Committee been formalized and/or codified?	25 (59.5%)	5.24 (15)
12.	Has the Board considered its position on the (broader) disclosure of executive compensation?	22 (53.7%)	4.67 (22)
13.	Does the Board have appropriate policies on ‘disclosure of executive compensation’ that are also transparent?	25 (59.5%)	5.25 (14)
14.	Has an independent advisor of the Board reviewed the CEO’s employment contract for reasonableness?	20 (47.6%)	5.00 (19)
15.	How does the CEO’s remuneration, in total and by element, compare to the competitive market?	30 (74.4%)	5.55 (9)
16.	Is there a proper process in place to monitor all payments and other benefits received by the CEO?	35 (79.5%)	5.90 (2)
17.	What factors (e.g. geography, industry, size, ownership) have been taken into account in selecting the *comparator group* used for executive compensation purposes?	36 (90.0%)	5.66 (7)
18.	What is the process and timing for reviewing the *comparators in the group*?	20 (55.6%)	5.35 (12)
19.	What is the methodology used (i.e. raw data percentiles and/or size adjusted) in presenting competitive comparator data for the CEO’s compensation?	23 (60.5%)	5.21 (21)
20.	Are the performance measures and standards for the CEO’s incentive programs appropriate?	37 (84.1%)	5.69 (6)
21.	Is it understood how subjectivity and/or discretion are to be applied in determining the CEO’s ultimate award per incentive program?	28 (68.3%)	5.49 (10)
22.	Does the full range of possible payouts under the CEO’s incentive program make sense relative to the organization’s performance levels and related total compensation?	32 (74.4%)	5.66 (7)
23.	Does the Board understand, and are they comfortable with, pension and post-retirement benefits the CEO is entitled to over time?	34 (77.3%)	5.43 (11)
24.	Does the Board understand, and are they comfortable with, CEO compensation that may be payable in special circumstances (such as, but not restricted to, change-of-control)?	17 (43.6%)	4.89 (21)

High Importance (>=5.66) and/or high frequency (>= 80.0%): Questions 1, 2, 3, 4, 16, 17, 20, 22
Low Importance (<=5.00) and/or low frequency (<= 55.0%): Question 7, 8, 9, 12, 14, 24

Table 3. Percent and Number of Questions Asked by Board Members

Percent of Questions Asked	Number of Questions Asked Q = 24	Number of Respondents (Percent) N = 47
92% to 100%	22 to 24	4 (8.51%)
79% to 88%	19 to 21	13 (27.66%)
67% to 75%	16 to 18	6 (12.77%)
54% to 63%	13 to 15	9 (19.15%)
42% to 50%	10 to 12	6 (12.77%)
29% to 38%	7 to 9	5 (10.64%)
17% to 25%	4 to 6	2 (4.26%)
4% to 13%	1 to 3	1 (2.13%)
0.00%	0	1 (2.13%)

Interestingly, only a few boards rarely engage in the governance of their organization's executive compensation. There was just one board at which only one to three questions were asked and another at which none of the questions were asked at all.

As indicated earlier, there is no significant difference in the average number of questions asked between not-for-profit organizations and crown corporations (14.28 vs 14.89; p-value = 0.735). However, respondents from crown corporations appear more likely to ask Questions 13 and 14 than those from not-for-profit organizations; which implies that the former is more concerned about disclosure of CEO compensation. On the other hand, respondents who were either the Chair or a member of their specific board's Human Resources/Compensation Committee are more likely to ask Questions 1, 20 and 21 as compared to those who were not. This suggests that Human Resources/Compensation Committee members are more concerned about where the responsibility for oversight of executive compensation ultimately resides, the appropriateness of performance measures and standards for the CEO's incentive programs, and the discretion in determining the CEO's ultimate awards per incentive program. Nonetheless, the average number of questions asked by respondents on a Human Resources/Compensation Committee is not significantly different from those who are not on the committee (17.56 vs 14.03, p-value = 0.080).

Conversely, respondents on boards which employed the services of an independent compensation consultant in determining CEO compensation asked significantly more questions than those without compensation consultants (16.81 vs 12.43; p-value = 0.008). They also were more likely to ask Question 2, 3, 5, 6, 14, 18, 19, and 24. Interestingly, female respondents were also found to ask significantly more questions than their male counterparts (18.09 vs 14.11; p-value= 0.012) with questions 1, 2, 11, 16, 19 and 20 garnering significantly higher usage.

Importance. Our analysis of the questions' perceived importance is also displayed in Table 2. It shows a pattern of importance and unimportance among the 24 questions which essentially parallels the one discovered in our examination of the questions' frequencies. All six questions categorized as being among the most frequently mentioned (i.e., a frequency of usage greater than 80 percent) are also the ones receiving the highest average importance scores (i.e., an importance score greater than 5.66).[84] Similarly, five of the six least important questions (with importance scores less than or equal to 5.00) are also ones asked with the lowest frequency (i.e., a frequency of usage less than 55 percent). The average question importance rating is also fairly high at 5.31 (of a 7-point Likert scale).

In general, there is no significant difference in the importance rating of individual questions between subgroups of respondents, such as not-for-profits organizations vs crown corporations, members vs non-members of the Human Resources/Compensation Committee, and female vs male respondents. However, there were isolated pockets of differentiation. For instance, respondents from crown corporations, as

[84] Two additional questions, i.e., Question 3 and 22, also meet the minimum threshold with an average degree of importance greater than 5.66, and they are categorized as questions of "high importance".

opposed to respondents from not-for-profit organizations, indicated that it is highly important to ask questions regarding the selection of comparator groups in determining executive compensation (Question 17). Similarly while female respondents indicated that it is important to ask if there is a clear consensus among the organization's directors as to best practices for the Board and/or Human Resources /Compensation Committee, most male respondents did not (Question 10). Finally, respondents serving on Human Resources/Compensation Committees reported that it is more important to have a clear understanding on the respective roles of the Board and Human Resources/Compensation Committee (Question 3); to consider the need for independent advice in determining executive compensation (Question 5); and to know the purpose for which independent executive compensation advice is required (Question 6). Significant differences were also observed in the importance ratings on Questions 5, 6, 7, 11, 13, 14, 15, 16, 17, 19, 24 between respondents whose boards have employed the services of independent compensation consultants and those who have not.

Correlation between usage and importance. Table 4 portrays both the usage scores (mean frequency and standardized mean frequency[85]) and importance scores (mean importance and standardized mean importance) for the 24 questions. Overall, the standardized usage and standardized importance scores move in the same direction, i.e., the greater/lower a question's importance, the greater/lower its usage. However, they do so in different magnitudes, i.e., the scores' variations are not perfectly synchronous or congruent.

Table 4. Mean Values of Question Usage and Importance

Difference in standardized mean question usage and importance = Standardized mean question usage – standardized mean question importance; where standardized mean question usage (importance) is the number of standard deviations of mean question usage (importance) from overall mean question usage (importance).
* Over-asked question (+ standardized usage and – standardized importance)
** Under-asked question (- standardized usage and + standardized importance)

Question	Mean question usage (frequency)	Standardized mean question usage (frequency)	Mean question importance	Standardized mean question importance	Difference in standardized mean question usage and importance
1	40	1.469	5.73	0.953	0.517
2	40	1.469	5.82	1.152	0.317
3	34	0.662	5.74	0.977	-0.315
4	39	1.335	5.91	1.352	-0.017
5*	32	0.393*	5.20	-0.245*	0.638
6*	32	0.393*	5.28	-0.068*	0.460
7	21	-1.088	4.36	-2.130	1.042
8	15	-1.895	4.34	-2.169	0.274
9*	33	0.527*	4.97	-0.752*	1.279
10	28	-0.146	5.08	-0.517	0.372
11	25	-0.550	5.24	-0.163	-0.387
12	22	-0.953	4.67	-1.444	0.490
13	25	-0.550	5.25	-0.133	-0.416
14	20	-1.222	5.00	-0.695	-0.528
15	30	0.123	5.55	0.547	-0.423
16	35	0.796	5.90	1.332	-0.536
17	36	0.931	5.66	0.783	0.148
18**	20	-1.222**	5.35	0.098**	-1.321
19	23	-0.819	5.21	-0.232	-0.586
20	37	1.065	5.69	0.856	0.209
21**	28	-0.146**	5.49	0.398**	-0.544
22	32	0.393	5.66	0.783	-0.391
23	34	0.662	5.43	0.268	0.394
24	17	-1.626	4.89	-0.951	-0.675

[85] Standardized scores are calculated for easing the comparison among questions. The mean is subtracted from each score, and the differences are divided by the standard deviation. Thus, standardized scores capture the distance of observations from the mean in standard deviation units.

These variations in magnitude thus indicate that there are discrepancies between the current state of executive compensation governance actually practiced (as represented in the standardized usage scores) and the preferred state of governance (as expressed by the standardized importance scores). Indeed, an imperfect correlation (Pearson's r) of 0.814 (p-value = 0.000) between the standardized usage and importance scores demonstrates that while most of the questions considered important are also the ones frequently asked (and vice versa), there are some questions that appear to be under-asked despite their rated importance (i.e., Questions 18 and 21 have positive standardized importance scores but negative standardized usage scores), and curiously, that there are some questions, despite their low rated importance, that are actually being 'over asked' (i.e., Questions 5, 6 and 10 have negative standardized importance scores and positive standardized usage ones).

Finally, as shown in Table 5, Questions 1, 2, 4, 16, and 20 are the most important and most frequently asked compensation governance questions. Questions 7, 8, 12, 14 and 24 are both the least important and least frequently asked executive compensation questions. By and large, then, the board members in the sample do not treat all 24 questions proposed by the CICA the same and, more importantly, there appears to be clear distinctions with which the questions are both asked and valued by directors in the boardrooms of public service organizations. Our findings would therefore lend support to the notion that not all governance questions proposed by the CICA should be considered equally important when it comes to directors giving proper oversight to executive compensation – at least in public service organizations. Whether or not the same finding would occur in different types of organizations (e.g., for-profit companies) is a matter for future research which the present authors intend to pursue. However, a bedrock principle of good governance is that 'one size does not fit all' and so it would be both appropriate and interesting to test this concept in the area of board oversight of executive compensation.

This is also the first study to test the application of the 24 executive compensation questions which have been promoted by the CICA since 2005. The questions were created by the authors, Grenville and Crawford, based on their collective experiences with the subject matter and focused on publicly-listed companies. Our research now suggests, though, that perhaps the questions selected by the authors need to be revisited and revised for public service organizations. Clearly, there are now several questions - which we identified as low importance - that should be considered for revision and substituted with others for public service organizations. The development of a 20 Questions framework for public service organizations should, therefore, be based on empirical studies similar to this one. It should also point out the need for directors to pay closer attention to those questions which are found to be highly important but 'under asked'.

Table 5. Classification of Questions Based on Standardized Importance and Frequency Scores

	Top Quartile of Most Frequently Asked Questions (Questions 1, 2, 4, 16, 17, 20)	Top Quartile of Least Frequently Asked Questions (Questions 7, 8, 12, 14, 18, 24)
Top Quartile of Most Important Questions (Questions 1, 2, 3, 4, 16, 20)	Questions 1, 2, 4, 16, and 20	-
Bottom Quartile of Least Important Questions (Questions 7, 8, 9, 12, 14, 24)	-	Questions 7, 8, 12, 14, and 24,

The five most important and most frequently asked questions:	
Question 2	Are the respective roles of the Board and Human Resources/Compensation Committee clearly defined?
Question 1	Where does the responsibility for oversight of executive compensation ultimately reside?
Question 4	Are the directors sufficiently independent for purposes of serving on the Human Resources/ Compensation Committee?
Question 20	Are the performance measures and standards for the CEO's incentive programs appropriate?
Question 16	Is there a proper process in place to monitor all payments and other benefits received by the CEO?
The five least important and least frequently asked questions:	
Question 8	Has the Board considered what its role is in selecting and periodically evaluating independent executive compensation advisors?
Question 7	Has the Board considered the nature of the overall business relationship between the organization and Management's compensation advisors?
Question 12	Has the Board considered its position on the (broader) disclosure of executive compensation?
Question 24	Does the Board understand, and are they comfortable with, CEO compensation that may be payable in special circumstances (such as, but not restricted to, change-of-control)?
Question 14	Has an independent advisor of the Board reviewed the CEO's employment contract for reasonableness?

Factors Driving Number of Questions Asked

Many factors can affect the behavior of directors at board meetings. As an exploratory study, we examine the possible relationships between a selected group of variables and the number of executive compensation governance questions asked. These variables include: (a) personal traits (such as, a director's gender and years of total board experience); and (b) the specific board's structure and processes (i.e., director tenure/years of service on the specific board, board independence (as represented by "non-duality", i.e., the separation of the Board Chair and CEO positions; and the percentage of independent directors)), board size and number of board meetings. We assess the relationship of these variables with the 'number of questions asked' using regression analysis. More specifically, we estimate the following OLS regression model:

$$QUES = \beta_0 + \beta_1 \, GENDER + \beta_2 \, EXP + \beta_3 \, TENURE + \beta_4 \, CEOCHAIR + \beta_5 \, BSIZE + \beta_6 \, PCTONBD + \beta_7 \, NUMMTGS + e \quad (1)$$

where:

QUES = number of questions asked;
GENDER = an indicator variable which equals 1 for female and 0 for male;
EXP = number of years of board experience;
TENURE = director tenure on the *specific board*;
CEOCHAIR = an indicator variable which equals 1 if the CEO is also the chairman of the board and 0 otherwise;
BSIZE = board size;
PCTONBD = percentage of independent directors on the board; and
NUMMTGS = number of board meetings per year.

Out of the 47 useable surveys, there are 37 surveys which have complete information for all our explanatory variables. Below we discuss the justification for selecting each of these explanatory variables along with a discussion of the regression results.

Does gender matter? Progress in reducing the disparity between men and women in board directorships is advancing slowly. Catalyst (2003a, b) reports that the proportion of total U.S. Fortune 500 board seats held by women has grown from 8.3 percent in 1993 to 11.1 percent in 1998 and 13.6 percent in 2003. In Canada, the proportion of female directors on boards has also increased from about 6 percent in 1996 (Burke 2000a, b) to a peak of approximately 16 percent in 2000 (The Conference Board of Canada, 2002). Despite empirical and anecdotal evidence on the value of female directors to a board, the representation of female directors on corporate boards is still relatively low (Burke 1994; Kuczynski, 1999; Bilimoria, 2000). Moreover, as reported by Peterson and Philpot (2007), female directors are more likely to serve on a board's public affairs committee than on its executive committee, undermining further the importance and contribution of female directors to board governance.

Interestingly, when compared to earlier investigations, the percentage of female directors represented in this study is relatively high at 23 percent. This percentage is consistent with the Conference Board of Canada's report[86] that 25 percent of directors of crown corporations in Canada are female. Our sample thus appears to mirror the national proportionate representation of women board members in one type of public service organization.

It was therefore interesting to observe the role that gender appears to play in terms of the number of questions asked by the respondents in our sample (see Table 6). There is a significant positive relationship ($p < 0.01$) between a board member's gender and the number of questions asked, i.e., female directors ask significantly more questions than their male counterparts. Given that the most important behavior of directors in the boardroom is asking questions, having female directors seems to facilitate the occurrence of this activity. Moreover, directors, in the past, have been criticized for not speaking up and asking 'tough questions'. Having a sufficient cadre of female directors on the board would appear to be a useful remedy in counteracting this charge.

Table 6. Results of Regression Factors Affecting the Number of Questions Asked

The regression model is:

$$QUES = \beta_0 + \beta_1 GENDER + \beta_2 EXP + \beta_3 TENURE + \beta_4 CEOCHAIR + \beta_5 BSIZE + \beta_6 PCTONBD + \beta_7 NUMMTGS + e$$

Variable	Coefficient	*t*-statistic
Intercept	-0.1243***	-0.02
GENDER	6.9288***	3.35
EXP	2.5342*	1.94
TENURE	0.7668*	1.85
CEOCHAIR	-7.9897**	-2.35
BSIZE	0.6153**	2.25
PCTONBD	0.0034***	0.64
NUMMTGS	0.7328*	2.04
N	37	
F value	4.18	
Adjusted R^2	38.21%	

Variable definitions:
QUES = number of questions asked;
GENDER = an indicator variable which equals 1 for female and 0 for male;
EXP = number of years of board experience;

[86] The Conference Board of Canada. News Release 09-59 – Crown Corporations hold themselves to high standards in good governance. (The Conference Board of Canada. http://www.conferenceboard.ca/press/newsrelease/09-59.aspx, accessed on August 11, 2010).

TENURE = director tenure on the *specific board*;
CEOCHAIR = an indicator variable which equals 1 if the CEO is also the chairman of the board and 0 otherwise;
BSIZE = board size;
PCTONBD = percentage of independent directors on the board; and
NUMMTGS = number of board meetings per year.

***, **, and * indicate respectively, 0.01, 0.05, and 0.10 significance levels for a two-tailed test.

Does board experience matter? According to the *expertise hypothesis*, directors who have accumulated high levels of board service also have greater experience, commitment and competence, thereby enabling them to carry out their directorship responsibilities more effectively (Vafeas, 2003). Our findings in Tables 1 and 6 support this conclusion. The respondents in our survey have an average of 13.8 years of total board experience and ask 2.5 additional executive compensation questions for every year of service as a board member. There is also a significant positive relation ($p = 0.10$) between the number of years of board experience and number of questions asked. Thus, *ceteris paribus*, it would appear to be beneficial for public service boards to recruit as members those individuals with high levels of previous board experience to ensure that more questions about executive compensation get raised and addressed in their board meetings. Alternatively, when less experienced directors are recruited and appointed to public service organizations, the board should address the situation with appropriate training, beginning for instance, with a copy of the CICA's *20 Questions* monograph. In so doing, directors would be provided with the knowledge and confidence needed to give effective oversight to executive compensation in their organizations.

Does board structure matter? While empirical studies related to executive compensation in public service organizations are limited, there is a large body of research that examines the impact of board structure on CEO compensation in publicly listed corporations. The usual structural variables of interest are: board size, board independence (especially the percentage of independent directors and Chair-CEO duality), director tenure, and number of board meetings. We therefore relied on this latter literature to inform and guide our examination of the oversight questions that directors use regarding executive compensation in public service organizations.

To begin with, findings by Lambert et al. (1993) and Core et al. (1999) show that the impact of **board size** on executive compensation is generally supportive of a positive relationship, i.e., a larger board size leads to higher levels of executive compensation. The argument supporting this finding is that it is harder for a large number of directors to operate as a coalition against the CEO. Similarly, Core et al. (1999) found that CEO compensation is positively correlated with increasing the number of board members and in another study, Cahan et al. (2005) report that the impact of board size on CEO compensation within the public sector of New Zealand is significant. They claim that CEO compensation increases by $26,380 when the board size is large. On a related note, Yermack (1996) also found that firm value increases as board size decreases and that smaller boards are more likely to remove CEOs of poor performing firms. Thus, smaller boards would appear to be more effective in setting appropriate levels of executive compensation and we speculate that part of the reason for this is their ability to ask more (and perhaps better) questions than larger ones.

The results of our analysis in Table 6 however, run counter to the norm and disconfirm our hypothesis of declining board oversight with increased board size. The larger boards of public service organizations (BSIZE) in our sample ask significantly more questions concerning executive compensation ($p = 0.05$) than smaller ones. This may not be so surprising after all since a larger pool of directors could be seen simply to generate more questions. It may also point out a significant and important difference in the behavior of directors between public service organizations and publicly listed companies. Directors in the former case are not afraid to ask lots of questions and maybe even feel compelled to do so – particularly in light of all the media attention that has been given recently to executive compensation in public service organizations. It would be interesting, however, to explore this matter in a sample of for-profit organizations as well.

In a study of **director tenure** (i.e., years of board service with a single organization), Vafeas (2003) found that the participation of long serving senior directors in compensation committees resulted in higher CEO pay and, with extreme lengths of board service (20 years or more), even CEO entrenchment.

We interpreted these findings to hypothesize that there will be less diligence and oversight (and hence less questioning regarding executive compensation) in those organizations with long standing/serving directors. However, we found the opposite. The longer the period of time directors had served on their public service boards, the more likely they were to ask significantly higher numbers of questions concerning their organization's executive compensation. We believe that the main reason for this is due to the familiarity the directors have obtained with their organization and its management over time. Therefore, directors with longer tenure are better positioned to raise questions. Accordingly, having public service boards comprised of long serving directors should not always be interpreted as signs of an entrenched board. Moreover, seeking to replenish and replace directors according to strict term and/or age limits may actually restrict and interfere with a board's ability to provide effective governance of executive compensation.

Unlike the historical literature on board size, research findings related to the impact of **board independence** on executive compensation has, until a short time ago, been inconclusive (Finkelstein and Hambrick, 1989; Lambert et al., 1993; Boyd, 1994; Core el al., 1999; Cahan et al., 2005). In a recent study, Chhaochharia and Grinstein (2009) looked at the impact of board and committee independence on CEO compensation. Their results suggested that the independence of board and committee members have a significant negative effect on both the structure and size of a CEO's compensation, i.e. the larger the number of independent directors, the lower a CEO's compensation. Other studies have also found that board independence enhances board effectiveness as outside directors are more likely to remove CEOs of poor performing firms (Weisbach, 1988) and act in the interest of shareholders – as opposed to management (Byrd and Hickman, 1992; Lee et al., 1992; Brickley et al., 1994). Thus, for the purposes of our study, it would not be unreasonable to expect that boards with a large proportion of outside or independent directors would ask more governance questions related to executive compensation than boards with a smaller proportion.

Contrary to expectations, however, we found board independence to be unrelated to the number of questions asked. One possible explanation for this is that the sample may be made up of two different types of independent directors: those who have detailed knowledge of the organization's operations and those who do not. To be sure, the presence of knowledgeable independent directors on a board should enhance corporate governance. With no links to current management, they can pose intelligent questions aimed at both providing competent supervision and helping improve management's decision making. As Fama and Jensen (1983) recognized, outside directors can enhance the monitoring ability of corporate boards. However, it is also possible that the presence of independent directors could adversely affect a firm's governance especially when they do not have sufficient knowledge or expertise about an organization's business and/or industry. As a result, they do not know what questions to ask and, to avoid looking incompetent, prefer to remain silent thereby compromising the governance oversight they should be providing. We wanted to explore the joint interaction of director independence and director tenure on the number of executive compensation questions asked but were prevented from doing so due to our small sample size. This remains a topic for future research.

Studies of **CEO duality** (i.e., the CEO serving as Board Chair) and executive compensation have been scarce. Core et al. (1999) appear to be the first ones to examine this relationship. Their results demonstrate that a CEO is able to extract additional compensation from those boards with CEOs serving as board chair. Cahan et al. (2005) also report that the impact of CEO duality on CEO compensation is significant. They claim that CEO compensation increases by $20,034 when the CEO also serves as board chair. Our findings are similar and support the findings of previous researchers. CEO duality (CEOCHAIR) is significantly and negatively related ($p = 0.05$) to the number of questions asked. In other words, the presence of CEO duality results in a lower number of executive compensation questions being asked and thereby provides further evidence of managerial power limiting the oversight of executive compensation by the board. Boards with Chairs who also occupy the CEO position are therefore warned. Their ability to provide effective oversight of executive compensation could be severely restricted in such circumstances and they should address this problem squarely in order to diligently fulfill their fiduciary duty, i.e., to act in the best interest of the organization, and not management. Failure to do so could easily be interpreted as a dereliction on their part.

Finally, too many **board meetings** can be symptomatic of problems at a company (e.g., financial depressions, looming bankruptcy, hostile takeovers etc.). Indeed, Vafeas (1999) reports that the number of board meetings per year is negatively associated with firm value. On the other hand, boards that meet

infrequently may not be monitoring their management sufficiently. As Jensen (1993: 866) states: "…in well-functioning organizations the board will be relatively inactive and will exhibit little conflict. It [i.e., increasing board activity] becomes important primarily when the rest of the internal control system is failing, and this should be a relatively rare event." Accordingly, we postulate that active boards (i.e., ones that meet frequently) will ask more questions regarding executive compensation than non-active boards. Our results confirmed this proposition. The number of meetings (NUMMTGS) is positively related ($p = 0.10$) to the number of questions asked. Thus, if boards of public service organizations find that they are not giving sufficient oversight to executive compensation, one easy remedy might simply be to increase the number of board meetings – or perhaps even the length of the meetings as well.

CONCLUDING REMARKS AND IMPLICATIONS

Studying directors and how they actually behave is a challenging activity. Few studies exist whereby the directors are active participants in the data collection. We are fortunate to have the cooperation of 47 board members for the purposes of this exploratory investigation into how directors discharge their executive compensation governance responsibilities in *public service organizations*.

We found that a director's gender, years of board experience, tenure on a board, board activeness, and CEO duality to be significant determinants in influencing the number of executive compensation governance questions that were being asked in board meetings. While there are two questions about executive compensation (Table 5) that are considered to be very important and yet apparently *under-asked*, the majority of the board members in our sample ask a considerable number of questions. Moreover, with 68 percent of the respondents indicating that their boards have asked at least 50 percent of the questions, it seems that most public service boards have tried to discharge their oversight responsibilities for executive compensation with some diligence.

It is therefore encouraging to find that our public service boards have adopted a considerable portion of the good governance practices as recommended by the CICA for effective oversight of executive compensation in for-profit corporate boards. While that adoption may have occurred inadvertently or intentionally, it speaks favourably to the fact that there are governance oversight questions about executive compensation which all boards feel compelled to ask. All roads do indeed lead to Rome! At the same time, however, we found that not all questions are considered equally important by the board members in our sample representing public service organizations. This can be attributed to the fact that the CICA's *20 Questions* framework was developed for publicly listed corporations. Nonetheless, this discovery confirms the observation that perhaps some of the oversight questions apply only in certain circumstances and not in others. Any development of the *20 Questions* for public service organizations therefore needs to take this into consideration.

Various limitations on the use of the survey we developed also apply to this study. The findings are based on a convenience sample, where respondents were enrolled in a director training program and therefore predisposed to learning about best practices in corporate governance. The findings of our study may, therefore, not be generalizable due to a self-selection and profile bias. Additionally, the small sample size limits the power of our statistical analysis and because this is an exploratory study, any causality inferences should be interpreted with caution.

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