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Prepared By:

Martin Gray & John Bircham - Assess-Us service providers for the GRS

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# Board Performance - What to Measure?

Ultimately a Board's role is to ensure the performance of the organisation it directs. So how can a Board measure its success in achieving its objectives? We are not saying that there are *only* three measurements of success, but we do believe there are three critical measurements of a Board's success: an effective Chair/CEO relationship; ethical leadership by the Board, Chair and CEO; fostering a climate of innovation that nurtures and grows ideas.

## Effective Chair/CEO Relationships

During the past two decades, commencing with the Cadbury report in 1992, governance advice has focused on the need to separate the roles of Chair and CEO. The rationale behind this is the danger of concentration of corporate power, and the need to share work load in an age of ever-increasing corporate complexity.

This focus on separation of roles should not distract from relationship needs 'the quality of the relationship between Chair and CEO reflects, in microcosm, the quality of governance within an organisation..... it is particularly crucial for every organisation because the chair and CEO of an organisation occupy important leadership roles. Their effectiveness in these roles is heavily affected by quality of relationship between the two.'<sup>1</sup>

Alan Cadbury specifies two fundamental conditions for effective relationships of Chair and CEO.

1. That the chairman and CEO see their jobs as complementary and not competing
2. That the two individuals have to trust one another<sup>2</sup>

## Respect, Trust and Candour

Increasingly the focus of governance is moving from solely compliance to embracing behavioural characteristics, such as trust. Professor Walker, for example, in his review of corporate governance of UK Banks, noted that the "principal deficiencies in boards related much more to patterns of behaviour than to organisation."<sup>3</sup>

Respect trust and candour are the foundations on which high performance teams operate and 'whilst It's difficult to tease out the factors that make one group of people an effective team and another, equally talented group of people a dysfunctional one; well-functioning, successful teams usually have chemistry that can't be quantified. They seem to get into a virtuous cycle in which one good quality builds on another.' What he called 'a virtuous cycle of respect, trust and candour.'<sup>3</sup>

## The CEO/Chair Compact Built on Trust

### Timely and relevant Information

The critical nature of timely and relevant information was emphasised by Professor Salter who said that 'Enron's chairman and CEO never told the board that whistle-blower Sherron Watkins had

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<sup>1</sup> Your Chair and Board a Survival Guide and toolkit for CEOs. Published for ACEVO 2008

<sup>2</sup> Cadbury Report 1992

<sup>3</sup> Review of Corporate Governance in UK Banks and other Financial Industry Entities 16 July 2009 Prof David Walker

raised major questions about financial irregularities. It is impossible for a board to monitor performance and oversee a company if complete, timely information isn't available to the board.<sup>4</sup>

Equally, the ACEVO survival guide for CEOs states that the delivery of timely and relevant information is the responsibility of the CEO. 'The CEO has lead, and on occasions sole responsibility for the flow of information up to the board, and the communication of decisions downward through the organisation. This position places considerable pressure and confers considerable power on the role of the CEO.'<sup>1</sup>

### **Effective Decision Making**

The other side of the compact is the responsibility of the chair, 'The Board meeting should be an environment in which effective challenge of the executive is expected..... It is the chairman who is responsible for leadership of the board, ensuring its effectiveness in all aspects of its role and setting its agenda so that fully adequate time is available for substantive discussion on strategic issues. The chairman should facilitate, encourage and expect the informed and critical contribution of the directors in particular in discussion and decision-taking.'<sup>3</sup>

### **Climate of Ethical Leadership**

"Management is doing things right, leadership is doing the right thing" Peter F Drucker

Several recent reviews of corporate collapses have noted the lack of ethical leadership by the Board. Describing the reasons for the Enron collapse, Professor Salter refers to the 'truth telling cornerstone of corporate governance', and 'the role of the Board in ensuring that principles, not rules, are the ethical framework for the organisation.'<sup>4</sup>

This sentiment is echoed in the words of Justice Cole commenting upon his investigation into unlawful activity by the Australian Wheat Board (AWB), "No-one asked, what is the right thing to do?.... At AWB the Board and the management failed to create, instill or maintain a culture of ethical dealing ... Legislation cannot destroy such a culture or create a satisfactory one. That is the task for the Boards and management of the companies".<sup>5</sup>

More than ever ethical considerations are bearing the brunt of the current economic times, according to Stephen Bubb, CEO of ACEVO, 'the recession has exposed the hollowness of much corporate social responsibility. Corporate sponsorship and support has significantly fallen away. A 'good times' PR exercise. The rich philanthropists have retreated to their islands.'<sup>6</sup>

### **Fostering a Climate of Innovation**

From a survival perspective, the recent economic crisis has highlighted the critical need for creativity and adaptability. Notwithstanding this, recessions also provide great opportunities.

'In 2001 the dot com bubble had burst, the Nasdaq index was down by nearly 30%, even before September 11th. However, companies kept innovating. Amazon and eBay were both early in their histories during this time period and when many dot com businesses were failing, eBay and Amazon

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<sup>4</sup> Innovation Corrupted: How managers can avoid another Enron. By Professor Malcolm Salter July 2008

<sup>5</sup> AWB The Cole Inquiry purpose was to investigate "whether decisions, actions, conduct or payments by Australian companies mentioned in the Volcker Inquiry in to the United Nations program breached any Federal, State or Territory law."

<sup>6</sup> At Tipping Point. The third sector leading from recession to recovery. Stephen Bubb, CEO ACEVO

continued to innovate and to grow market share. As the recession receded, these two companies were positioned to grow more quickly than their remaining competitors and as a result, locked up dominant positions in their respective industries.<sup>7</sup>

Dramatic change and simple evolution give birth to a new set of market needs and creativity is at the heart of developing solutions to these needs. It is the responsibility of the Chair and CEO to work together to infuse the climate of creativity starting from the Board and filtering through the whole organisation.

In early 2007, ACEVO invited Sir Rodney Brooke, Chair of the General Social Care Council, to chair a Commission of Inquiry into governance in the sector. A key finding was that only 40% of ACEVO members could agree with the phrase “My board is highly effective in developing and reviewing our strategy.”<sup>8</sup> Perhaps things are changing for the better? A recent benchmark survey of 200 trustees who have undertaken ACEVO’s Governance Review Service revealed that only 20% of them were dissatisfied with the Board’s role in formulating and reviewing strategy.<sup>9</sup>

### Trustee Dissatisfaction

In conclusion, whilst past governance advice has focussed on processes, the economic turmoil of this decade has changed perspectives to a greater evaluation of behavioural characteristics. Reviewing the softer issues of behaviour, requires a different type of evaluation to that of the box ticking of compliance, such as, separation of the roles of CEO and Chair, composition of committees and the like. It requires a more qualitative review process.

*Boards are concerned, as evidenced by the recent ACEVO Benchmark of 200 trustees who have taken ACEVO’s Governance Review Service, where almost 50% of trustees surveyed were dissatisfied with their Board performance reviews.*

Ultimately, behavioural psychologists and organisational learning experts agree that people and organisations cannot learn without feedback. No matter how good a board is, it’s bound to get better if it’s reviewed intelligently. But this has to be carried out in an anonymous and non-recriminatory environment, designed to ‘surface’ the issues.

In the words of the CEO of ACEVO, Sir Stephen Bubb “If we are at the tipping point for third sector leadership across society, the economy and the state, the sector itself must “gear up”, the drive to a more professional third sector must continue.”<sup>6</sup>

7. Blue Océana Strategy by Chan Kim and Renee Mauborgne Harvard Business School Publishing

8. The Brooke Report 2007

9. ACEVO Benchmark Study of 200 Not-for-Profit Trustees

### About the Authors - Martin Gray, B. A., B. Econ., and Dr John Bircham B.Agr.Sc., M.Agr.Sc., Ph.D

The authors facilitate performance reviews of Boards and other teams – small and large, state owned enterprises, sports bodies, advisory bodies, government, not-for-profits, etc., in the UK and Australasia. Their Board reviews include the facilitation of ACEVO’s Governance Review Service (GRS) for their members and customers using a Web-enabled, targeted self-assessment methodology. Over the years **they** have accumulated considerable experience through hands-on involvement, not only in the conduct of performance reviews but also in the use of self-assessment techniques for finding out *what you don’t know that you should or need to know* in complex organisations, sponsoring post-graduate research in this area.

For Information about the ACEVO Governance Review Service, please email: [orli.gorenski@acevo.org.uk](mailto:orli.gorenski@acevo.org.uk)