Can Organisational Governance learn?

*Can we determine what are the 'just' D.E.S.E.R.T.s of ‘Good Governance’?*

*(research on a Directors' Effectiveness Self-Evaluation Research Tool)*

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**YOU'RE SACKED: King acts on cancer botch-up**  
*The Dominion* Wellington NZ, Thursday, 13th July 2000, p.1  
By Karen Howard and Philip Kitchin  
“GISBORNE Hospital board members were sacked … so people could again have confidence in the hospital. …”

**Lab's standards often borderline**  
*The Dominion* Wellington NZ, Friday, 14th July 2000, p. 1  
By Karen Howard and NZPA  
“GISBORNE Hospital's laboratory was allowed to continue … despite concerns voiced by the Crown Entity… The mistake was just one in a list of blunders to emerge at the hospital during the past year. …  
She warned more problems might yet emerge as the ‘chooks come home to roost’ from a decade of hospitals being forced to focus on making a profit or breaking even.” (emphasis added).
News Updates

GOVERNMENT ACTS ON FIXED SPEED CAMERAS
- 14 May 2004

Fixed speed cameras on the Western Ring Road will be replaced and around 90,000 motorists will have fines reimbursed and demerit points reinstated, Premier Steve Bracks announced today.

Can Governments learn?

- ORGANISATIONAL Governance - yes (some)?

Leeuw, Rist & Sonnichsen, (1994). *Can Governments learn? Comparative perspectives on evaluation and organisational learning*

Has the New Zealand Government learned from failures of clinical governance and the need for Quality Assurance in hospital pathology services?

Has the Bracks Government learned from ACT & USA experience of the need for Quality Assurance on PolTech’s fixed SPEED cameras? Why haven’t VicRoads used the Cameras’ Speed readings display as a transparent check on the system?
Can Governments learn?

- POLITY Governance
  - not likely (many failures)?
Etheredge (1985). Can Governments Learn?
American Foreign Policy and Central American Revolutions.

What of George senior’s lessons from ‘Desert Storm’?
(or will George W. learn anything about American foreign policy?)

What of the ALP’s lessons from celebrity pre-selections?
(or will Mark & Peter learn from Cheryl & Kim?)

Can CORPORATE Governance learn?

identified
7 deadly corporate sins and the groups of sinners who committed them
Does all this sound familiar?

- if not read: 

*Parkinson’s Law (1957)*

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**PARKINSON'S LAW: INJELITANCE**

“We find everywhere a type of organization (Administrative, Commercial, or Academic) in which the higher officials are plodding and dull, those less senior are active only in intrigue against each other, and the junior men are frustrated or frivolous. Little is being attempted. Nothing is being achieved. ... it is the result, admittedly, of a disease, but of a disease that is largely self-induced. From the first signs of the condition, the progress of the disease has been encouraged, the cause aggravated, and the symptoms welcomed. It is the disease of induced inferiority, called *Injelititis*. It is a commoner ailment than is often supposed, and the diagnosis is far easier than the cure.”

He explained that it is the mutation of the viruses of *Incompetence* and *Jealousy*.
Trevor Sykes

*(Financial Review Tuesday, 14th January, 2003, p.1)*

identified in HIH: "a cocktail of greed, folly, incompetence and arrogance".

But as Parkinson warned us in 1957:

"a diseased institution cannot reform itself."

Why? - undiscussability?

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**Errors & Organizational Learning**

The concept of organizational learning can be defined as: "... a competence that all organizations should develop ... the better organizations are at learning the more likely it is they will be able to detect and correct errors, and to see when they are unable to detect and correct errors" (Argyris, 1999, p. 1).

1) **first-order errors**: operational mistakes or incomplete strategies which can ordinarily be detected and perhaps corrected.

2) **second-order errors**: "make people systematically unaware of the behavioral phenomena that underlie the production and reproduction of first-order errors" (Argyris, 1999, p. 7). *defensive routines*, mixed messages, taboos (e.g., undiscussability of errors) games of control and deception.
DEFENSIVE ROUTINES ARE A RISK

Regarding NASA's disaster, Prof. Argyris (1990, p. 43) concluded:
"Organizational defence routines make it highly likely that individuals, groups, intergroups, and organizations will not detect and correct the errors that are embarrassing and threatening because the fundamental rules are to (1) bypass the errors & act as if that were not being done, (2) make the bypass undiscussable, and (3) makes its undiscussability undiscussable."

… These conditions, in turn, make it difficult to engage the organizational defense routines in order to interrupt them and reduce them. Indeed, the very attempt to engage them will lead to the defensive routines being activated and strengthened. This, in turn, reinforces and proliferates the defensive routines".

What Can GOVERNANCE & Boards of Directors Learn?
Let’s look at Organisational Learning & Evaluation Theory & practice.

Evaluation at the operational/program level may help address the first-order errors (Owen & Lambert, 1995; Rist, 1994).
Organisational Learning & Evaluation

We need more research to test that Evaluation at the operational/program level CAN help address the first-order errors (Owen & Lambert, 1995; Rist, 1994).

But I argue that there is also a need for strategic evaluation (Sharp, 1999) at the Board or organisational governance level, to address the second-order errors.

Organisational Governance Learning?

Essential Ingredients for Organisational Learning

A) Planfulness
- strategic plan for the Organisation
- Goals for Managers & Directors

B) Feedback
- performance measurement, monitoring (e.g. Balanced ScoreCard)
- STRATEGIC evaluation
A DEARTh OF RESEARCH ON
ORGANISATIONAL GOVERNANCE
(especially in the third sector in Australia)
(see Woodward & Marshall, 2004; Lyons, 2000)
(Cf Peter Steane, 2000; Catherine McDonald, 1999)

There is little research or evidence about:
* whether the competence in, and pursuit of, evaluation of performance by Boards of Directors influences the performance of the organisation (Green & Griesinger, 1996)
* what criteria Boards of Directors use to evaluate their organisation's performance
  (Conger, Finegold, & Lawler, 1998; Green & Griesinger, 1996)
* what criteria Boards of Directors use to evaluate their Board's own performance - need research??

"A main problem in the study of organizational change is that the environmental contexts in which organizations exist are themselves changing, at an increasing rate, and towards increasing complexity."
(Emery & Trist, 1965, p.21)

See also Prof. Jonathon Boston, IPMN Conference 2000: Learning from Experiences with New Public Management Macquarie GSM
**Emic Approach to Culture**

"Cultural behavior should always be studied and categorized in terms of the inside view - the actors' definition - of human events. That is, the units of conceptualization in anthropological theories should be ‘discovered’ by analyzing the cognitive processes of the people studied, rather than ‘imposed’ from cross-cultural (hence, ethnocentric) classifications of behavior."

**Etic Approach to Culture**

"An etic analytical standpoint ... might be called ‘external’ or ‘alien’ since for etic purposes the analyst stands ‘far enough away’ from, or ‘outside’ of a particular culture to see its separate events, primarily in relation to their similarities and their differences, as compared to events in other cultures, rather than in reference to sequences of classes of events within that ...particular culture.”

(The Anthropologist, Kenneth Pike, 1954)

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**Methodology**

(Triangulation)

Group
- Nominal Group
- Survey Questionnaire and Interview Questionnaire

Individual
- Strategic Reports Panels,
- Meetings transcripts
- Archives
- WWW sites

Documents

**D.E.S.E.R.T.©**

Directors’ Effectiveness Self-Evaluation Research Tool

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Developing Board Self-Assesments

**Business Judgement Rule**
Section 180 of the Corporations Law now includes a
“Business Judgement Rule”
that provides Directors with a
safe harbour from
personal liability in relation to
rational, informed and
honest business judgments

↔ competence to make &/or
delegate business judgements

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**Strictly Board Room** (Hilmer 1993)

“The board's key role is to ensure that
corporate management is continuously and effectively striving for
*above-average* performance,

taking account of risk.

This is not to deny the board's additional role with respect to shareholder protection.”
Translating the Corporations Law

* “Do it unto yourself
- before it is done unto you” (Sharp, 1998)
=> research & apply better practice & build a profession of Stewardship
* “D.A.D.S. (Disclosure; Analysis; Dissemination & Sanctions)”


OPERATIONALISING BOARD TRANSPARENCY & PERFORMANCE

Etic approach (Standardised Board assessment)

McNamara’s (1999) Free Toolkit for NonProfits
http://www.mapnp.org/library/boards/boards.htm

Board’s Performance Considerations

<table>
<thead>
<tr>
<th>Very</th>
<th>Good</th>
<th>Average</th>
<th>Fair</th>
<th>Poor</th>
</tr>
</thead>
</table>

BUT: (a) Do You Know How to Judge what is “Average”? If so please explain
(b) Does not address How the judgements vary with RISK?
Emic approach (Individualised Board assessment)  
D.E.S.E.R.T.©  
Directors’ Effectiveness Self-Evaluation Research Tool  
Copyright to Dr. Colin A. Sharp - April, 2000  
The Purpose of this research tool  
• to develop a set of expected performance criteria for Directors  
• to develop a self-assessment tool for Directors  
• to make self-evaluation discussable in non-profit organisations  
• to provide a database for benchmarking non-profit organisations and their self-evaluation of Boards of Directors  
• to encourage networking on self-evaluation  
• to develop baselines for further research.

D.E.S.E.R.T.©  
(Directors’ Effectiveness Self-Evaluation Research Tool)  
Macquarie Dictionary:  
1. Desert n - an area so deficient in moisture as to support only a sparse .. Vegetation…;  
2. Desert v.t. - to leave … without intending to return; to abandon or foresake;  
3. Desert n - i) that which is deserved; a due reward or punishment; ii) worthiness of reward or punishment; merit or demerit; … iv) just deserts, a misfortune or punishment viewed as being richly deserved.
Refer to the Organisational Risk Register

Diagnose

Context

(1)

(2)

What Strategic Scenarios do the Stakeholders See?

(3)

What are the Risks?

Refer to Question 1 - 3
IDENTIFICATION & ASSESSMENT

(4)

What can we CONTROL?

Assess the Gaps?

Assess Costs & Benefits

Assess Actual Performance

(5)

What Standards and Goals Are Expected?

(6)

ACCOUNT/ REPORT
To Stakeholders

(7)

Continuous Monitoring, Auditing & Evaluation of Plans & Risks by Stakeholders

Refer to the Organisational Risk Register

Oversight Implementation of Plans

Prepare Treatment Plans

Refer to Risk Treatment Schedule & Action Plan

D.E.S.E.R.T. © (Directors’ Effectiveness Self-Evaluation Research Tool)

D.E.S.E.R.T. ©
(Directors’ Effectiveness Self-Evaluation Research Tool)
Modelled on the Board of Directors Self-Evaluation form
adapted from Carter McNamara’s PhD to link governance risk management and performance

http://www.mapnp.org/library/boards/boards.htm

Briefly define what you think is an acceptable standard for the criterion (A draft definition is provided only as a suggestion), and then tick in the right columns which fits your perception of the level of information available or the performance attained over the following assessment period.

1. DIRECTOR’S ROLE / DUTIES

<table>
<thead>
<tr>
<th>Expected Level of Component of the Criterion</th>
<th>Much Less than Expected</th>
<th>Less than Expected</th>
<th>Expected Level</th>
<th>More than Expected</th>
<th>Much More than Expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Roles are Clear (Board &amp; CEO have written AND agreed understanding of the roles and responsibilities of the Board AND DECIDE)</td>
<td>Not written/ Not Agreed</td>
<td>Agreed BUT Not written</td>
<td>Written &amp; Agreed &amp; reviewed internally</td>
<td>Written &amp; Agreed &amp; reviewed AND externally audited by AOG</td>
<td></td>
</tr>
</tbody>
</table>

In the context of Risk identification and assessment ratings
(Tables from ANZ Risk Management Standard AS/NZS 4360, 1999, pp. 34 -35)
4 CASE STUDIES: (part 1)

A) Small Local Community Health Unit
* Board deferred consideration of D.E.S.E.R.T. & the researcher's approach.
* Subsequently the CEO developed their own self-report questionnaire.
* But CEO eventually asked for advice on data analysis after the Board completed their questionnaire. The data were inconclusive.

B) Large Water Catchment Management Board
* mostly professional local government managers and elected reps.
* formed to receive state funding for mutually beneficial projects 13 LGAs
* formal requirement by state government to evaluate the projects
* role of the governing body was identified as an essential ingredient
  - so suspicion of this Governance evaluation.
* reluctance to use the format of the D.E.S.E.R.T.,
* 'governance evaluation' was diluted to 2 broad interview questions.
* reinforce the uncertainty about the evaluation role of Boards of Directors and the confusion about the responsibility of 'Directors'.

4 CASE STUDIES: (part 2)

C) Small Local Community Home Based Care Service
* hired to conduct an evaluation of the service for the state Government.
* worked with CEO on a few other evaluations.
* invited to present to the Board of Directors, about pilot testing D.E.S.E.R.T.
* Directors did agree to be interviewed and to trial D.E.S.E.R.T.
* only 2 of the six Directors actually returned the questionnaire and
* only one was interviewed about the Board's performance & the instrument.
* followup with the Board, which was agreed in principle. But then the CEO went on leave, and nothing further happened.
**4 CASE STUDIES: (part 2)**

**D) Small Community Employment Service**
- fostering and advocating employment services for disadvantaged people.
  - forming its Board of volunteer professionals from associated agencies to incorporate under state Association Incorporation Act.
- researcher invited to assist in the review of the process.
- attended a few Board meetings (discussed research with the 6 Directors).
- Board decided on *their own* re-structure of the association, and
  - did not take the advice of researcher,
  - did not follow up on evaluation of the Board or the organisation's performance.

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**DISCUSSION**
- not generalisable, => further research
- each case the Board of Directors did 'their own thing' with little heed or follow through on the evaluation of their role and performance.
- surprising, considering they all agreed to the importance of research and evaluation of the role of Boards of Directors in the governance and performance of their organisation.
- reaction to the complexity of the process proposed?
- misunderstanding of the researcher's needs to gather data?
- symptom of an elitism of Boards of Directors, thinking that they are above being evaluated.
- "defensive routines" suggested by Argyris (1990)?
- once the Board had discussed the issue there was no commitment, nor implied agreement
  - as if the issue became undiscussable.
D.E.S.E.R.T.®
(Directors’ Effectiveness Self-Evaluation Research Tool)

Is all this just the researchers ‘sour grapes’?

NEED for FURTHER RESEARCH:
How do we deal with such defensive routines
in evaluation of Boards?

How would the Boards KNOW what is
* appropriate performance?
* worthy of reward or sanction; merit or demerit; …

* are the fundors - shareholders (owners?)
  aware of the just DESERTs, of failing to evaluate?