Strategic Evaluation: Performance in the Service of Corporate Governance

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Reflecting the international trend, recently the Australian Liberal Government brought about changes to the corporations law, based on their Corporate Law Economic Reform Program (CLERP, 1997). The effects of these changes will be felt by Boards of Directors in all incorporated organisations, including the Boards of public sector agencies and third sector organisations, like the Australasian Evaluation Society (AES). Among the main changes are some which require greater attention by Boards of Directors to the evaluation of the performance of the organisation, of the CEO and of the Board's own effectiveness. This paper reviews such trends in corporate governance which may affect the theory, practice and use of evaluation.

In effect the changes in corporate law expose the need for greater understanding of the non-financial duties of Boards of Directors which include more than simply monitoring the performance of the organisation for accountability to legislation. To add value to their organisation the Boards of Directors should embrace performance evaluation in an holistic or strategic way. If they delegate any of this performance evaluation they have to be reasonably sure that the employees or consultants doing performance measurement or evaluation are competent to do so.

To inform the emerging role of Directors in evaluation of effective corporate governance there is a need for a strategic integration of program evaluation and personnel evaluation, with a simplified set of evaluation models under a common logic framework. This paper introduces attempts to facilitate the necessary integration, by developing four models which can link various approaches to evaluation.

Corporate Law Reform: A Concern for Evaluation Theory, Practice and Research

Corporate governance describes the structure and function of management, accountability and internal control of an organisation as viewed from the highest strategic level of the organisation, viz: the roles and structure of the Board of Directors vis-à-vis the Chief Executive Officer and organisational management. Corporate Governance has recently emerged as a field of study distinct from other management research issues of the 1990’s (Maw, & Craig- Cooper, 1994; Hilmer, 1993; Hilmer & Tricker, 1990). In practical terms it has become a major concern of a number of professional groups, including:

- the Australian Institute of Company Directors (Hilmer & Tricker, 1990)
- the Australian Institute of Management (e.g., Clarke & Dean, 1998)
• the Commonwealth Auditor General (Barrett, 1997, 1998) especially regarding the accountability of Government Business Enterprises
• the Institute of Chartered Accountants in England & Wales (see Jenkins, 1998; Myners, 1998)
• the Institute of Chartered Secretaries and Administrators (1987)
• the Institute of Internal Auditors of Australia (IIA, 1998).

Indeed, this paper will argue that it should be the concern of the Australasian Evaluation Society (AES) and our members interested in the emerging future directions of evaluation theory, practice and research.

Among the most important strategic issues facing all incorporated organisations in Australia are the changes to corporate law through the Corporate Law Economic Reform Program (CLERP, 1997a, 1997b; 1998). The focus here mainly will be on the new specification of directors’ duties (CLERP, 1997b). Although these reviews are probably overdue, there are a number of reasons for public sector and third sector Boards to be concerned about the changes. For example, in the climate of competition, contracting out and commercialisation of human services, the volunteer Boards of Directors of the not-for-profit or third sector organisations should be concerned about the implications of the corporate law changes. Voluntary agencies may have the service manager, parents and consumers on their Boards of Directors. Each of these Directors may have specific reasons to take out professional indemnity to cover their personal liability if there were a failure to achieve the objectives of their contracts to provide services to Governments.

Another mixed blessing is that in order to provide director protection against personal liability in relation to honest informed and rational business judgments, a ‘business judgment rule’ has been introduced (CLERP, 1997b; White, 1998c). This is intended to clarify the circumstances whereby directors may delegate their functions including where reasonable steps are taken to establish the competence of advisers and employees; and an appropriate monitoring/reporting system is in place to provide internal control and oversight of the exercise of the power. (see White, 1998a, 1998b, 1998c). The latter point may have a positive effect of fostering the use of non-financial performance evaluation. But, if so, the former condition of delegation may promote the rush to accreditation or certification of those “competent” to do the data collection and analysis for monitoring, evaluation and reporting.  

**Evaluation: A Competence of Directors?**

The Australian corporate law reforms reflect the international trends as summarised by leading Australian writers (Bosch Committee, 1993; Hilmer 1993; Hilmer & Tricker, 1990; IIA, 1998; White, 1998a 1998c) who have proposed that the important duties of Boards of Directors include:

• to approve and monitor the organization's mission, vision and strategy
• to approve and monitor the organization's ethical values
• to ensure that the organisation has the capacity to achieve its objectives
• to monitor the performance (both financial and non-financial) of the organisation
• to evaluate top management's achievement of financial and non-financial targets as well as implementing corporate strategy
• to evaluate the performance of the Board of Directors
• to oversee external communications and strategic reports for accountability and public disclosure
• to establish an Audit Committee at Board level to monitor and report on compliance with relevant laws and trade practices.

To clarify the meaning of effective corporate governance in the Australian context, the Institute of Internal Auditors - Australia (IIA, 1998; White, 1998a; 1998c) released the Australian Control Criteria (ACC). One of their main recommendations is the establishment of an effective system of internal control. According to all these recommendations for the promotion of effective corporate governance the key to the competence of Directors can be identified as a strategic orientation to managerial control and organisational performance evaluation. In effect these pronouncements suggest that there is an Australian movement as part of an international trend (Business Council of Australia, 1995; Hilmer 1993; Hilmer & Tricker, 1990; IIA, 1998; Jenkins, 1998; Myners, 1998; White, 1998a) towards the following shifts:

• from conformance to processes to a focus on outcomes and organisational effectiveness
• from the dominance of financial management agenda to a balance of skills of CEOs and Company Directors which include non-financial performance evaluation competences
• from separate specialist approaches to an integration of models and approaches regarding corporate governance, internal control and performance evaluation.

In response to these changes various writers and organisations have identified the need for guidelines and courses for Directors (e.g. Hilmer & Tricker, 1990). Indeed it is important to prepare Directors to integrate theory, practice and research of program evaluation into the tools and competencies for effective corporate governance, along with the Australian Control Criteria (IIA, 1998). In order to guide Boards of Directors evaluation advisors need to be able to point tosimple integrated models which address the role and methods of evaluation in the context of current trends in risk management, corporate governance and effective control of organisations (Sharp, 1998a, 1998b; White 1998a, 1998b; 1998c).
The evaluation literature is little comfort

Given the identified need for simple integrated models for the role of evaluation in corporate governance, where can Boards of Directors look for direction?

The traditional teaching of evaluation skills is usually intimately linked to program evaluation. The roles being attributed to Boards of Directors in effective corporate governance require skills in, or appreciation of, holistic approaches to organisational and managerial performance evaluation, especially in the strategic context of the organisation. These functions imply more than simply monitoring the financial performance of the organisation. Also it is wasteful if expensive methods and training are to be introduced simply to comply with external accountability requirements. According to the Australian Control Criteria Boards of Directors should do more than just comply, they must embrace these evaluative functions as adding value to their organisations through better understanding of performance in strategic terms. But they need evaluation skills to be able to add value through this performance-oriented approach (see Hilmer, 1993). If they delegate any of this performance evaluation, under the Business Judgement Rule, they have to be reasonably sure that the employees or consultants doing performance measurement or evaluation are competent to do so.

But most texts (e.g., Patton, 1997; Rossi & Freeman, 1993) and courses on evaluation focus on the roles, skills and tools of the beginning “Evaluator” or middle manager (cf Armstrong, 1994, 1995, 1996b, 1996c; Trochim, 1996; Winston, 1994, 1995). There is a dominant paradigm of evaluation which focuses at an operational level of programs within organisations (eg, Owen & Rogers, 1999; Patton, 1997; Rossi & Freeman, 1993). This paradigm has tended to neglect personnel evaluation and product evaluation (see Scriven, 1991; 1996). Generally, there seems to be little appreciation in the evaluation literature of what might be the consideration of organisational performance evaluation from the point of view of the broader strategic context of the organisation and its governance.

How are the CEO and Boards of Directors of organisations to establish suitable structures and processes to meet the non-financial performance evaluation requirements of corporate governance? The point of this paper is that the program evaluation community needs to review the profile that our skills project in the arena of governance of organisations. It is not claiming to be a new form of evaluation, nor is it entirely about the evaluation of strategic performance (as against financial performance), or the strategic use of evaluation. The aim here is to map out a relevant basis on which directors of governing boards, CEOs, and policy makers, primarily in government and non-government organisations (as well as not-for-profit organisations contracting to Government), can chart, understand, assess and address their responsibilities to be accountable for non-financial strategic performance evaluation. It is intended to raise questions about what would be some relevant models and tools which can assist in review of organizational control and management performance in the context of strategic direction of change and corporate governance of the organisation.

Strategic Evaluation³: an integrative approach

In this context the practice of evaluation would have to take a strategic approach to build a mix of evaluation tools and knowledge within the organisation to complement the roles of the Boards of Directors and top management. In anticipation of the demands on these users of the emerging corporate governance accountability requirements, they need a simplified
model of evaluation which is utilisation focused (Patton, 1997) and facilitates organisational
diagnosis (Manzini, 1989), especially of the internal control systems needed to support
corporate governance, ie, the feedback and feedforward mechanisms for an effective system

One of the main concerns addressed by Strategic Evaluation is a need for a shift in
orientation from program evaluation to a more integrative approach to organisational
performance evaluation at the corporate governance level. For example, typically program
evaluation was kept separate from human resource management and personnel evaluation at
the operational level (see Joint Committee on Program Evaluation, 1994). One reason for
this is that the value judgements involved in identifying the contribution of any individual to
a program might be obscured by the efforts of the group involved. Also it may compromise
stakeholders' disclosure of pertinent information if they knew that the program evaluation
would include personnel evaluation of themselves or their colleagues. Indeed, for such
reasons, the Joint Committee on Standards for Educational Evaluation (1994) insisted on
separate standards for program evaluation and personnel evaluation. However, at the level of
corporate governance, the separation of the evaluation of the CEO and top management from
the evaluation of organisation performance is less likely to be relevant or possible. In this
situation the emphasis is more likely to be an integration of program evaluation (or
organisational performance evaluation) and personnel evaluation, such as is emerging in
strategic human resource management (Cascio, 1998; Henderson, 1997; Manzini & Gridley,
1986; Patrickson, Bamber & Bamber, 1995).

Figure 1 is an attempt at understanding the factors involved in personnel evaluation from the
360° feedback approach (see Cascio, 1997; Henderson, 1997). It emphasises that the main
personnel evaluation criteria are linked to the main accountability relationships of top
management. Based on a model of accountability proposed by Corbett (1996), it is possible
to identify these links as: upward (to the Board of Directors representing the main
organisational stakeholders), outward (to the organisational or program clients, e.g. for the
quality of the program), downward (to the staff, e.g. for occupational health and safety) and
inward (to the manager’s own personal and professional standards and ethics). The Boards of
Directors need to gather such information but they may not bother to distinguish it from the
information about the programs offered by the organisation. Indeed, because they are
responsible for evaluation of the program, the organisation, the top management and the
Boards of Directors’ own performance, from their point of view it would be unnecessary or
inefficient to separate these aspects (see later in relation to Figure 3).
FIGURE 1: AN ATTEMPT AT A SIMPLE MODEL TO LINK PERSONNEL EVALUATION TO ACCOUNTABILITY

PERSONNEL EVALUATION IN TERMS OF ACCOUNTABILITY LINKS

(Based on Corbett, 1992, Chapter 9)

Clients
Program Stakeholders

UPward Accountability
(Board of Directors & Organisational Stakeholders)

INward

OUTward

The Program

Performance Monitoring, Feedback & Control
OR
Personal / Managerial Assessment?

Managerial Competence?

Director or CEO &/or Evaluator

Personal & Professional Standards & Ethics

Staff & the Organisation

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Performance evaluation: “Beyond Beancounting”

There is more to organisational performance information than personnel evaluation and program evaluation. The most obvious traditional focus is on the financial information for organisational evaluation. But as with the relationship between program evaluation and personnel evaluation, there needs to be a balance of these types of information and evaluation. Indeed, according the Institute of Chartered Accountants in England & Wales’ Corporate Governance Group (Jenkins, 1998; Myners, 1998) the effects of globalisation, the increased strategic significance of intangible assets (e.g., corporate knowledge) and new technology (e.g., the Internet) are likely to cause companies and company Boards of Directors to re-examine the reliance on financial measurement of performance for corporate reporting to shareholders eager to capitalise on the information age.

As Kaplan and Norton (1996) have pointed out, practitioners of business planning and performance measurement have traditionally neglected the strategically important non-financial information, to the detriment of their organisational effectiveness. What they call “a balanced score card” is a fundamental approach to performance measurement which is relevant to both the private sector and public sector managers' strategic information needs. Indeed, in the blueprint for the future of the public sector under the new Australian Commonwealth accountability acts, the Management Advisory Board (MAB, 1997, pp. 50-54) advocated the use of the balanced scorecard approach in the public sector in Australia. The title of the Commonwealth’s framework document “Beyond Beancounting” emphasises the importance of the non-financial aspects of public sector accountability (MAB, 1997).

What the Commonwealth Government’s lead agencies and Kaplan and Norton call “a balanced score card” approach to performance monitoring is part of a common realisation by both private sector and public sector managers that fundamentally strategic management requires more information than traditional economic and financial performance indicators can provide. Indeed, they are right in recognising the potential for information overload by Boards of Directors and CEOs, who may need a condensed consistent model of system performance to be able to account for their performance monitoring and evaluation duties. But Boards of Directors, Internal Auditors, managers and evaluation advisors run the risk of goal displacement if they do not follow a balanced approach to gathering performance information which maintains a strategic focus, rather than emphasising convenience and conciseness.

So Strategic Evaluation has to recognise the importance of financial and non-financial performance evaluation in a balanced approach. In corporate governance terms the key stakeholders, include not only the “customers”, “clients” of the organisation, consumers or end users of the Government or voluntary services, but also the Boards of Directors as their representatives. Also Strategic Evaluation must account for the role of the critical third party regulators (e.g., the Australian Companies & Securities Commission, the Australian Consumer and Competition Commission) in the reporting of performance.

Non-financial performance measurement essentials for corporate governance

In order to address the risk of information overload, it is important to consider the fundamental information needed to appropriately monitor the performance of the organisation and its management. To gather a balanced approach to these performance measurements
which serve corporate governance the *Strategic Evaluation* approach advises that if a simple *minimal performance measurement model* is required then try *NA-GA-SA-T*© (Sharp, 1998a) as it develops performance information based on the use of:

- **Needs Assessment**
- **Goals Attainment and Outcomes**-focused performance information (e.g., Goal Attainment Scaling)
- **Satisfactions Assessment** (e.g., customer satisfaction; staff satisfaction and
- **Transfers** (e.g., skills development, knowledge, value-added).

Regarding the gathering of data using the *NAGASAT© minimal performance measurement model*, it is suggested that such evaluations use both quantitative and qualitative data collection methods to obtain information about the perceptions of individuals (e.g., interpretation of survey responses from customers) and the consensus of groups (e.g., Nominal group consultation with all stakeholder representatives). These kinds of information are fundamental to a proper performance oriented monitoring system for corporate governance, especially in the human services. However, this framework is a basis for performance evaluation, it is not the only necessary nor sufficient basis for a complete non-financial (strategic) performance evaluation system. Obviously there is more to evaluation than installing a performance management information system.

**Case studies in performance evaluation**

The *NAGASAT© minimal performance measurement model* has been developed through its application in evaluations conducted by the author in the following organisations:

- Multi-Purpose Services (health and aged care) management information system and evaluation of eleven rural and remote communities for the Department of Health and Community Services and State Health Commissions around Australia (see Andrews, Dunn, Hagger, Sharp & Witham, 1995; Dunn, 1997);
- Department of Family and Community Services of SA: Committee on Performance Measurement on developing outcome based measures suitable for performance monitoring in contracting of outsourced services (see Baulderstone & Sharp, 1997);
- MESA (Petroleum Group of Mines & Energy of SA, Department of Primary Industries of South Australia): especially using Goal Attainment Scaling in monitoring and evaluating environmental impacts of natural resource industries with provision for close involvement of various stakeholders and community interest groups. This has been field tested with petroleum industry operators and MESA staff in the Cooper Basin oil and gas operations in South Australia's north eastern region. (see Malavazos & Sharp, 1997)
- South Port Community Nursing Home (Melbourne, Vic.) and Eldercare (Adelaide, SA) developed staff training package for performance measurement and evaluation using Goal Attainment Scaling (Sharp, 1997b)

If a system of performance monitoring can not deliver regular and appropriate information on such basic factors as identified in the *NAGASAT© minimal performance measurement model* then the Internal Auditors ought to be concerned about whether there is an adequate system in place for effective internal control to be able to meet the *Australian Control Criteria*. Of
course this simple performance monitoring is only the minimal condition for *Strategic Evaluation* to be established – then Boards of Directors have to learn how to use it. How many Boards of Directors are actually evaluating their own performance in any systematic manner in relation to the performance of their organisation?

**The need for a simpler model of evaluation for corporate governance**

Part of the problem for outsiders trying to understand evaluation theory and practice is the diversity and obscurity of the fiefdoms and precious pretentious paradigms which have been squatted in our field by various theorists and consultants. It is about time evaluation theorists came up with a simple accessible model which could summarise the many approaches and enable easier access to the concepts and techniques of evaluation. For example, it is worth trying to identify a simple model which could be a bridge between program evaluation and personnel evaluation. Figure 2 is an attempt to demonstrate the type of model which would be expected to provide such a simple common basis for program evaluation and personnel evaluation through the use of Scriven’s (1981; 1991) *probative* logic model of evaluation. Also in this figure is an application of the simplified framework to link the logic of evaluation to a strategic corporate governance framework.

**FIGURE 2: A DRAFT SIMPLE VIEW OF THE BASIC EVALUATION CYCLE WHICH COULD BE THE BASIS FOR BOTH PROGRAM EVALUATION & PERSONNEL EVALUATION**

![Diagram of Basic Evaluation Cycle](image-url)
FIGURE 3
DRAFT MODEL OF THE COMPONENTS OF A STRATEGIC EVALUATION CYCLE

1. Boards of Directors; Australian Companies and Securities

2. A) To Monitor Corporate Performance
   B) Evaluate CEO and Top Management

3. 1) Corporations’ Law
    2) Competent Financial and
    3) Competent Non-Financial Capacity to achieve objectives

4. A) Benchmarking, and
   B) Summative and Formative

5. Performance Indicators, NaGaSaT; 360° Personnel

6. Legal, Financial, Strategic Accountability

STRATEGIC-EVALUATION Cycle
These components in the probative logic common to program evaluation and personnel evaluation might be:

1. **USERS**: who intends to conduct &/or use the evaluation?
   Stakeholders to the system and its context:
   * End recipients of products or services being evaluated
   * Users of the evaluation

2. **PURPOSES**: why is the evaluation being conducted?
   * Strategy, changes, uses, rationale, intended outcomes?
   * Formative Vs Summative evaluation?

3. **CRITERIA**: how to judge merit or worth?
   * efficacy, * effectiveness
   * efficiency, * economy
   * appropriateness
   Goal-oriented Or *Goal-free*?

4. **INSTRUMENTS**: what methods are going to be used?
   * individual, * group; * quantitative, * qualitative?

5. **DATA**: what happened? When?, to whom? where?
   - Needs Assessment,
   - Goal Attainment,
   - Satisfaction Assessment
   - Transfer Assessment
   qualitative Vs quantitative

6. **MEANING**: how to interpret and gain information from data? - how do the context, purposes and accountability requirements affect the meaning of the performance?

To integrate this approach into the corporate governance framework requires reference to personnel evaluation, and the budget and accountability cycle. Figure 4 is an attempt to show how *strategic evaluation* should take both program evaluation and personnel evaluation into account in the *formative* evaluation involved in the management of the organisation’s programs or services, together with the *summative* evaluation often required for funding and accountability purposes. Using the metaphor of an umbrella, the figure shows that these different components are only sub-systems. The message here is that we need a *Strategic Evaluation* approach to oversight the whole system.

We cannot hope to answer such important questions or establish new frameworks on the run. There is a need for research to investigate the role of performance evaluation in relation to the roles and responsibilities of Boards of Directors in the public sector and third sector (not-for-profit) agencies. The research of these issues and models being conducted at Flinders University will be the subject of future evaluation conference presentations.
FIGURE 4: A MODEL SUGGESTING THE NEED FOR STRATEGIC LINKS: ‘PROGRAM EVALUATION’ & PERSONNEL EVALUATION IN THE CONTEXT OF FORMATIVE AND SUMMATIVE EVALUATION

Program Evaluation

Personnel Evaluation

Budget and AGM Cycle

Summative

Formative

OUTward

INward

UPward

BASIC EVALUATION Cycle

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Conclusion

Organisations need to review their corporate governance in the light of the changes to corporate law. Evaluation advisors (and the AES) need to review their roles in meeting the needs of Boards of Directors. None of these 'models' is the answer to raising the level of integration of strategic accountability with performance evaluation. However, some strategic approach to the role of evaluation in corporate governance is needed. This paper has suggested an eclectic approach which builds on an appropriate base model, such as Utilization-Focused Evaluation (Patton, 1997), to provide an integrated mix of evaluation tools to complement the roles of Boards of Directors in corporate governance, including personnel evaluation, strategic management and performance evaluation.

A role for the Australasian Evaluation Society?
The Australasian Evaluation Society (AES) and its members are being left behind in the corporate governance race in Australia. We have to review the relevance of our craft in the emerging strategic context of CLERP and the AS 3806 (1998). In order to keep relevant in this race the AES would do well to cater to the education and professional development of Boards of Directors, Internal Auditors and CEOs. The AES might consider the accreditation of courses in evaluation practice which will complement the roles of these other professionals who probably do not want a comprehensive program in evaluation theory and esoteric measurement techniques, nor would they consider themselves "Evaluators".

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Notes
2 The issues of certification and accreditation have not been resolved among the various professional associations involved with evaluation practitioners. Indeed, there has been an ongoing debate in the American Evaluation Association and the Australasian Evaluation Society on these issues (see Armstrong, 1994, 1995, 1996a,c; Bannister, 1989; McLure & Bannister, 1989; Trochim, 1996; Winston, 1994, 1995). Unfortunately the trend towards accountability and delegation based on assurances of competency (such as implied in CLERP, 1998) is going to overtake these debates, and find the existing professional associations ill-prepared to advise Boards of Directors, or Courts of Law on matters of competence in non-financial performance evaluation.
3 However, as Scriven (1991, p. 36, note 39) so typically put it: “Authorship does not legitimate lexical imperialism”. But, this is not the first time the terms Strategy and Evaluation have been strongly linked in Australia. Michael Quinn Patton ran a workshop on Strategic Planning for evaluators (in July, 1989, for ET&S Melbourne) Johnston (1990) suggested a need for a more strategic approach, but still within the context of program evaluation. Sharp (1996) presented papers and conducted a workshop on linking program evaluation to strategy, others (e.g. Armstrong, 1996) at that IIR Conference on Strategic Evaluation put forward various views on the strategic aspects of program evaluation. Another call for a strategic approach has come from Unger & Rutter (1997) in their Strategic Training Evaluation Model (STEM) which comes closer to the position proposed here, except in their context it is about aligning evaluation of staff training with the assessment of return on investment of the business.
4 Chaired by Sir Brian Jenkins, the Corporate Governance Group was set up in 1995, and has an excellent WWW site at: http://www.icaew.co.uk/corp_gov/
5 Darrel Caulley (Caulley & Dowdy, 1987; Caulley, 1993, 1995) as well as John Owen & Patricia Rogers (1999) have made good distance on distilling and rectifying the unnecessary diversity and duplication in the field.