

Organisation performance: A boardroom perspective

An Insync Surveys study in conjunction with Board Benchmarking

Further information:

Insync Surveys

Perth: 76 Wittenoom Street, East Perth WA 6004

Sydney: Level 2, 110 Pacific Hwy, North Sydney NSW 2060

Melbourne: Level 7, 91 William Street, Melbourne VIC 3000

research@insyncsurveys.com.au

Phone: (+61 8) 6461 6485

Phone: (+61 2) 8081 2000

Phone: (+61 3) 9909 9222

www.insyncsurveys.com.au

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Introduction

This is the third in a series of boardroom perspectives based on the views of 625 directors who sit on 79 different Australian and New Zealand boards. It deals with boardroom perspectives on the performance management systems and culture of their organisations.

The Global Financial Crisis provides organisations with a good opportunity to recalibrate their thinking around what is important in terms of performance management systems and culture.

Boards must provide leadership and direction in relation to these very important issues and firm oversight of setting review processes.

Key findings

Boards seem to have a long way to go in ensuring high standards of organisation performance are met. Specifically this study has found that:

- many boards need to focus more on lifting the performance bar in their organisations with only half (50%) of the 625 directors agreeing their board encourages a strong culture of organisation performance and less than half (49%) agreeing that their board takes appropriate action when performance measures are not met (pages 7 and 9)
- while 65% of directors agree that their board and management have a shared commitment to the actual measures used for organisation performance, it's disappointing that not more directors agree because inappropriate performance measures, or lack of clarity, can cause significant organisational tensions (page 8)
- the largest variation in views among demographic groups is in the age category with directors under 45 years being consistently more critical or demanding across the areas surveyed than those directors over 64 years

About this study

This study is the third in a series on board performance. These studies will focus on the views of directors regarding the major areas of the effectiveness of boards, based on Board Benchmarking's WhatWhoHowDo™ Framework.

Insync Surveys is an authorised distribution partner of Board Benchmarking's Board Effectiveness Survey.

About the sample

This study is based on the views of 625 directors who sit on 74 Australian and 5 New Zealand boards. They have responded to 120 hard-hitting, best practice survey statements of Board Benchmarking, formerly Leblanc Diagnostics. The boards included in the study represent a broad cross section of organisations ranging from ASX organisations (including in the top 10), to private companies, associations, not-for-profits and government entities.

The data was gathered between January 2006 and September 2008. The majority of directors in the research sample are males, non-executive directors and with the largest age segment being over 64. The sample is almost evenly split between organisations with a profit versus a not-for-profit motive.

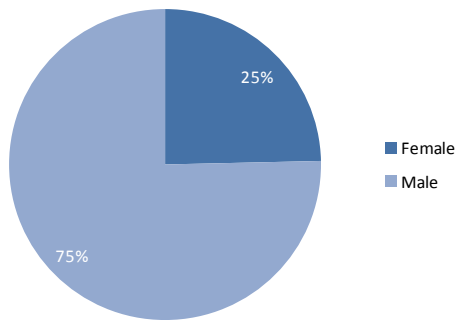
Females are more likely to:

- be under 45 years of age
- be directors in not-for profit organisations
- have less experience as a director

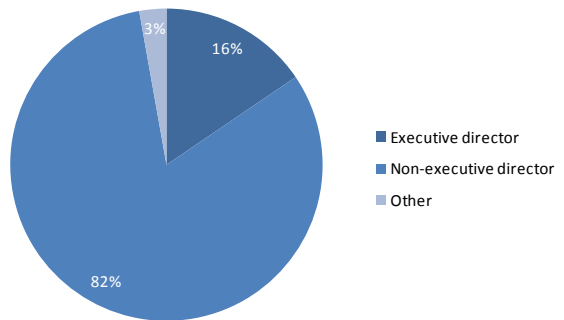
Males are more likely to:

- be over 64 years of age
- hold a director position in a corporate organisation
- have more experience as a director

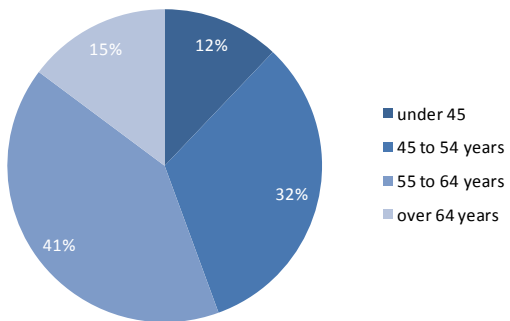
Gender



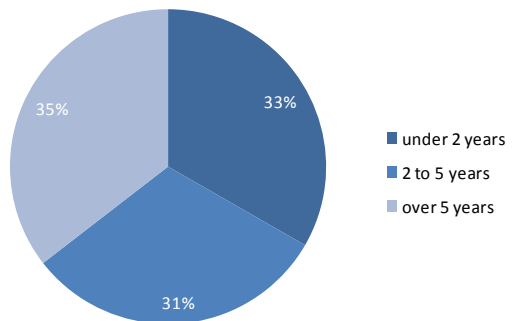
Independence



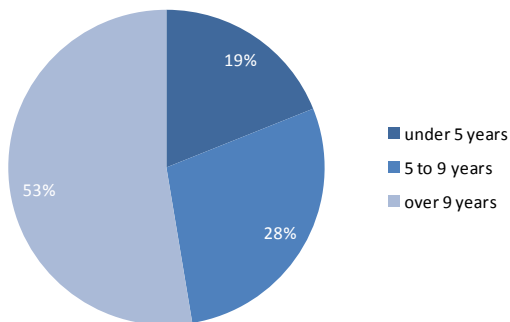
Director age



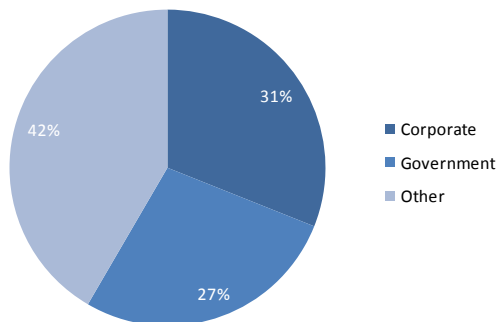
Director tenure



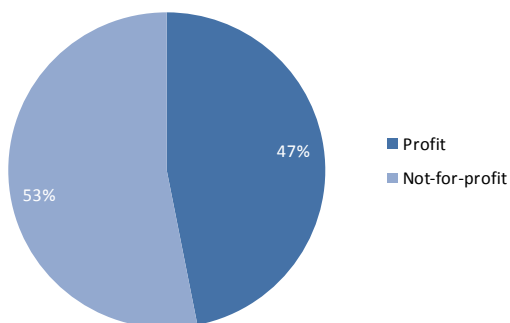
Director experience



Organisation type



Motive

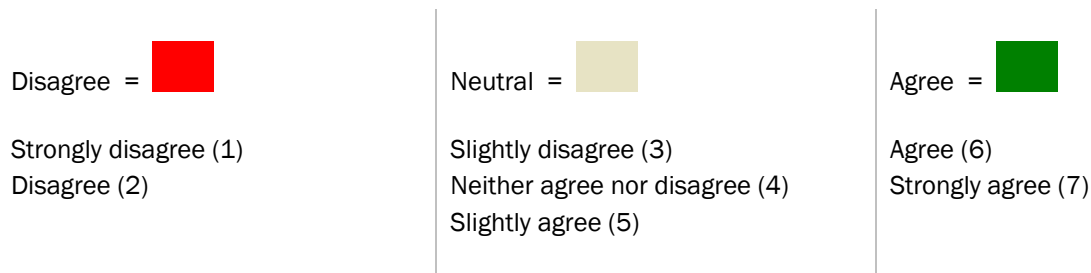


Methodology

Data gathered from the self assessment of directors who completed Board Benchmarking’s Board Effectiveness Survey have been used as a basis for this study. The survey is based on Board Benchmarking’s unique WhatWhoHowDo™ Framework, as explained at www.boardbenchmarking.com. The Board Effectiveness Survey is used by organisations’ boards to highlight areas of strength and areas where improvements can be made. It also acts as a yardstick against which to measure outcomes of improvement initiatives.

The survey has 120 statements measured on a seven point scale where “one” represents strongly disagree and “seven” represents strongly agree. The survey is unobtrusive and is designed to be completed by directors online within 30 minutes.

This study highlights differences among demographic groups. To do this, the seven rating options are aggregated under the titles of “disagree”, “neutral” and “agree” as follows:

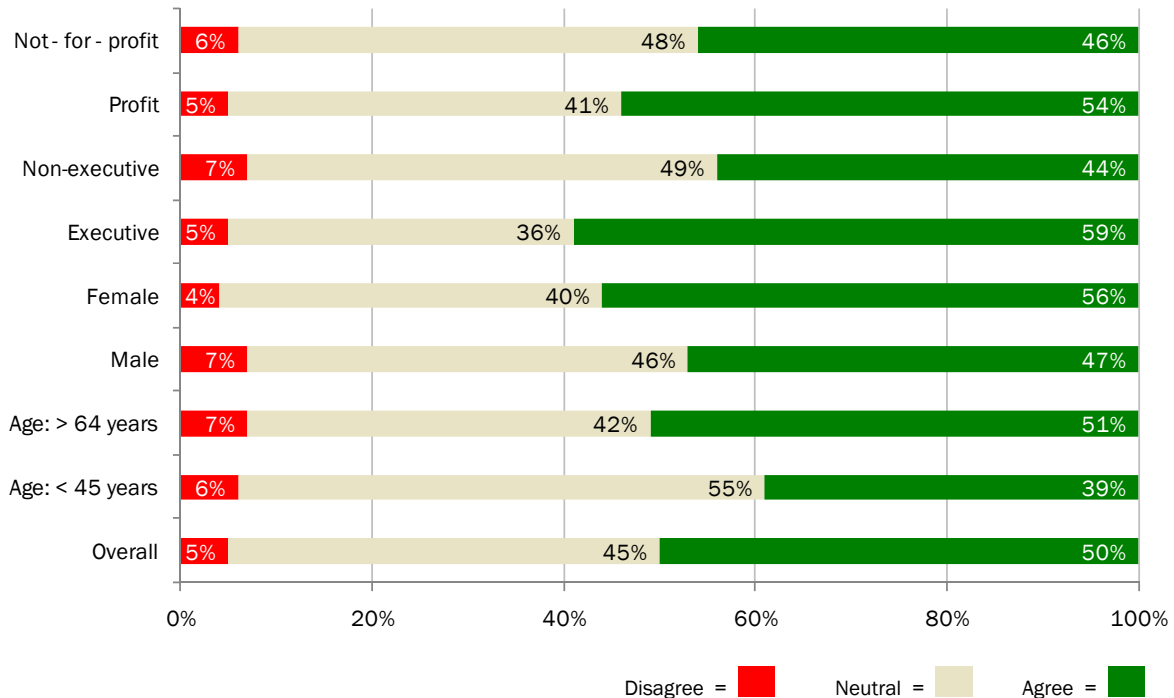


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1. Encouraging a strong performance culture

Response to the survey statement: “Our board encourages a strong culture of organisational performance”



While most directors would consider the encouragement of a strong culture of organisational performance to be essential, only 50% agreed, 45% were neutral and 5% actually disagreed that their board encourages a strong culture of organisational performance.

A research report, *Risk management in the boardroom*, published by Insync Surveys in December, 2008 using the same sample showed that 83% of directors believe their board sets the right tone at the top, which is ranked as one of those top five survey responses. It is disappointing that the large number of boards that have set a high tone in relation to integrity and ethics have not also set similar expectations for a strong culture of organisational performance.

A closer look at the findings shows that directors under 45 years, male directors, non-executive directors and not-for-profit directors, showed lower levels of agreement than those overall. These groups are more critical.

A strong culture of performance will include:

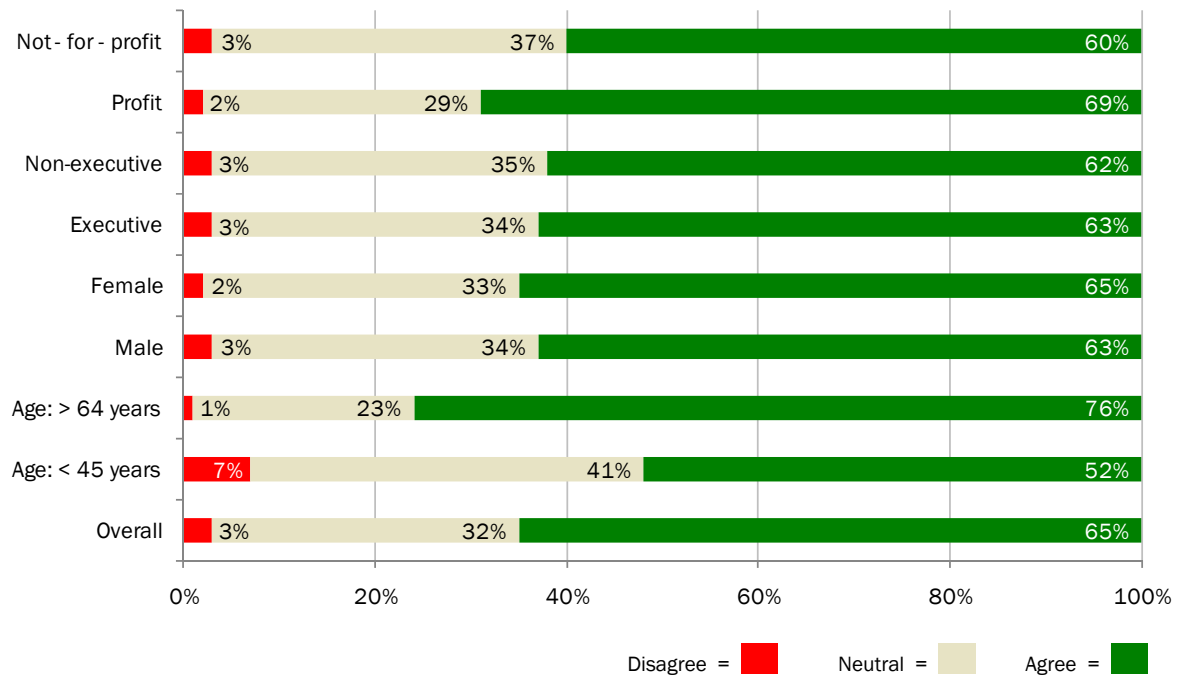
- having clarity of and agreement with what constitutes appropriate performance measures
- the setting of challenging goals and the celebration of good performance
- having an effective performance management system throughout the organisation with agreed accountabilities
- acting appropriately when performance measures are not met.

A number of these matters are addressed in this report and most disappointingly show similar low levels of agreement.

Many directors confide that the nature of their role requires them to spend what some see as an excessive amount of time focussing on compliance and procedural governance issues to the detriment of time spent on the core functions of strategy and organisation performance.

2. A shared commitment to performance measures

Response to the survey statement: “Our board and management have a shared commitment to the actual measures used for organisation performance”



While 65% of directors agree with the above survey statement, it is disappointing that not more directors agree with this very important matter. Having inappropriate performance measures, or lack of clarity of agreement on the appropriate performance measures, can cause significant organisational tensions and problems, not to mention confusion in alignment with remuneration and reward strategies.

Disagreement on performance measures is like playing soccer with the goals continually moving and therefore the players not knowing what constitutes a goal or out of bounds.

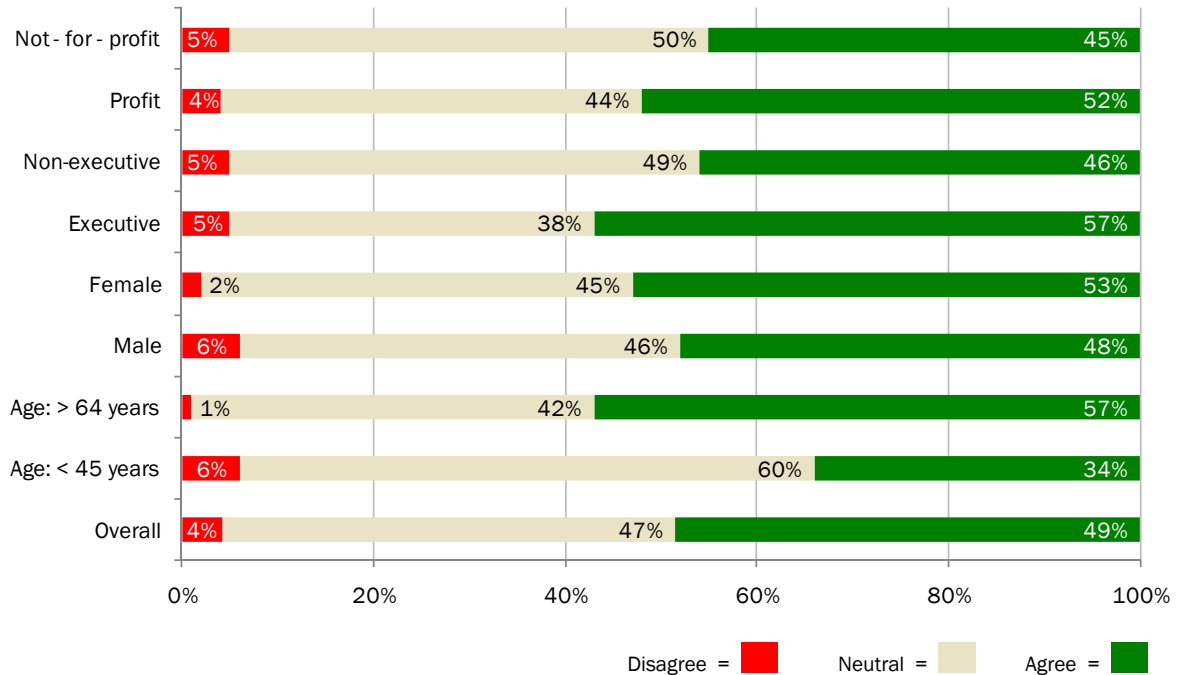
There is a significant divergence in views expressed on this matter by directors aged under 45 years (52% agree) compared to those aged over 64 years (76% agree).

Directors who are unable to agree that the board and management have a shared commitment to the organisation’s performance measures, should do all they can to ensure there is appropriate debate, analysis and explanation of the proposed performance measures. A common understanding of how such measures link with the organisation’s strategic and business plans and risk appetite is also needed.

Performance measures need to include both financial and non-financial measures over the short, medium and long term. They must be aligned with the organisation’s strategic and business plans and be appropriately cascaded down through each level of management.

3. Action needed when performance measures aren't met

Response to the survey statement: "Our board takes appropriate action when performance measures are not met"



Disappointingly, many directors report that their board does not take appropriate action when performance measures are not met. This is one of the more surprising results in this study, with only 49% of directors agreeing, 47% being neutral and 4% disagreeing.

The oversight of an organisation’s performance is one of the most important roles of a board. The organisation’s shareholders and main stakeholders rely heavily on the board to encourage a strong culture of sustainable high performance, to oversee such performance and to take appropriate action when performance measures are not met.

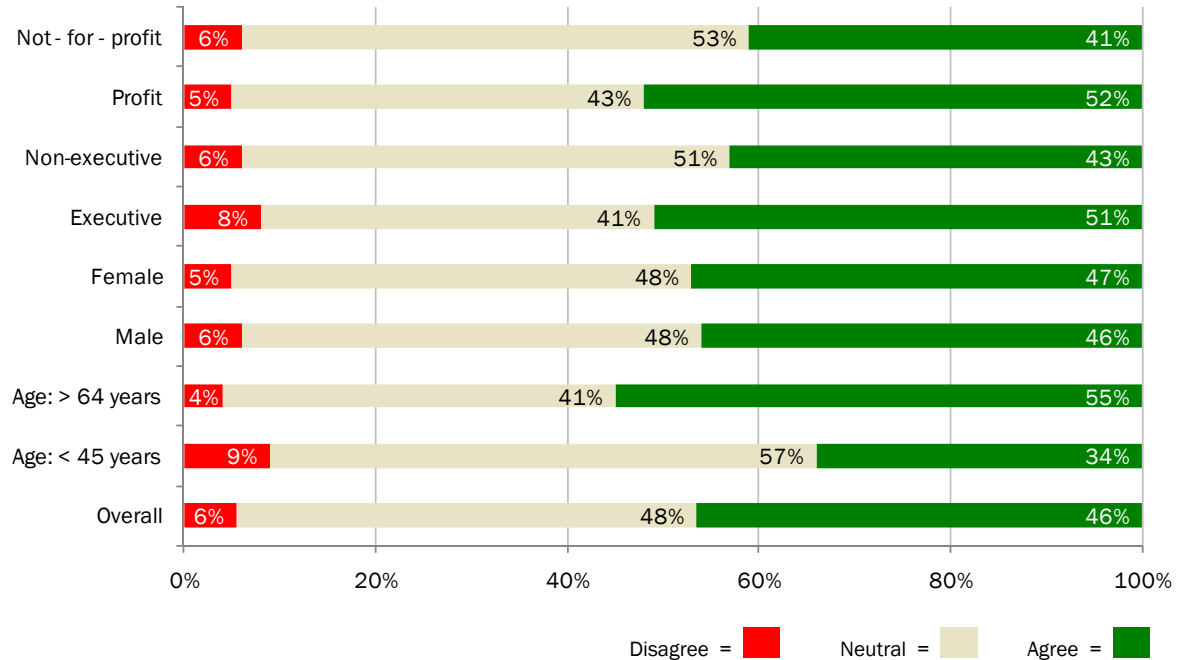
The board’s oversight of performance includes the important area of overseeing and monitoring the performance and effectiveness of the CEO, which is dealt with separately in a previous Insync Surveys research report on CEO remuneration.

Good boards will not only take appropriate action when performance measures are not met, but will also act appropriately in advance when they see signs or have an expectation that performance measures will not be met. This requires the receipt of appropriate leading information and early warning signals and having appropriate ongoing discussions with the CEO in that regard.

As boards delegate their main tasks through the organisation’s CEO, management and employees, it is important that the board be of one mind in terms of the performance that is expected of the organisation and the CEO and to ensure that mixed messages are not sent to either the CEO or the organisation’s management and employees.

4. Effective performance management systems

Response to the survey statement: “Our Organisation has an effective performance management system with agreed accountabilities”



With the very significant improvement in the depth, breadth and sophistication of performance management systems in recent years, including the rapid developments in online performance management systems, it is somewhat surprising that only 46% of directors agree that their organisation has an effective performance management system with agreed accountabilities. Some 48% of directors are neutral and 6% disagree that their organisation’s performance management system is effective.

Significant improvements in an organisation’s performance can be achieved if an organisation has a strong performance culture and an effective performance management system.

Conversely, a poorly designed and/or poorly implemented performance management system can significantly hold back an organisation, constrain its agility or actually cause damage to an organisation.

An effective performance management system will:

- include KPIs that are aligned to the organisation’s strategy and business plans and which are appropriately cascaded down through the organisation
- appropriately encourage, recognise and reward good individual performance
- include appropriate team and organisation KPIs and have an appropriate balance of financial and non-financial KPIs with a mix of leading and lagging orientations
- be transparent, easy to use and its use timed appropriately during the annual cycle
- be used constructively with a view to ongoing individual development.

5. Board Effectiveness Review to increase performance

It is important that boards ensure they have an effective CEO, pay the CEO and senior management appropriately, encourage a strong culture of organisational performance and act appropriately when performance measures are not met.

The oversight of the CEO and organisational performance is a core board function – a function that periodically needs to be evaluated to ensure that the board is performing that, and other key functions, effectively.

Most people understand the importance of a regular health check to determine whether they have any risks to their health and if they are operating at their optimal capacity. Even if there are no obvious signs of ill-health, most people after a certain age ensure they have an annual check-up.

They do that check-up with a competent doctor who knows dozens of the most common areas of poor health and early warning signs of disease. Such doctors know what blood tests, scans and other tests to carry out. Occasionally, extra tests are needed if certain initial tests are not conclusive.

In a similar way, Insync Surveys recommends a regular check-up for boards and board and management committees to determine if there are any risks to their “health” and if they are operating at their maximum capacity or contrary to accepted practices.

Insync Surveys offers the following world class surveys that determine the extent to which boards, committees and directors are effective.

	Individual matters covered	Time to complete (mins)
Board Effectiveness Survey	120	30
Audit Committee Effectiveness Survey	120	30
Board Risk Survey	75	25
Board Risk Committee Survey	98	30
Management Risk Committee Survey	98	30
Director 360 Survey (of all directors)	24	30

Other surveys important to boards include:

Organisation Alignment Survey (for employees)	120	25
Employee Risk Culture Survey		
senior employees	56	15
all employees	27	7

Feedback from users of these surveys commonly include ... “easy to complete”... “searching and comprehensive questions” ... “focuses things quickly” ... “hits the mark”.

Further details are available at www.insyncsurveys.com.au and www.boardbenchmarking.com.

About Insync Surveys

Insync Surveys has one of the largest suites of leading edge integrated benchmarked stakeholder surveys in the world. Its surveys are distributed in over 30 countries and in more than 15 languages. Its surveys are for employees, customers, boards, community groups and many other organisation stakeholders.

Insync Surveys has carried out surveys for some of the largest public, private, government and not-for-profit organisations in Asia Pacific. It is based in Australia and has representatives in New Zealand, Asia, UK and North America. Insync Surveys' technology also powers the surveys of Board Benchmarking.

Visit: www.insyncsurveys.com.au
Contact us: info@insyncsurveys.com.au

About Boards Insync

Boards Insync is the specialist board survey division of Insync Surveys. It has one of the largest ranges of integrated board surveys in the world, including the Board Effectiveness Survey, Board Risk Survey, Audit Committee Effectiveness Survey, Risk Committee Effectiveness Survey and the Director-Peer Survey.

Its world class board surveys are available globally and have been carried out for numerous large public, private, government and not-for-profit organisations.

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