

Corporate governance

The “buzz” word of the decade: Corporate Governance. As we go through (another) phase of major corporate collapses, where greed and over-indulgence by management are seen as the cause, investors are calling for tighter controls over who manages their companies and the way these elected persons take care of corporate assets. There is also the desire for improved disclosure about corporate practices aimed at safeguarding company resources. Shareholder confidence in the corporate world has received an enormous battering and governments and the accounting profession are currently in repair mode in order to restore that confidence. (Sims & Heazlewood 2003, p. 2)

At its simplest, corporate governance can be regarded as being ‘about promoting corporate fairness, transparency and accountability’ (Wolfensohn 1999), while the OECD (1999, 2004) provides a more detailed definition:

... corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides a structure through which the company objectives are set, and the means of obtaining its objectives and monitoring performance defined.

Maw, Lane of Horsell and Craig-Cooper (1994) go even further with:

Corporate governance is a topic recently conceived, as yet ill-defined, and consequently blurred at the edges ... corporate governance (is) a subject, (is) an objective, or (is) a regime to be followed for the good of shareholders, employees, customers, bankers and, indeed, for the standing of our nation and its economy.

Yet, as all encompassing as these definitions are, they neither provide clues about the program logic, or individual indicators, that might be adopted to evaluate corporate governance and/or organisational performance, nor mechanisms for establishing a causal link between the former and the latter.

However, more detailed, more promising definitions exist, frequently linked to the background of the authors of the model being proposed. For example, economists, drawing upon agency theory and the theory of the firm, regard corporate governance as:

... a field of economics that investigates how to secure/motivate efficient management of

corporations by the use of incentive mechanisms such as contracts, organisational design and legislation ... this is often limited to the question of improving financial performance, for example, how corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return. (Mathiesen 2002)

Law professionals have separate models emphasising ownership and control of the corporation, and accountability, transparency and compliance with the law, and standards and codes of ethics (Farrar 2001, 2005).

Falling between economists and lawyers, system theorists concentrate on the structure and relationships that determine corporate direction and performance. While the board of directors is central, corporate governance system theorists examine the interaction between the board and other primary and additional participants within a framework depending upon the legal, regulatory, institutional, ethical and authorising environments of the community (McRitchie 1999).

Blair (1995) summed up the economic, legal and systems approaches to corporate governance as:

... the whole set of legal, cultural and institutional arrangements that determine what public corporations can do, who controls and how that control is exercised, and how the risks and return from the activities they undertake are allocated.

More recently, new concepts of corporate governance have appeared based on leadership and authority (e.g. Kang & Zradkoohi 2005) and democratic theory (e.g. Gomez & Korine 2005). These models appear, in part, to be a response and attempt to understand the significant number of large-scale corporate collapses of the last decade (Enron, WorldCom, HIH, OneTel, Swissair, etc.) (Tschernitz 2002) and are still being clarified.

However, while offering opportunities for qualitative evaluation of a given corporation, there are difficulties in establishing the link between corporate governance, as understood in terms of these models, and organisational performance.

Accountants, on the other hand, tend to rely on models primarily based on probity and risk management, with measurable key performance indicators (KPIs) for both governance and organisational performance. These are related to financial performance and stakeholder value and within the paradigm of an accountancy-based model some connection between governance and performance can be established. Examples of such models can be found in the Australian Standards on *Good Governance Principles* (Standards Australia 2003) and *Risk Management* (Standards Australia 2004).³

It is not surprising, then, that most Australian boards of directors now primarily report on corporate governance, as required by corporations law (e.g. Australia 2005), in terms of an accounting/

TABLE 1: DEFINITION OF THE TERM ‘GOVERNANCE’

Concept	Definition	Source
Governance	The epistemology of governance, from governor, shows it is derived from the same Greek roots as cybernetics, that is, from steersman: κυβερνήτης	Wiener 1961 Senge et al. 1999
Corporate governance (local government)	‘... the system by which local authorities direct and control their functions and relate to their communities’	CIPFA 2001, p. 1
Corporate governance	The management representation of the legal entity and control of the management of an organisation especially under the corporation laws of the country	Barrett 1997; CLERP 1997a, 1997b
Organisational governance	‘... organisational governance is not an end in itself but a means of exercising stewardship professionalism’ in the control of an organization as a part of a system on behalf of the stakeholders in that system	Sharp 1999
Polity governance	Government’s legal and political representation and leadership of the polity (the people or the citizens)	Sharp 1999
Policy governance	A guide on the role of boards of directors for not-for-profit organisations emphasising their responsibility to the ownership of the assets	Carver 1999

financial model and that most evaluations, where qualitative evaluation of the fit between governance and performance is sought, rely on an accounting or financial model of corporate governance.

The issues surrounding governance and the emergence of governance as an evaluand have been further complicated by the lack of transparency in the usage of the term and the various qualifying adjectives associated with the term ‘governance’. This is of particular concern in the not-for-profit (public or third) sector where the influence of both the political system of the authorising governments and the not-for-profit’s external stakeholders can strongly influence the actions of directors; thus the coining of the specialist term ‘polity governance’ (Sharp 1999) to recognise the particular governance issues in this sector.

Table 1 and Rhodes (2000) show some of the many definitions and uses of the term governance. Corporate governance has become associated with the management and control of organisations especially in the private sector under the corporation laws of the country. Governance is often used in the public sector context to mean the government’s legal and political representation and leadership of the polity (the people or the citizens). For clarity, this might be better termed ‘polity governance’ to distinguish it from the machinery of government, which includes the organisational governance of the public administration (e.g. Sharp, 1999, 2001).

Evaluating governance and performance

Clearly, it is impossible in a single paper to provide a map for the path linking governance and performance; however, it is hoped that some consideration of the role of evaluation may assist.

Obviously boards of directors, with unlimited access to corporate information, have a very important evaluation role in an organisation. However, how appropriate measures are developed for that role, which has been called ‘Strategic Evaluation’ (Sharp 1999, 2005), is still an emerging journey (Heracleous 2001; Korac-Kakabadse, Kakabadse & Kouzmin 2001; Sharp 2002; Scissons 2002; Wagner, Stimpert & Fubara 1998; Young 2003).

Further, as a number of recent reviews have suggested (Cutting & Kouzmin 2002; Edwards, Ayres & Howard 2003; Edwards & Clough 2005; Law 2003; Sharp 1999), regular reviews of board and management structures, performance and effectiveness are required for sustainable organisational performance.

This requirement for internal reviews is now being legislated in a number of OECD countries (OECD 1999, 2000) as part of the process of simplifying and tightening corporate governance of organisations in both the private and public sectors. This requirement also is becoming reflected in international professional standards on accountability and internal auditing (e.g. Barrett 1997; IIA 1999; IIA 1998). The effect of these changes is to put boards of directors,

CEOs, auditors and top managers on notice that that they need to be competent and clear about the roles of corporate directors and the governance of their organisations (Law 2003). In turn, this requires that directors understand and practice financial and non-financial performance monitoring and evaluation (Conger, Finegold & Lawler 1998; Green & Griesinger 1996). However, many organisations rely on thinly disguised experiential ‘rules of thumb’ provided by consultants or old hands at directorship, rather than rigorous, research-based paradigms of corporate governance and program logic-based evaluation, for the evaluation of the performance of boards of directors. (Leblanc & Gillies 2004; Scissons 2002). As Scissons (2002, p. 21) pointed out:

Research supporting the views of these various advocates has largely been based on opinion or impressionistic data rather than on empirical research, and that the opinions of different experts are often diametrically opposed to one another. To borrow a line from Punch, ‘you pays your money and you takes your choice’ ... In most cases, these problems stem from an ignorance of the underlying assumptions inherent in the use of elementary statistics or an apparent belief that as far as measurement is concerned, something is better than nothing.

One problem created by this reliance on empirical ‘knowledge’ is that, while there is emphasis on the need for assessment of effectiveness of boards of directors (e.g. Walker 1999), there is little reliable information readily available to boards on *how* to do this, with many of the evaluations being performed with simplistic checklists and poorly constructed, and/or inappropriately analysed, surveys that focus on processes and directors’ duties, rather than on the outcomes of organisational governance (e.g. Holland & Jackson 1998, Herman & Renz 2000; Scissons 2002). Indeed, as Garber (2002) pointed out, using off-the shelf evaluation forms and externally imposed criteria may do more to confuse and waste valuable time than help the board of directors to establish their own management and planning.

The lack of sound information leaves boards of directors with two awkward questions:

- *What is* effective organisational governance?
- *How* can effective organisation governance be made to contribute to effective performance?

These questions must, of course, be addressed within, and in compliance with, the (normative and prescriptive) legal and regulatory frameworks (e.g. Standards Australia 1998).

According to the available research, most boards encountering these questions are already aware that prescriptive and regulatory approaches are unlikely to facilitate performance *per se*; the main purpose of such formal approaches is to provide an ‘audit trail’ to allow assignment (or shifting) of blame where performance fails (see, for example, Garratt 1996a,

1996b, 2002; Hilmer 1993; Matheson 2004; Sarre 2003). The need, therefore, is for solutions to these questions, which will benefit a board in keeping a viable and prospering organisation.

Clearly, there is a need for evaluation professionals to become more involved in advising boards on the models, paradigms and program logic for a broader evaluation of governance and performance.

Linking governance and performance

Although a number of authors (e.g. Brown & Caylor 2004; McKinsey 2002; PWC 2001, 2003, 2004) have suggested that the better the governance the better the organisational performance, it appears that much of the evidence adduced for this claim is based on empirical evaluations and flawed surveys that fail to:

- define ‘good governance’
- establish whether the implicit understanding of ‘good governance’ that forms the basis of the survey is the same as that of the survey respondents
- rely heavily on sharemarket valuation of performance
- establish how representative the sample of survey respondents is of the intended audience and must, therefore, be regarded as possibly ‘anecdotal’ and/or unreliable.

Nevertheless, it is still commonplace to assume/expect that *good* governance (like good strategic leadership) should contribute significantly to an effective organisation (Finkelstein & Hambrick 1996; Law 2003). In turn, this assumption that there is a link between corporate governance and performance often results in investors placing a ‘premium’ on firms that appear to demonstrate good corporate governance (e.g. Brown & Caylor 2004; Hilmer 1993; Matheson 2004).

For example, private sector research, such as a global financial benchmarking study sponsored by the Institutional Shareholder Services (Brown & Caylor 2004), suggests that the quality of corporate governance is sufficiently related to firm financial performance to warrant investors paying a premium for the assurance (or perception) of ‘good governance’, while a limited correlation of the stock prices and some corporate governance practices (shareholder rights) of some 1500 large firms listed on the New York Stock Exchange by Gompers, Ishii and Metrick (2003) concluded that investors in companies that respected shareholder rights benefited to the extent of over 8% per year.

It should be noted that this issue with uncertain evaluation, in part led Hilmer (1993) to point out that it is crucial that boards of directors not only take responsibility for oversight of top managers and effective evaluation of their contribution to organisational performance, but also look for factors that might contribute to *failure* and *avoid* them:

While there are numerous reasons for poor performance, current governance responsibilities and practices are a significant part of the problem. Three factors in particular appear to contribute to many boards' continuing acceptance of marginal corporate performance. These are:

- Confusion over board role and responsibilities, in particular a failure to balance the duty of the board to ensure high levels of performance with its duties to oversee conformance by management with an increasing body of rules and regulations.
- Weak director selection processes.
- A lack of processes to keep *performance at the centre of the board's agenda*. (Hilmer 1993, pp. 4–5, italics added)

However oversimplified are the data-gathering and resultant benchmarks in the private, for-profit sector, the situation is significantly worse in the not-for-profit (third) sector where boards are frequently comprised of volunteers with little if any relevant experience and have limited access to useful evaluation techniques or indices (e.g. Green & Griesinger 1996; Herzlinger 1996; McNamara 1999a, 1999b, 1999c). Indeed, as Green and Griesinger noted:

Nonprofit organizations differ from their for-profit counterparts in legal status with respect to taxes and governance ... and their governance structures preclude private financial gain ... Since a nonprofit organization exists to render a public service, its success is generally measured by how well it performs this service and not by its financial performance alone ... Thus, the primary measures of performance for a nonprofit organization tend to focus on the mission, goals and objectives, which typically are non-monetary in nature and sometimes difficult to assess fully. Even more to the point, effective boards of nonprofit social services organizations are generally expected to advocate services that meet client needs and also to help garner the resources necessary to improve both the quantity and the quality of services delivered. Accordingly, it is not unreasonable to expect board members of nonprofit organizations to play a larger role in implementing their decisions, particularly with respect to fundraising and community relations. (Green & Griesinger 1996, p. 382)

And as with the for-profit sector, directors of not-for-profits are also faced with the problem that the data they have access to may be selected by biased managers, of limited validity and reliability, anecdotal and potentially meaningless to the stakeholders (e.g. Herman & Renz 2000, Keating & Frumkin 2003).

Search for a program logic

There have, however, been a number of attempts, in both the for-profit and the not-for-profit sectors, to establish a paradigm and define a program logic for evaluation of governance and performance that can provide a lead to evaluators who might be interested in pursuing the linkages between governance and performance. For example, the Australian Institute of Company Directors (AICD/KPMG 1998) has attempted to identify the areas of board performance that should be benchmarked. Table 2 reports this framework.

Regrettably the literature appears silent concerning whether any company has adopted this methodology.

Similarly Green and Griesinger (1996) developed a model and program logic for their study of not-for-profit developmental disability workshops and residential facilities in the United States. Table 3 shows the measures adopted by Green and Greislinger.

This study suggested a correlation between the performance of the board of directors and organisational performance (see also Crilley & Sharp 2003). In particular, Green and Greislinger identified three 'responsibilities' clearly related to *strategic evaluation* where it is necessary to:

- reassess an organisation's overall performance
- evaluate the board's performance formally
- evaluate the CEO performance.

All these showed statistically significant differences between the *do* and *should-do* ratings by both board members and CEOs, indicating that both groups expected higher performance by boards of directors. There were, however, interesting disparities between board member ratings and the CEO's perception of connection with organisational performance. However, and oddly, neither the board members, nor CEOs who responded, saw 'formally evaluates CEO performance' as contributing to organisational performance, despite the common expectation that CEOs are responsible for such performance (Crilley & Sharp 2003).

While these results are from a small sub-sector of not-for-profit organisations in the USA and so may not be generalisable, they do confirm two impressions from other literature and anecdotal experience from third-sector organisational governance practice that:

- there is some expectation of a relationship between effective organisational governance and effective organisational performance; *but*
- there is a common problem in organisation governance in some not-for-profit organisations, which is likely to contribute to poor governance and/or performance of organisations, that is the *confusion over roles and responsibilities* among boards of directors vis-à-vis the CEO or management of the organisation (e.g. Carver 1995; Garratt 1996a, 1996b, 2002).

TABLE 2: BENCHMARKS FOR BOARD PERFORMANCE

Benchmark	Performance issue
Link between board and company performance	Four out of five directors considered that board performance is linked to overall corporate performance.
Scope of performance reviews	The primary focus of evaluation is corporate performance, and to a lesser extent, the achievements of the CEO. Reviews of the board itself, the non-executive directors and the chairman are conducted only by a minority of companies.
Performance benchmark criteria	Profitability is the key indicator of corporate performance, followed by return on investment and customer loyalty. Share price is seldom regarded as a criterion of corporate performance. The criteria used for corporate and board performance are essentially the same, but the emphasis is given to corporate performance.
Best practice criteria	When performance is considered in terms of best practice, customer loyalty and staff satisfaction take the lead, ahead of financial performance indicators.
Benchmarking against competitors	While internal assessments of corporate performance may be routine, in most cases this does not extend to benchmarking against competitors. Where competitive benchmarking is undertaken, it is more likely to be against local competitors than offshore companies.
Are stakeholders considered?	Apart from shareholders, directors consider the needs of customers and staff.
Performance assessment methods	The methods of assessing board performance focus on traditional accountancy measures (45%), and to a lesser extent management by objective (21%). One in three directors (34%) report that no formal approach is used to assess board performance.
Long- and short-term indicators	In assessing board performance most organisations make a distinction between long and short-term indicators of success.
Benefits of performance evaluation	Directors consider the primary benefits of regular board performance are increased focus on corporate performance and improved accountability.
Making outcomes public	Most organisations do not circulate the results of board reviews. Among those that do (22%), the outcomes are generally presented in the annual report or at the AGM.

TABLE 3: PERFORMANCE AND CONFORMANCE ISSUES (Adapted from Green and Greislinger 1996, Table 3, pp. 392–394)

Performance issues	Conformance issues
Responsibilities relating to Strategic Evaluation (<i>closest type of governance</i>)	Responsibilities relating to Audit (<i>closest type of governance</i>)
Balances entrepreneurship and fiscal responsibility (<i>organisational and corporate governance</i>)	Has long-term financial plan (<i>organisational and corporate governance</i>)
Communicates organisation’s purpose (<i>polity and organisational governance</i>)	Reviews key financial controls (<i>organisational and corporate governance</i>)
Reassesses organisation’s overall performance (<i>organisational governance</i>)	Accepts legal accountability (<i>corporate and organisational governance</i>)
Sets the specific duties of the board (<i>organisational and corporate governance</i>)	Sets the specific duties of the board (<i>organisational and corporate governance</i>)
Involved in policy formation (<i>polity governance</i>)	Reviews management information (<i>organisational and corporate governance</i>)
Formally evaluates board performance	Provides policies on board responsibilities (<i>organisational and corporate governance</i>)
Reviews and revises organisation’s mission (<i>organisational governance</i>)	
Participates in long-term planning (<i>organisational and polity governance</i>)	
Formally evaluates CEO performance (<i>organisational and corporate governance</i>)	
Monitors services and programs (<i>organisational governance</i>)	
Participates in short-term planning (<i>organisational and corporate governance</i>)	
Provides policies on board responsibilities (<i>organisational and corporate governance</i>)	

Green and Greislinger’s methodology may provide a lead for other evaluators seeking to investigate governance and operational performance and determine whether the two are linked.

Further issues in linking governance and performance

It will be painfully obvious to those who have been on a board of directors that evaluating, and linking, governance and performance falls into what systems thinkers have labelled ‘wicked’ problems. In addition, evaluation is not a neutral or value-free process (Scriven 2003; Sharp 1994); and the process of a board of directors determining how to evaluate its own performance and that of the CEO and the organisation may provoke ‘defensive routines’ (Sharp 2003) that can compound the performance evaluation and or the associated ‘wicked problems’. As Rittel and Webber (1974, p. 89) point out there are at least 10 properties commonly identified regarding these ‘wicked problems’ (Churchman 1967; Conklin & Weil 1997; Courtney 2001; Rittel & Webber 1974). The properties of direct relevance to evaluation of governance and performance seem to be:

- 1 The ‘formulation of a wicked problem is the problem’ (Rittel & Webber 1974, p. 90) because the information needed to grasp the problem is not available until the possible solutions have been canvassed. It has been found that boards of directors can mistakenly focus on the financial monitoring and micro-management, when their role in organisational governance should be to oversee organisational strategy and the performance of the CEO (see Hilmer 1993; NSW Audit Office 1997). These areas are harder to evaluate and more likely to bring their own defensive routines and wicked problems, especially when they are being managed internally with the threat of external sanctions.
- 2 ‘Wicked problems have no stopping rule’ (Rittel & Webber 1974, p. 92) because the level of detail required for the specification is not known. The scope of the evaluation can undermine the utility of the findings: too broad an evaluation can mean unmanageable findings and/or recommendations. Vague evaluation criteria without enough detail in the terms of reference can render the evaluation politically confused and unuseable.
- 3 Wicked problems have complex qualitative decision criteria so the ‘solutions to wicked problems are not true-or-false, but good-or-bad’ (Rittel & Webber 1974, p. 92). An expectation of quantitative data or definitive answers in organisational governance evaluation can blind the board of directors to important questions and useful qualitative data.
- 5 ‘Every solution to a wicked problem is a “one-shot operation”’; because there is no

opportunity to learn by trial-and-error, every attempt counts significantly’ and leaves a ‘trace’ affecting subsequent attempts (Rittel & Webber 1974, p. 93). There are enough problems of organisational learning and governance learning as it is (e.g. Garratt 1987, 1996a, 1996b; Sharp 1996a, 1996b, 1996c, 2003) without there being compounding effects of errors hampering learning attempts at solutions and blocking further learning.

- 6 ‘Every wicked problem is essentially unique’ (Rittel & Webber 1974, p. 95). This makes it harder for boards of directors to build competence in organisational governance and its evaluation. But the Capability Maturity Models (CMM) approach attempts to accommodate that, at the expense of complex aspirational organisational culture stereotypes (Sharp 2005).
- 7 ‘Every wicked problem can be considered to be a symptom of another wicked problem’ (Rittel & Webber 1974, p. 96). The evaluation of the board’s performance is a meta-evaluation of the organisation’s performance, which in turn is compounded by the board’s evaluation of the CEO’s performance. Each has their own perspective on the problems they have in common that they each have to face, in their own ways.
- 10 The board of directors has ‘no right to be wrong’ (Rittel & Webber 1974, p. 98), especially in the public sector, because of the consequences of errors and the ultimate responsibility of the government. The political pressures of polity governance (Uhrig 2003), the pressures of regulation (e.g. CLERP 1997a, 1997b, 2003), and the potential threat and consequences of litigation have escalated since the era of the corporate cowboys (Sarre 2003). Boards of directors cannot afford to be ‘wrong’ and so their attempts at evaluation may be conservative or ‘window dressing’. This aversion to error can lead boards to learn ‘helplessness’ or to adopt ‘defensive routines’ (Argyris 1999, p. 7; Sharp 2003; Eppler 2005). The latter can include refusing to accept and/or denying new, relevant complex information or refusing to deal with the consequences of that information.

Or, as other, more irreverent commentators put it:

- ‘You cannot [should not] avoid addressing the problem,
- You cannot compile a comprehensive list of possible solutions to consider and will never know if you’ve found an optimum solution, and

- Any solution implemented will spawn at least one other new wicked problem' (based on *The Insider*, 2002, p. 1; see also Conklin & Weil 1997)
- 'Certainly the game is rigged. Don't let that stop you; if you don't bet, you can't win.' (Heinlein 1974)

In addition to the issues associated with wicked problems and defensive routines, there are other issues related to the environment within which organisations evaluate governance and performance. The most obvious are the changes in the regulatory and market environments. For example:

- Governments have moved away from the 'old' command and control mechanisms of legislation and regulation in favour of 'light-touch' mechanisms involving self-regulation, agreed codes-of-practice and market forces, while simultaneously relinquishing the role of inspection, assessment and advice. In addition, governments now require self-assessment and reporting of default, and have significantly increased, and personalised, the penalties for non-compliance when default occurs (e.g. Bartos 2005, CLERP 1997a, 1997b, 2003). This change has significantly increased the responsibility, complexity and risk faced by boards of directors in all sectors (private, public and third) in undertaking and evaluating governance and performance.
- At the same time market-driven demand for ever greater 'efficiency' has led to (repeated) downsizing within organisations (including public and third-sector organisations), and these reductions often have impacted most severely on 'non-productive' information, policy and compliance groups. In addition, a 'can-do' culture has arisen in many organisations, blurring understanding of non-market performance requirements, limiting dissemination of 'bad news', and suppressing views contrary to the prevailing culture (Fanto 2004). However, the pressure for a 'compliance culture' can have the opposite effect (e.g. increasing defensive routines and avoiding risk management).

The almost simultaneous impacts of all these changes on organisations have been to complicate corporate governance significantly—if it is possible to make a field more 'wicked'. More is demanded of directors while many of the sources of information, and compliance tools, have been complicated, confused or diluted (Sarre 2003). In addition, doubts have arisen about whether the 'new' regulatory requirements of corporate governance contribute properly to organisational performance.

It seems as if the feeling of *déjà vu* has engulfed us:

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, italics added)

The next steps

Some encouraging steps along the path have been made: boards of directors are increasingly aware of the need to evaluate their role (e.g. Edwards & Clough 2005; Garratt 1996b, 2002; Leblanc & Gillies 2004) and the evaluation profession is starting to realise it has a role to play in this (e.g. Lake 2004, 2005a, 2005b; Sharp 1999, 2003, 2005). Nevertheless, there is a clear need and opportunity for more evaluation practitioners to gain the acceptance of boards of directors and to provide them with guidelines and evaluation frameworks that will contribute to *both effective organisational governance and organisation performance*, while also helping to improve knowledge and practice in this 'emergent' field, without exacerbating the wicked problems of organisational governance. This will require that a number of issues be addressed, for, if they are not addressed, boards will rapidly lose confidence in the evaluators. Some of these issues appear to be:

- 1 There may be an expectation that there will be a simple solution. In fact, there is unlikely to be a 'one-size-fits-all' solution to the awkward questions (e.g. Courtney 2001, Rittel & Webber 1974).
- 2 Where a *cure* cannot be offered for the woes of organisational governance, then is it an appropriate and/or realistic task for evaluation practitioners to involve a board of directors in the process of developing a better basis for research, and learning for continuous improvement? (See Garratt 2002.)
- 3 It is well established among evaluation practitioners that evaluation of an organisation is more effective where both internal (*emic*) and external (*etic*) evaluation perspectives and methods are used, preferably simultaneously (e.g. Love 1991; Scriven 2003; Sharp 1994).
 - External evaluations of organisational governance and performance of boards of directors are often undertaken using methodologies such as Carver's Policy Governance assessment forms and/or Capability Maturity Models (CMMs). CMMs also can give an indicative grading or comparative rating of capability maturity (Sharp 2003).
 - Internal evaluations of organisational governance and performance of boards of directors are more fraught, often being bedevilled by subjectivity, defensive routines and internal politics.

However, one approach for guiding internal evaluations which is gaining acceptance is board of directors' Self-Evaluation (McNamara 1999a, 1999b, 1999c; Sharp 1999) which, it is claimed can be applied, with few exceptions, to not-for-profits and for-profits. This approach can also be developed in the context of risk management using the *Directors' Effectiveness Self-Evaluation Research Tool* and can use the qualitative data and give a Goal Attainment Scaling index on most goals of interest and relevance to most boards of directors (Sharp 2001, 2003).

The Utility Standard for evaluation also is well accepted (Joint Committee on Standards for Educational Evaluation 1994; Patton 1997).

Another area of importance to internal evaluation of corporate governance is the availability and usefulness of 'material' information (e.g. AAS 5). This is an area where internal audit and accounting have domain and for which formal evaluation may be of use where relevant evaluation techniques are accessible to boards of directors.

It is clear that whichever methodology (or methodologies) is (are) used, it (they) will need to be explained in some detail to a board of directors, if they are to have confidence in the outcomes.

- 4 Although often falling into the category of not-for-profit, government administration has different requirements and additional responsibilities associated with the larger stakeholder groups and wider accountabilities (particularly where government corporations are used to provide public good and services) and this tends to increase the complexity of both external and internal evaluation.

Conclusions

This paper has attempted to identify some of the theoretical and practical problems in the evaluation and linkage of governance and organisational performance. We have not attempted to establish any 'breakthrough' recommendations or new models (e.g. Edwards, Ayres & Howard 2003; Edwards & Clough 2005), but, as earlier (Sharp 1999, 2003, 2005), we have sought to alert evaluators to a number of issues that can and will hamper both organisational learning and evaluation. In particular, we have sought to alert evaluators to:

- the number of individual (profession-related) models of corporate governance and deficiencies in the *definition of governance* and the need to establish a model, paradigm and program logic for evaluation of performance in the for-profit, not-for-profit and public sectors

- *wicked problems* within organisational governance
- *defensive routines* within the board and executives that attempt to avoid embarrassment which might follow from evaluation or detection of errors
- (ongoing) changes in the role and expectations of government, regulators and other stakeholders
- market-driven (ongoing) limitations on the capacity of, and support for, boards.

Clearly, there is a need for better evaluation tools and approaches (in resource-poor environments) to provide boards with pertinent and timely information (including 'bad news') in relation to both organisational performance and operational regulatory compliance (Standards Australia 1998). But ultimately, even thorough research, such as that by Green and Griesinger (1996) can only show that applying good governance principles is a *necessary condition, but not sufficient* to ensure good performance. Similarly, developing models supposedly more suitable for boards of directors to evaluate their own performance and that of the CEO and their organisation may have no effect if the organisation's culture has adopted defensive routines, or has spiralled down into wicked problems.

We do not claim to provide a map for the path to enlightened corporate governance, or for the evaluation of organisational performance, or for establishing a linkage between them; however, we hope that some consideration of evaluation theory may help us find the light for that path and that others may be inspired to start on the arduous journey of governance evaluation.

Notes

- 1 Renz (2005) lists over 200 refereed post-1992 papers on the limited topic of governance by non-profit boards while Mathiesen (2005) lists over 1160 refereed sources on economic aspects of corporate governance.
- 2 Much of the discussion on corporate governance is now appearing in new specialised and increasingly electronic journals which the readership of *EJA* may find expensive or inaccessible. Consequently, we have, where possible, chosen references where the complete text is accessible in hard-copy or is freely available on the Web.
- 3 The subset of accountants involved in finance and banking also add indicators on capital accumulation and return on investment to their KPIs (Scheifer & Vishny 1997).

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