

Deepening Governance
Understanding and Skills for Meaningful and Effective Monitoring of CEO

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1st

Two Big Measurement /Evaluation Concepts

“ If you measure it, you can influence it...
evidence causes behaviour change and stimulates a desire to progress. ”

Karen Fryday-Field

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2nd

Two Big Measurement /Evaluation Concepts

“ A rough measure of the right thing is better than a perfect measure of the wrong thing. ”

John Carver

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Role of Governing Board



- Purpose and Strategic Direction
- Organization Protection
- Assurance
- Connection with Careholders

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Role of Governing Board



- **Purpose and Strategic Direction**
 - Listening to input, and on behalf of the "careholders", creating and being clear about a relevant, impactful purpose and high level critical outcomes.
- **Organization Protection (Governance of Risk)**
 - Governance of risk, including prudence, ethics, equity, etc.
- **Assurance to Careholders**
 - Board accountability to the broader careholders for results within ethical, prudent, and equitable means.
- **Connection with Careholders**
 - Understanding the broader careholders values and expectations for impact.



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Understanding Board Monitoring of the CEO Starts with the Board Understanding Modern Delegation



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Boards Delegate Work to the CEO

Principle: Clarity and Coherence of Delegation

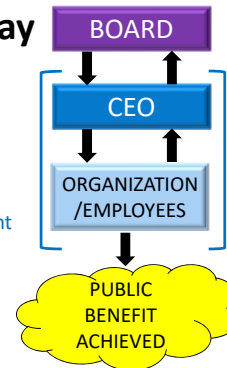
- A Board should **define and delegate** rather than react and ratify.
- A Board needs to **define what its CEO is for**, not what they do.
- The **Board has one employee**, the CEO.



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Single Delegation Pathway

- Delegation of:
- Purpose,
 - Implementation / means operations,
 - Results achievement



Monitoring results achieved and ROI within boundaries of prudence and ethics



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Delegate the Work – Interpreting Board Policy

Principle: Any Reasonable Interpretation

The CEO has two main job products including:

- Organizational achievement as prescribed by the Board's Ends (Critical Outcomes) Policies.
- Assurance that organizational situations and activities never exceed the boundaries of prudence, equity, and ethics acceptability as outlined in the Board's Executive Limitations Policies.

Note: The CEO may use any reasonable interpretation of the Board's policy direction.



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Reminders on the Philosophy of Board's Delegation to the CEO

- Ends Policies are prescribed (specific direction on outcomes, who, investment).
- Means are proscribed (boundaries are set).
- Any reasonable interpretation of policy is acceptable – tested by alignment, enough positive change, and reasonableness.
- The CEO has pre-approval of all subsequent decisions and actions under the policy.

(Means the Board makes the big decisions based on Board principles then directs the specific CEO strategic and operational decisions to the CEO).



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Board's Roles in Assurance of Executive Performance

Effective Board Role in Ensuring and Evaluating CEO (Organizational) Performance

- Selection and appointment CEO.
- Providing clear policy direction to the CEO and Ends (Critical Outcomes) and Executive (Risk) Boundaries
- Monitoring of CEO achievement of a reasonable interpretation of the Ends (Critical Outcomes) Policies and compliance with a reasonable interpretation of Executive Limitations (Risk) Policies.



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Where Do We Start with Monitoring?



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The Purpose of Information the Board Receives

1. Decision Making (Policy Decisions)

- To make well informed, wise policy decisions (results, strategic vision, risk, boundaries of ethics, prudence, and equity) on behalf of the ownership.

2. Monitoring

- To monitor CEO/organization progress/achievement through measuring CEO performance which is the same thing as organizational performance.

3. Incidental Briefing Information

- To stay well informed about the organization and the industry within which the Board is governing to understand shifts in governance.



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3 Ways the Board Monitors the CEO



Internal Reports (usually from the CEO and delegates)



External Report (Audit, Survey, Independent Expert Review against the original policy criteria and the CEO's interpretation)



Direct Inspection (Board directly reviews data/facts/situation) – use sparingly. Often Boards are not expert in the area.



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Moving to Impact

- Monitoring Performance - The Dynamic

- **Step 1** - Board must have clear policies (if this is not the case, stop and clarify).
- **Step 2** - The CEO interprets the policies and sets criteria
 - For critical outcomes operational outcomes success
 - For compliance with prudence, ethics, and equity, i.e. what will it really look like on the ground if the CEO and team achieve these outcomes?

[The CEO is no longer faced with fear every day as to what defines if success has already been agreed to with the Board].



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Moving to Impact

- Monitoring Performance - The Dynamic

- **Step 3** - Board uses CEO's measures of actual results to measure against interpretation targets or (observable conditions/operational outcomes to be achieved)
- **Step 4** - Board asks appreciative inquiry questions in order to better understand and stress test the Monitoring Reports of results. Do we understand the evidence? Does it demonstrate achievement of the policy interpretation?
- **Step 5** - Board and CEO discuss results and any course corrections needed.
- **Step 6** - Board makes a conclusion on whether the evidence demonstrates reasonable achievement/compliance and notes its findings in the minutes by motion demonstrating the Board's voice.



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Step by Step Board's Role in Monitoring

- 1 **DEVELOP** clear policy items/criteria clearly
- 2 **DECIDE** on high-level method and frequency of monitoring
- 3 **3.1 REVIEW** the CEO interpretation and results for reasonableness
 - Is it understandable?
 - Makes sense, i.e. is it aligned?
 - Reasonable stretch/ROI i.e. is it enough impact/achievement for the investment made (or enough compliance for Executive Limitations)
 - Does this seem reasonable, i.e. great for a CEO in this sector?**3.2 REVIEW** evidence of compliance/achievement
 - Does the evidence demonstrate compliance/achievement



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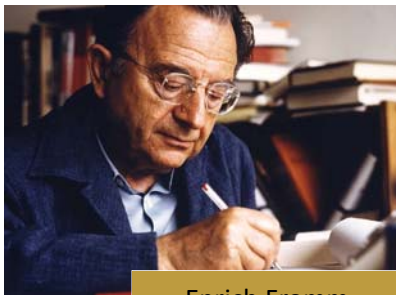
Step by Step Board's Role in Monitoring

- 4 **PROVIDE EVALUATION AND CONCLUSION** on the CEO's performance.
- 5 **PROVIDE FEEDBACK** to the CEO and hold a dialogue on insights emerging or learned.
- 6 **CONTINUE MONITORING** on an ongoing basis assessing risk and achievement/impact.

These monitoring assessments take place throughout the business year.



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Adapted from:

Enrich Fromm

“True freedom is not the absence of structure ... but rather a clear space with clear ethics, prudence, equity boundaries that enable people to work within established boundaries in an autonomous, creative, and emergent manner.”



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Anatomy of Ends Interpretation



- **Determine** operational outcome/observable condition/operational definition
 - [What does success look like on the ground?]
- **Set** the target or quantitative amount to be achieved.
- **Rationale** for why this observable condition and why this target.



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Any Reasonable Interpretation Defined

- May be different than the interpretation preferred by Board Members either individually or collectively.
- Board must assess and make a decision (via motion) determining whether the CEO's interpretation falls within the range of reasonable interpretation.

So what is reasonable?



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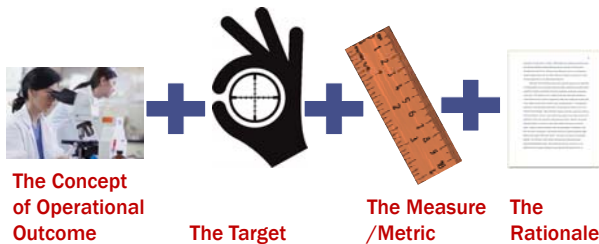
Policy Interpretation Basic Ingredients

- **The Concept of the Operational Outcome**
 - The specific observable condition/outcome defined.
- **The Target**
 - How much good to be done in period.
- **The Measure/Metric**
 - How you will provide evidence of achievement (the 'ruler')
- **The Rationale**
 - Why this interpretation is reasonable.



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Interpretation Formula (Ingredients)

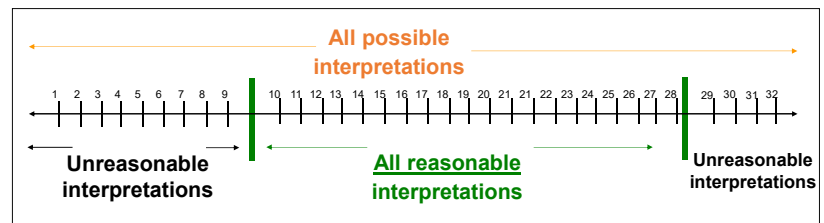


Policy Interpretation



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What is 'reasonable' interpretation in the universe of possible policy interpretations?

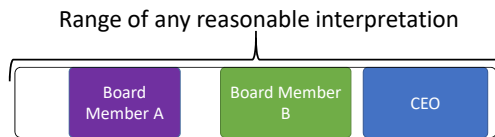


In order to operationalize and achieve or comply with a policy, the CEO has to interpret the policy. The CEO is accountable for achieving or complying with their interpretation of each End (Critical Outcome) and Executive Limitations Policy (i.e. the CEO interpretation creates the operational definition of success).



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Any Reasonable Interpretation is Appropriate... and

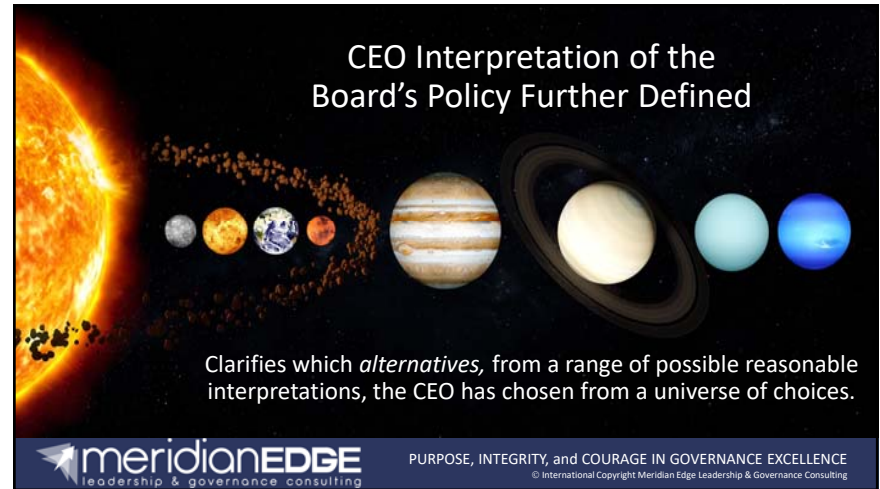


All interpretations are reasonable within the “range of reasonable” but they are not all the same.



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CEO Interpretation of the Board’s Policy Further Defined



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**Critical Outcome:
A Cup of Coffee**



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Reasonable

When is an Interpretation Reasonable?

- When it provides a **defensible measure** or measures against which policy achievement can be assessed
1. When the observable condition or outcome is aligned regarding it is about the “End” impact, and
 2. When it is enough ROI.



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Example: Ends Policy and Interpretation Cancer Research

Ends Policy

Cancer is eliminated as a cause of human suffering and death. Our role is to focus on people living in the eastern seaboard in the United States. We achieve this result through efficiently and effectively investing as many resources as we can make available for this cause.

Interpretation

I interpret that the Ends will be achieved over this 5-year cycle when the impact of the 5 most common categories of cancer is reduced. This is as far as we can reach with our \$400M investment annually. Research indicates that there is significant opportunity to achieve the benefit of reduced human impact in all 5 diagnostic categories. Our specific targets for impact are outlined in the chart below.



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End Policy	Operational Definition / Interpretation of Operating Definition	Good to be Done in the Period (i.e. return on the investment)	Measures/Indicator
Cancer is eliminated as a cause of human suffering and death.	Over the next 5 years, the top 5 cancers will be reduced and/or eliminated as a cause of human suffering and death.		
	• Colon	Reduction of deaths	5% decreased mortality rate
	• Prostate	Increased longevity	50% of cases have life span of greater than 10 years after diagnosis
	• Lung	Reduced incidence	20% decrease in population incidence
	• Breast	Reduction of death within 5 years	25% more cases diagnosed in period live longer than 5 years
• Uterine/Ovarian	Earlier detection	50% of cases will be diagnosed before any mastitis is diagnosed	



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Example: CEO Interpretation of Board Policy

Board Policy

Nurses will demonstrate continuing competence in their practice.

CEO Interpretation

- Nurses can effectively answer practice scenario and professional judgement questions.
- 95% of nurses achieve 90% of correct scenarios practice analysis



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Let's Try it For An Executive Limitation Policy Interpretation

What observable condition could you create to achieve 'compliance' or 'desired outcome'?

- Will not allow employees to be unaware of their rights... [ensure employees are aware of their rights].
- Will not allow information or files to be exposed to loss, improper access or significant damage...[ensure employees information or files are protected from loss, improper access, or significant damage].



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Monitoring Results:

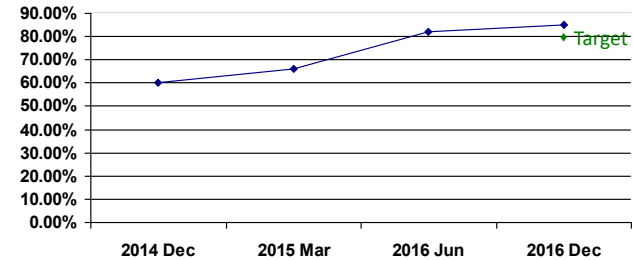
The only data we can provide at this time relates to new immigrants who have accessed our services.

A survey of 30% of the 4500 immigrants who have been in Harold County for less than 2 years and who have accessed our Harold County services within the timeline, found the following:

	Harold County (percent)			Canada Wide From Stats Canada (percent)	
	2015	2016 Jan-Jun	2016 Jul-Dec	2015	2016
	N=30% of 1010	N=30% of 1200	N=30% of 1050		
Able to complete job application	70	89	87	65	70
Able to make bank deposit	60	75	76	65	75
Able to read newspaper	75	80	81	70	70
Able to select and purchase all goods on a shopping list	65	85	89	68	71
Able to make payments on household bills	62	79	83	64	74
Abel to conduct a basic conversation	64	80	84	69	69
Overall Function	66	82	85	Not available	Not available

Note: Participants measured in 2016 July – December are a distinct group of clients from the 2016 January to June group.

Overall Functional Literacy Results Over Two Years



Analysis and Conclusions:

The trend in our cohorts (groups of clients) results demonstrates that our new Front of the Line Literacy Program is having an increasingly better impact on literacy (greater than 10%) for more recent cohorts consistent with our desired Ends target. Also we achieved an overall literacy functional score of 85% by the end of the first fiscal year of this transition (better than our target of 80% for 2016).

This evidence demonstrates that this Ends Policy has been achieved for 2016.

The Question for the Board – For Ends/Impact Achievement



Ask yourself,

“Could a reasonable person have made this interpretation?”

• Is it aligned with the policy?

• Is it enough?

NOT

“Do I personally agree with or like it?”

Common INTERPRETATION Errors

1. No interpretation
2. Restating the Board's policy
3. Rationale for the Board's policy instead of CEO's interpretation
4. Lacking a statement or definition of what will demonstrate compliance
5. Lacking rationale for CEO's metric in the interpretation
6. Dictionary definitions
7. Not addressing the policy at all
8. Addressing only part of the policy



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CEO Providing Evidence in Monitoring

Evidence should include data that:

- Demonstrates compliance with the reasonable interpretation of the policy
- Has clear language for the Board
- Is free of superfluous information
- Is representative, unbiased, objective
- Directly addresses the commitment made in the CEO interpretation
- Can be quantitative or qualitative



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Measurement - Observations

Not everything that counts can be counted, and not everything that can be counted counts.

Albert Einstein

A crude measure of the right thing, beats a precise measure of the wrong thing.

John Carver

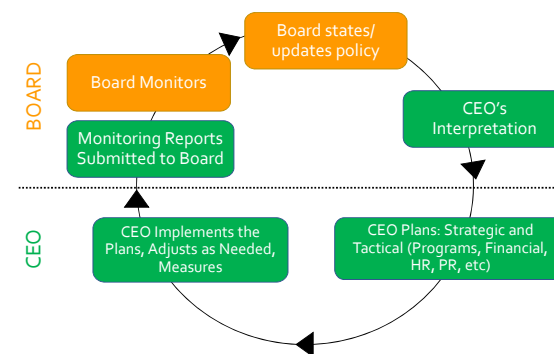
An authoritative, clear statement of what is to be accomplished has a powerful effect on organizational behaviour even if the results are never evaluated.

John Carver



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WHAT THE BOARD SEES



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Anatomy/Structure of a Monitoring Report Summarized

- (1) **Board's Policy Words** (re-stated)
- (2) **Interpretation**
 - Operational definition with metrics/observable condition
- (3) **Rationale** (why this definition is reasonableness)
 - What would authorities, experts in the industry say?
 - How will this look in the reality of my organization?
 - What does research say?
 - What do other comparators/benchmarks say?
- (4) **Data** (Evidence/Proof)
 - Must relate directly to the Interpretation
 - Metrics are best (can be quantitative or qualitative)
- (5) **Statement** of (non)compliance
 - CEO's conclusion



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Summarizing Three Stages of Monitoring Assessment

STAGE 1 - INTERPRETATION

Operational Definition

INTERPRETATION

1. Definition reasonable and justified? (Yes/No)
2. Measurement system and expected standard of performance (compliance) appropriate to interpretation? (Yes/No)

STAGE 2 - EVIDENCE

DATA/EVIDENCE/PROOF

1. Sufficient to meet standard defined in interpretation? (Yes/No)

STAGE 3 - EVALUATION

BOARD ASSESSES THE RESULTS

1. Declaring results the Board's group decision on achievement of the policy.
2. Reading it in the minutes.



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How Does a Board Know?

- How does the governing body determine if the direction it has set out in policy is being followed by the CEO and team?
 - For Ends (Critical Outcomes) Impact
 - For Executive Limitations [boundaries of ethics and prudence]



... Disciplined Interpretation, Planning, Implementation, and Monitoring



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Major Takeaways?



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“Governance is not a casual commitment. Effective governance occurs when there is collective ambition to lead towards specific Ends. It takes the discipline to define governing values and process which create effective results.” ~ Karen Fryday-Field



Karen Fryday-Field, MBA

Senior Consultant

469 Waterloo St., Unit 0

London, ON, N6B 2P4

Tel: 519-439-7503 ▪ Fax: 519-963-2962

E: kfryday-field@meridianedgeconsulting.com

www.meridianedgeconsulting.com



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