

CURRENT
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(Table of contents)



October 2001 — PRINT EDITION

Regulars > Control

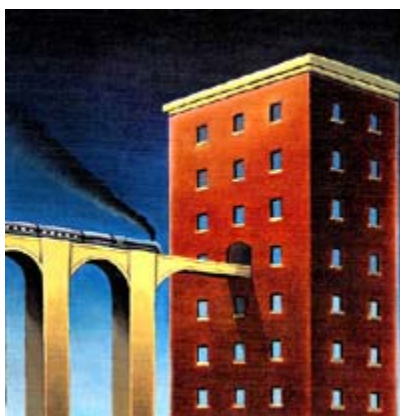
[Table of Contents](#)

Out of the shadows

By Brian Hayman

The Evaluation of CEOs needs to move from the commuter trains and club dining halls boardroom, where it belongs.

Illustration by R. L. Butterfield



It's a pity more CEOs don't use public transport to work, since it's one place where you'll get honest evaluations of the performances of our corporate leaders. Here is an example of one such assessment that I overheard on a commuter train:

"Have you heard we have a new corporate strategy?"

"What is it this time?"

"We're going to become fast-followers."

"What does that mean?"

"It means that we're getting out of the business research. We're going to watch the competition; they come up with something new, we're going to follow them."

"I suppose that's a strategy - I guess it'll save money."

"Well, that's certainly the spin the president's putting on it, and that's likely how he's selling it to the board."

"Why do you say 'spin'?"

"Because it's not the real reason we're getting out of research."

"Which is?"

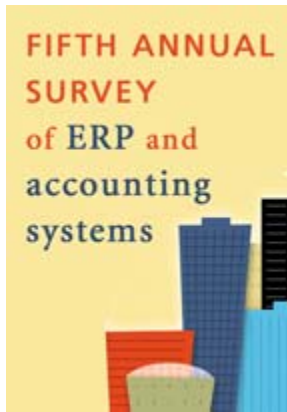
"The real reason is that the Old Man's ticked off all the creative people in the engineering department and they've left."

What followed next was a carefully measured, articulate assessment of the "Old Man" management style that depicted an intelligent, energetic, enthusiastic, aggressive, or a bully who did not take advice well. In fact, it appeared that he did not take advice at all. "I don't think anybody's going to tell him?" said one commuter to the other, to which he replied, "I have to be kidding." I wondered if the board would buy the "spin" - if they would ever be behind the "fast-follower" strategy.

The evaluation of CEOs happens all the time - the task is to get it into the open. And that's a challenge for technology, it's a challenge for human will. CEOs are the biggest fish in the ponds and the little fish who swim with them are, like little fish everywhere, wary of the big fish. Wariness can be a good thing; it enlivens the senses and focuses the mind. The wariness that most of us miss, but mostly they pay attention, figure out how to live with it, and, above all else, keep their own counsel. This creates the conditions for one of life's paradoxes - the most powerful are potentially the most vulnerable. This is not surprising.

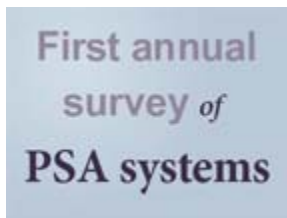
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you consider that powerful individuals usually know only what they are told, and they only what they want to hear - or what people think they want to hear. Therein lies the vulnerability.

Governing boards are an important constituency of CEOs. They represent those who stake in the pond where all the fishes swim. They, too, evaluate CEO performance in venues - parking lots, the business class sections of aircraft, the dining rooms of them. These are the people who must decide whether the fast-follower strategy makes sense. These are the people who must decide whether the fast-follower strategy makes sense. They, too, are big fish, powerful and vulnerable, and the liabilities attached to that vulnerability have made members of governing boards. It also needs to be said that wary people can become dangerous - just ask the chief officers who are currently exploring other opportunities or who have taken early retirement that they can spend more time with their families. The issue, therefore, isn't the "if" of evaluation but rather the "what" and "how."



It is generally agreed that CEO evaluation is inextricably linked to organizational performance, like beauty, is very much in the eye of the beholder and a business has many beholders. Among them are shareholders and institutional investors; consumers and advocates; employees and, in some cases, their representatives; regulators and agencies; suppliers of goods and services; the community at large; and a variety of other interest groups. Each of these has its own idea of what is meant by "organizational performance." Adding to the confusion is the fact that businesses don't have a clear purpose, and that gives the various stakeholders even greater latitude in forming expectations about corporate performance. Arguably, the viability of any organization rests on its ability to satisfy those expectations - not out of a sense of equity but rather because a broad base of support gives it a better chance of survival.

Some hold to a limited view of organizational performance, saying that criteria should be determined by management or by a dominant shareholder. The broad view, however, is that the criteria should be grounded in the expectations of all stakeholders, resulting in a more complex but more meaningful perspective. It also requires taking the time to determine "what" of the business, and to agree about the corporate values that will drive the "how."

The challenge, then, is to get hold of this large and slippery notion of organizational performance. In the for-profit sector, some mathematical surrogates, such as return on investment and share price, come easily to mind. What numbers do not tell us, of course, is that the Old Man and the Sea is not fat, but they may not tell us whether it's simply lean (a good thing) or terminally anorexic (a bad thing). As well, invention too often becomes the mother of invention and means determine the ends: "What does this breathtakingly elegant piece of technology measure? It measures (fill in the blank). Wonderful! Let's call that performance."

This does not mean that performance measures are a bad thing. To be meaningful, they must be supported by an understanding of business purpose as well as of the incentives and actions chosen by individuals to achieve that end. Performance measures require a holistic view of organizational health and some understanding of the interdependencies between infrastructure, people, culture and environment. They also require some tolerance for uncertainty. They are meant to inform human judgment, not merely to substitute for it.

We are making progress in our attempts to find a more integrated way of thinking about organizational performance. Balanced Scorecard and Six Sigma software systems are examples of attempts to find a richer and more comprehensive language with which to describe performance. There are now "Beyond the Balanced Scorecard" and "Beyond Six Sigma" websites. These technologies do not provide a quick fix to the meaningful assessment of organizational performance, but they may offer a framework within which the issue can be better explored.

While an organization trying to define performance will have to decide about the technologies and measuring devices to use, there may be far more important choices to make. The "organization" can be as abstract as the notion of "performance" and we have to be aware

who sits at the table making those decisions, and whose performance expectations they represent. Someone has to select these decision-makers but who will it be? Well, for Old Man and his directors. Now all we have to do is figure out how to get honest evaluation from the eloquent young fellow I overheard on the commuter train to sit at our boardroom table.

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