



**Improving Governance and  
Organisation's Performance Reporting in  
New Zealand Entities**

**Discussion Paper prepared Ministers of the Crown**

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9th February 2009

## Background

The Auditor-General's paper – "The Auditor-General's observations on the quality of performance reporting", published in June 2008, draws attention to having a sound framework for performance reporting. In reference to government departments, Crown entities and local authorities the paper suggests that more attention is required to ensure desired outputs and outcomes as articulated in Statement of Intents, Long-Term Council Community Plans (LTCCPs) and Statements of Corporate Intents (SCIs) would provide stakeholders with quality and appropriate information relating to non-financial activity. In his introduction the Auditor-General sums up his findings when he says:

*"Overall, the poor quality of non-financial performance reporting by public entities is disappointing. It needs to improve significantly to allow Parliament and the public to hold public entities accountable for their use of taxes and rates and for the effectiveness of their service delivery".*

More specifically the Auditor-General's concerns are:

- "The weak links of the medium-term contextual and strategic information to the annual forecasted SSP;
- The identification and specification of the elements (primarily outputs and outcomes), measures, and targets for both output information and medium term outcomes achievement;
- Wide variations in the clarity and coverage of lining performance measures and targets to entities' stated objectives (for entities required to prepared an SCI);
- The lack of, in many instances, of robust best estimate-based targets combined with historical or benchmark information that gives context to those performance targets".

Reporting against performance targets is one of the most important ways a Statement of Intent (or Statement of Corporate Intent, or LTCCPs) provides public accountability. To be able to report against performance targets considerable work in setting appropriate targets is required.

The authors are of the opinion that although organisations are busy measuring a number of outputs, deficiencies in reporting performance reflects the lack of emphasis placed on two critical components of the performance framework: the setting of an appropriate performance criteria and the coordination of effort in delivering them. Advocating that success is a measure of the holistic as opposed individual measures the authors believe the answer lies firstly in the adoption of a sound strategy, secondly in its execution framework and thirdly that Boards or Governing Committee are held accountable to ensure such measures are in place and in line with the organisation's strategic intent.

From this perspective the issues raised in the Auditor-General's paper have even greater implications when the notion is extended beyond reporting outputs and outcomes to stakeholders. When viewed as an organisation-wide problem, generated

as a result of inadequate internally-produced information setting, gathering, sharing and measurement of practices, the poor quality of non-financial performance reporting suggests that boards or governing committees often receive either inadequate or uncoordinated information on which to make decisions. This ultimately impacts of productivity of the organisation and the ability of the economy to delivery quality services become self generating. If the accountability for strategically aligned outputs is defined the desired emphasis may be more apparent.

### **Responsibility for providing quality of performance reporting:**

As acknowledged in the Auditor-General's paper there is no professional body that provides leadership for preparing performance information other than the Institute of Chartered Accountants, who limits its authoritative support to that of financial reporting.

Although the task could fall under the auspices of Treasury or Institute of Directors it calls for all boards and governing committees to place greater emphasis on what they should be measuring and how they receive and monitor information through the adoption of more advanced practices. In recessionary times this responsibility calls for boards and governing committees to be held account for the process. Such an initiative calls for 'fresh thought and renewed action' at board level at a time when the economy demands that boards should be turning their attention on to ways to lift performance through efficiency gains. If boards and governing committees were able to assess their own capabilities to bring about such change they would have done so before now and therefore would stand out as organisations producing a solid performance measuring regime. The Auditor-General's report suggests few organisations stand out as exceptional.

***At the governance level such complementary activity (fresh thought, renewed activity and enhancing the performance framework) which will bring about the desired change is not about 'exercising the jaw bone' its about understanding exactly what is actually taking place, both at the board level and throughout the organisation and more importantly how such activities will deliver the organisation's strategic intent.***

It has the capability to lower shareholder resists if planned outputs are communicated at the beginning of each year. This in turn suggests the 'veil of mystic' associated with boardroom process (as opposed the decisions made) needs lifting and replaced with a means to reassure stakeholders that the appropriate level of energy and effort is being directed in this area.

### **Way forward**

To make boards or governing committees accountable for developing a more robust performance framework a two-pronged strategy is advocated. The first prong would be to look within the organisation and the second to establish a 'sector' regime or

standards to be adhered to. If such an initiative was to receive ministerial endorsement the following steps proposed are:

- Ministers of the Crown to convey to Boards and governing committees an expectation that the old way of measuring individual outputs inhibits coordinated effort and must be readdressed.
- Under the Auditor-General's leadership a meeting of central government's Chief Executives be called to agree a strategic approach of organisations under his jurisdiction.
- Parallel initiatives to be instigated in other sectors such as State Owned Enterprises, Local Government, CRIs and Commercial entities.
- Boards and/or governing committees be independently assessed so that areas for improvement can be established. The rationale behind the concept of such an assess would be to refocus boards or governing boards on ensuring the right measures are not only in place but strategically aligned. It is suggested a timeframe in which this activity should be carried out would ensure action is commenced in a timely fashion. Therefore an oversight body comprising appropriate representation be established under the leadership of an appointment member of Parliament.
- A timeframe for producing a robust system for setting, coordinating and reporting performance measures be adopted. As there are tools in the market that can assist organisations to carry out this task it is conceivable that the adoption of a robust system could be achieved within two financial years.

## **The Authors**

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Bev holds a PhD in Governance. With a marketing and business administrative background she has held senior management positions in a diverse range of business and membership sectors and has served on and chaired a number of Not-for-Profit boards. She has steered the established of two boards ensuring they became fully operational with the appropriate governance practices and processes in place. As an advisor to business she becomes involved in the concerns such the day-to-day and strategic issues business faces.

### **Nick Dangerfield, B.Com, FCA, CMA, M Inst D**

Nick has had over 25 years experience as a senior financial and operations manager in both the manufacturing and social services sectors. During that period Nick spent over 10 years as an Executive Director of the Interlock group of companies, an exporting manufacturing business which was well-known for both its quality and innovative products and management practices. Nick has also been a member and chairperson of a number of Not-for-Profit boards.

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