

**assessing  
a CEO's  
performance**  
a guide for Victorian  
public sector boards



The Victorian Government has vested the State Services Authority with functions designed to foster the development of an efficient, integrated and responsive public sector which is highly ethical, accountable and professional in the ways it delivers services to the Victorian community.

The key functions of the Authority are to:

- identify opportunities to improve the delivery and integration of government services and report on service delivery outcomes and standards;
- promote high standards of integrity and conduct in the public sector;
- strengthen the professionalism and adaptability of the public sector; and
- promote high standards of governance, accountability and performance for public entities.

The Authority seeks to achieve its charter by working closely and collaboratively with public sector departments and agencies.

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## about this guide

Evaluating the CEO's performance is more than an exercise in contractual compliance. It is a significant Board activity undertaken to fulfil their responsibilities for maintaining confidence in the public sector and for ensuring the organisation's ongoing capacity to deliver value to the community.

This guide has been designed to help Victorian public sector Board Chairs and Directors assess the CEO's performance. A companion guide focuses on recruiting the CEO. Both guides provide prompts and reminders for Board Directors, especially Chairs, who already have some skills and experience in conducting recruitment processes, evaluating performance, and providing constructive feedback.<sup>1</sup>

While these guides focus on recruiting and assessing the CEO, the processes and principles described also apply to the recruitment and performance assessment of other senior executives. (In which case the roles ascribed in these publications to the Chair and Board would be undertaken by the CEO and executive team.)

1. If skills development is required, Board directors should consider participating in a training program such as those run by the Australian Institute of Company Directors.

## Key terms

<b>Board Director</b>	In relation to a public entity, means a member of the Board of the public entity.
<b>Board</b>	In the case of a public entity that has a governing body (called by whatever name), that governing body. In any other case, the members of the public entity or, in the case of a Commissioner entity, the person who comprises the Commissioner entity.
<b>Chair</b>	The person appointed either by a Minister as the Chair of the Board or elected by the Board.
<b>CEO</b>	Chief Executive Officer.

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# 1. setting the ceo up for success

Before any assessment of the CEO's performance can be made, the Board and especially the Chair need to set the CEO up for success. The two most important elements here are establishing key performance indicators and regular informal conversations about performance.

## 1.1 key performance indicators

Key performance indicators (KPIs) are clear statements about what it will look like when the CEO is doing a good job. They provide clarity for both the CEO and the Board about priorities for the organisation in the current period and over the next one, three or five years.

The 'SMART' acronym is often used to describe a well written key performance indicator: Specific, Measurable, Achievable, Relevant and Time-bound.

At the very least, to be effective, KPIs should:

- be developed collaboratively in partnership between the CEO and the Chair drawing on input from the whole Board;
- articulate the most important priorities for the Board, reflecting the Board's strategic goals and concerns about risks facing the organisation;
- highlight both the outcomes desired as well as the way in which the CEO should achieve these outcomes;
- use language that is meaningful to the CEO, Chair, other Board Directors and anyone coming into any of these roles; and
- be revised on a regular basis (ideally quarterly) to reflect changes in the organisation, government policy and the environment in which the organisation operates.

As a rule of thumb there should be between four and six 'big-picture' KPIs for any given period, with the potential for sub-KPIs fitting in with these, if required.

## 1.2 talking performance

The CEO is the operational arm of the Board. As such, there needs to be a strong working relationship between the CEO and, at the very least, the Chair.

This is a two-way relationship. The CEO provides advice to the Board so that the Board Directors are able to fulfil their obligations. The Board provides advice and direction to the CEO to help the CEO achieve the outcomes in line with the Board's strategic vision.

The Chair has an additional role; that of the CEO's employer. In this capacity, the Chair needs to provide, on a regular basis, feedback, mentoring support, and encouragement for participation in development activities:

- **Feedback**

To be effective feedback should be informal, provided by the Chair to the CEO on a regular basis, and focused on what is working well and what the CEO may consider doing differently.<sup>2</sup>

- **Mentoring**

The CEO role can be a lonely one. One of the roles of a Chair is to, when necessary, act as a sounding board or mentor for the CEO, especially if this is the first time the person has taken on a CEO role, worked in the Victorian public sector or industry sector, or is facing unusually difficult challenges. The Chair might also assist the CEO establish mentoring relationships with other respected leaders.

- **Development**

No matter how confident and capable they appear, every public sector CEO needs to keep their knowledge and skills up to date. Opportunities for professional development can also help attract and retain a good CEO.

The Chair has a role to play in prompting the CEO to identify their development needs and appropriate activities to address these needs. Development activities such as executive workshops, conferences, coaches or mentoring relationships can help the CEO keep up-to-date with knowledge of the industry in which they work, leadership in the public sector generally, and specific skills such as speaking to the media or leading in an emergency situation.

2. The State Services Authority has been able to quantify the strength of informal feedback on a variety of performance indicators and the relative weakness of formal performance processes in driving strong performance. See *Feedback Matters* (State Government of Victoria, 2010) available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au). The 'working well, do differently' feedback conversation starter is based on an approach promoted in *Talking Performance* (State Government of Victoria, 2010) available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au).



## 2. the ceo's performance plan

A performance plan is simply a document that records an agreement between the CEO and Chair about the particular activities and outcomes that, currently, have greater importance than other CEO activities and outcomes. A template that can be used as the basis for a performance plan is included at Appendix B.

Some important things to note about performance plans:

- **A performance plan document will not, by itself, stimulate or steer the CEO's performance**  
The greatest positive impact on the CEO's performance will be achieved through regular conversations with the Chair and Board Directors, feedback from the Chair, mentoring support from the Chair and peers, and participation in development activities.<sup>3</sup>
- **The plan should be updated**  
The plan should be updated at least annually to reflect new strategic directions, risks and opportunities. However, the Board must accept that delivery and achievements take time.
- **The plan should not contain a detailed description of all the CEO's accountabilities**  
The plan should contain the accountabilities and outcomes upon which the Board needs to give greatest focus for the relevant period. The CEO's full set of accountabilities and behaviours should be documented in the position description incorporated as part of the employment contract.<sup>4</sup>
- **The plan is not the only basis for considering the performance of the CEO**  
The performance plan can, if the employment contract allows, provide the basis for decisions about performance-related incentive payment bonus. However, assessments of CEO's performance should take into account a CEO's whole performance.  
  
This is especially important if a significant decision is to be made on the basis of the performance assessment (such as extension or termination of the employment contract).

3. See also *Feedback Matters*, (State Government of Victoria, 2011), available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)

4. See also *Serving Victoria: A guide for public sector CEOs* (State Government of Victoria, 2011), available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)



# 3 . evidence of CEO performance

## 3.1 what to look for

Assessing the CEO's performance falls within the Board's responsibility for ensuring the organisation's continued capacity to deliver public value. The Board should consider any evidence of CEO performance from two perspectives:

- what is happening now; and
- what may happen in the future if current CEO behaviours continue.

It is important that, in addition to looking at the attainment of KPIs, the Board is also attentive to the following:

- **How the CEO has achieved the outcomes**  
Are their methods acceptable and sustainable? At what cost has the CEO's performance been achieved and who or what has borne this cost?
- **The extent to which current performance is contingent upon current circumstances**  
Would the CEO perform better or worse if significant aspects of the organisation or environment were different?
- **What the CEO has done to ensure the wellbeing of staff and to maintain trust in the public sector**  
What sort of attention has the CEO given to ensuring equal employment opportunity, occupational health and safety, privacy, potential conflicts of interest, and procurement processes? Has the CEO conducted themselves at all times in a manner that would generally be expected of a public sector CEO?

## 3.2 what to look at

Evidence of CEO performance may come from several sources, many of which the CEO themselves can and should provide to the Board as part of regular reporting. Common sources include:

- **Achievement of key business outcomes**  
The achievement of business outcomes identified by the Board and documented in the corporate/business plans can be one indicator of CEO performance, especially if the achievement of the outcomes can be clearly attributed to decisions, actions and behaviours of the CEO.
- **Interactions with the Board**  
The accuracy, breadth and timeliness of the CEO's advice, formal reports, and other interactions with the Board, provide insights into the progress that has been made towards realising the Board's strategic vision, as well as a general insight into how the CEO thinks, acts and behaves.
- **Audit and risk committee reports**  
These provide insights into the CEO's organisational leadership in a general sense, especially in the use of public funds, compliance with relevant legislation and management of risk.

- **Workforce metrics**

These provide insights into the CEO's organisational leadership in the areas of organisational culture, reputation, deployment and development of the organisation's staff.

The State Services Authority has published a dictionary of People metrics that will assist in the collection and interpretation of key workforce metrics.<sup>5</sup>

Key metrics that provide good insights into the CEO's performance and impact on the organisation's character and adaptability include: the average time to fill vacancies; internal movement rate; retention rate; information about why people leave the organisation (exit interviews); number of high potentials identified; and staff absence rate.

- **Incident reports**

These provide an insight into the organisation's risks and the extent to which the CEO is sufficiently attentive to them. Consideration should include results of occupational health and safety assessments, the number and nature of occupational health and safety incident reports, and the number and nature of staff grievances.

- **The Executive team**

Skill composition, cohesion, stability and performance of the organisation's senior executive team can provide a useful insight into the CEO's organisational leadership, especially in the areas of organisational design, delegation and risk management (especially succession risk).

- **Employee engagement and/or organisational culture survey results**

These provide an insight into the CEO's personal style and the type of organisational culture her or his behaviour fosters, especially with regards to creating a culture conducive to employee engagement and productivity.

The State Services Authority conducts, on an annual basis, the People Matter Survey. This survey gathers information on workforce culture and climate in the Victorian public sector. It includes measures of job satisfaction and the way managers and workgroups operate within participating organisations. The large sample size (around 15,000 employees each year) and response rate (32 per cent in 2010) provide a high level of confidence in the survey findings and a strong basis for benchmarking the results of individual organisations with other comparable public sector organisations.<sup>6</sup>

- **Relationships**

These provide an insight into the CEO's interpersonal skills and capacity for credible environmental scanning and collaborative work. Considerations should be given to the breadth of the CEO's relationships, and the quality of these relationships, with, for example, the relevant Departments, stakeholder groups, peers in other agencies, professional networks and the relevant unions.

- **360 degree survey results**

These provide an insight into the character, reputation and impact of the CEO up, down and across the organisation and – if covered with the scope – across networks and partnership organisations with which the CEO works.

- **Ad hoc and informal insights from key stakeholders**

Feedback from key stakeholders, such as CEOs of other public sector organisations, the relevant Minister, senior departmental staff and representatives of community groups can provide insights into the CEO's relationship building and collaboration.

5. See the *People metrics toolkit* (State Government of Victoria, 2011) available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)

6. Information about the survey, including the survey information kit prepared annually, is available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)

### 3.3 unacceptable CEO behaviour

When considering evidence of CEO performance, it is important that the Chair is alert to – and actively addresses – aspects of the CEO’s performance (especially poor behaviours) that may not be immediately evident from the interactions the CEO has with the Board or reports of business outcomes.

Certain CEO behaviours are unacceptable. Some are – or border on being – illegal if not unethical. Some will diminish the organisation’s capacity for productivity or will increase organisational risks. For example, they may cause good staff to leave and make it hard to attract appropriate staff to replace them.

The Board should note that individuals who behave in unacceptable ways are often very good at concealing this behaviour from those to whom they report.

The table below is designed to help Boards be aware of CEO behaviours that may not, on first impression, be evident but which will become a problem for the Board sooner or later should they be allowed to continue unchecked.

Behaviour	Further investigation may be warranted if...
<b>Illegal</b> Fraud, theft, assault, sexual harassment, illegal discrimination or any other criminal behaviour.	<ul style="list-style-type: none"> <li>an audit reveals inconsistencies in record keeping or the accounts.</li> <li>a complaint has been made about the individual being aggressive, undertaking unwelcome sexual actions.</li> </ul>
<b>Bullying</b> Repeated, unreasonable behaviour directed at an employee or group of employees that creates a risk to health and safety. <sup>7</sup>	<ul style="list-style-type: none"> <li>a complaint has been made about the individual that they have exhibited bullying behaviour.</li> <li>employee engagement survey results reflect a high degree of reported or perceived bullying.</li> <li>employee data reflects a high degree of stress or sick leave or staff turnover.<sup>8</sup></li> </ul>
<b>Dismissive of government</b> Consistently acts in ways that contradict or undermine policy directions established by the government of the day.	<ul style="list-style-type: none"> <li>the individual is or has been an active and vocal critic of the current government.</li> <li>the individual has strong affiliations with a political party not currently in government.</li> <li>the individual talks about government as if it is a barrier to be overcome, subverted or undermined.</li> </ul>
<b>High conflict</b> Consistently acts in ways that create problems and disagreement, rather than solutions and agreement.	<ul style="list-style-type: none"> <li>the individual blames others for situations; presents arguments based on emotion; puts others down; has little insight into their own behaviour; is unable to accept negative feedback.<sup>9</sup></li> </ul>
<b>Recklessness</b> Consistently acts impulsively, without consideration of options, sound evidence or legislative requirements.	<ul style="list-style-type: none"> <li>the individual is unable to provide a rational explanation for decisions they have made.</li> </ul>

7. Definition from WorkSafe Victoria: [www.worksafe.vic.gov.au](http://www.worksafe.vic.gov.au)

8. See also *Tackling bullying* (State Government of Victoria, 2011) available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)

9. See also ‘Best practice support for managing difficult behaviours’ (Resolutions RTK, September 2010), available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)

Behaviour	Further investigation may be warranted if...
<p><b>Dismissive of public sector values and measures to protect them</b></p> <p>Consistently acts in ways that show little regard for public sector values and employment principles.<sup>10</sup></p>	<ul style="list-style-type: none"> <li>• is not familiar with or is dismissive of the public sector values, employment principles, and measures designed to ensure employee wellbeing and confidence in the integrity of public sector organisations.</li> <li>• does not have clear or effective policies relating to equal employment opportunity, occupational health and safety, privacy, conflicts of interest, and procurement processes.</li> </ul>
<p><b>Inappropriate competitiveness</b></p> <p>Consistently seeks to achieve results by preventing other people or organisations from achieving results.</p>	<ul style="list-style-type: none"> <li>• the individual seems to have no or few networks or working relationships with other similar public sector organisations.</li> <li>• the individual uses the language of competition when talking about other public sector agencies.</li> </ul>
<p><b>Rigidity</b></p> <p>Consistently promotes actions and strategies established in the past as being superior without considering their applicability to current or emerging situations.</p>	<ul style="list-style-type: none"> <li>• the individual is unable to accept the value of new ways of working.</li> </ul>
<p><b>Micro-management</b></p> <p>Consistently provides staff who have been delegated responsibility for specific tasks detailed instructions about how they must undertake these tasks.</p>	<ul style="list-style-type: none"> <li>• employee engagement survey results reflect a perceived lack of employee empowerment.</li> </ul>
<p><b>Rudeness</b></p> <p>Consistently interacts with people in ways that are dismissive of their desire to communicate or contribute expertise or ideas.</p>	<ul style="list-style-type: none"> <li>• employee engagement survey results reflect a high degree of reported or perceived bullying</li> <li>• employee data reflects a high degree of stress or sick leave or staff turnover.</li> </ul>
<p><b>Disengaged or disinterested</b></p> <p>Consistently avoids taking action or accepting responsibility in respect to CEO accountabilities.</p>	<ul style="list-style-type: none"> <li>• there is little or no progress achieved on areas identified as a high priority by the Board.</li> <li>• the CEO blames others for various failures of performance.</li> </ul>

10. The Public sector values and employment principles are established by the *Public Administration Act 2004*. See also standards and guidelines published by the Public Sector Standards Commissioner and the *Welcome to Government* (State Government of Victoria, 2009). All are available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au).

## 4. acting on the assessment

The assessment of the CEO's performance typically results one of six findings.

The table that follows summarises the common findings and makes suggestions about actions arising. The actions arising are in addition to any actions specified in the employment contract (such as awarding a performance-related incentive payment bonus).

CEO performance assessment result	Actions arising
<p><b>Performance achieved</b></p> <p>Key performance indicators have been met, the achievement of these indicators can be attributed to the CEO's decisions, directions and behaviours, and the way that the CEO has been working will continue to be effective in the foreseeable future.</p>	<p>The CEO continues acting in the same way as they have.</p>
<p><b>Performance achieved, but significant changes ahead</b></p> <p>Key performance indicators have been met, the achievement of these indicators can be attributed to the CEO's decisions, directions and behaviours, and the way that the CEO has been working will continue to be effective in the foreseeable future. However, changes in the organisation or its environment will require capabilities that the CEO does not have or have strongly.</p>	<p>The CEO should be asked to participate in development activities as relevant.</p> <p>The CEO should make changes in the composition of their second tier to compensate for the CEO's capability gaps and address the emerging challenges.</p>
<p><b>Performance achieved, but CEO not the driver</b></p> <p>Key performance indicators have been met. However, there is evidence that these achievements have not been the result of the CEO's decisions, directions and behaviours, but other factors (for example, second tier executives who have been performing CEO tasks, a comparatively 'easy' period, or other factors outside the CEO's control).</p>	<p>The Board should identify the likelihood that the factors contributing to the CEO's apparently strong performance may change in the coming period.</p> <p>The Chair should work with the CEO to identify the ways in which the CEO needs to become more active in their role.</p> <p>The CEO's new key performance indicators should be created with a clear requirement for the CEO's active contribution to the performance.</p>
<p><b>Performance achieved, but behaviours unacceptable.</b></p> <p>Key performance indicators have been met. However, the performance has been achieved in ways that are unacceptable (for example, the CEO has behaved poorly – see section 3.3 above).</p>	<p>The Board should assess the extent to which the behaviour provides cause to terminate the CEO's contract.</p> <p>If the behaviour is not cause to terminate the contract, the Chair should work closely with the CEO to identify and correct the poor behaviour, using coaches, mentors, role models and other development activities as necessary.</p> <p>The CEO's new key performance indicators should be created with a clear requirement for particular behaviours.</p>

CEO performance assessment result	Actions arising
<p><b>Performance not achieved, but extenuating circumstances</b></p> <p>Key performance indicators have not been met. However, there is evidence that the failure to achieve has been the consequence of significant factors outside the CEO's control (for example, major cut of funds, change in enabling legislation, or other force majeure events).</p>	<p>The Board should consider the extent to which the CEO's decisions, directions and behaviours in response to the extenuating circumstances were appropriate for in their role as CEO, as outlined in their contract, and use these as the basis of the assessment of performance.</p>
<p><b>Performance not achieved</b></p> <p>Key performance indicators have not been met. The failure of achievement can be attributed to the CEO's decisions, directions and behaviours. It is clear that the CEO will not change their way of working in the foreseeable future; for example they are not willing to adopt or implement a personal improvement plan.</p>	<p>The Board should re-examine the evidence supporting this assessment and gain further evidence to strengthen their assessment.</p> <p>If further evidence supports the original assessment, the Board should consider terminating the CEO's employment contract and engaging a new CEO.</p>



## 5. succession risk management

The CEO will eventually leave. Succession risk is the risk that the CEO will leave and the role cannot be filled satisfactorily within an acceptable time frame or resources and, as a consequence, the performance of the organisation is negatively impacted.<sup>11</sup>

It is common practice for the Chair to have, at all times, an informal short-list of people they feel could, on the basis of merit, become credible candidates for the CEO role, either as a temporary replacement or permanent appointment, especially if the CEO were to leave unexpectedly and suddenly.

This activity can be strengthened by:

- having succession risk management as a standing Board meeting agenda item, at least annually. This item should include discussion about the potential of people either inside or outside the organisation to undertake the CEO's work should they leave suddenly, and strategies for addressing any problems highlighted by this discussion (for example, if the Board cannot identify any potentially suitable candidates for the CEO role);
- discussing potential candidates with other Board Directors and key stakeholders and seek dissenting views about the potential of these candidates;
- inviting other Board Directors, the current CEO, and CEOs of other organisations to suggest potential candidates when and as they encounter them;
- reviewing the potential of members of the organisation's current executive team to become a credible candidate for the role in the future and, in collaboration with the CEO, identify ways in which to develop potential executive team members who may become credible candidates;
- considering potential candidates on the basis of their aspiration, engagement, personal qualities, behaviour, skills, and achievements as these relate to the future directions of the organisation and demands on the CEO role (and not the extent to which potential candidates replicate the existing CEO); and
- reviewing the shortlist on a regular basis in light of significant changes in the organisation and the environment in which it operates.

11. See, also, State Services Authority's *Succession risk management toolkit* (State Government of Victoria, 2008, expanded 2010) available from [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au)



# appendices

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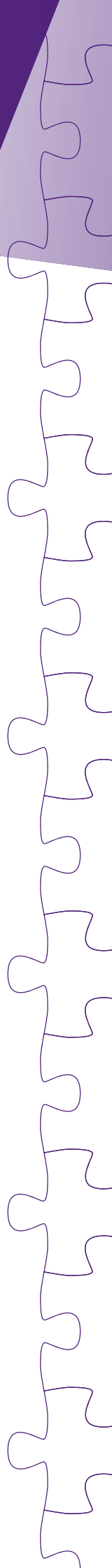
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# appendix A: CEO performance plan template

Note that shaded areas are filled in at the start of the performance cycle and are revised by mutual agreement during it. The areas without shading are completed at the conclusion of the assessment cycle and provide the basis for the formal assessment.

KPIs	DESCRIPTION	EVIDENCE IN SUPPORT OF ACHIEVEMENT	WEIGHTING	SCORE	TOTAL
			3 = MOST IMPORTANT	OUT OF 5	WEIGHT X SCORE
	Business outcomes				
1.					
2.					
3.					



KPIs	DESCRIPTION	EVIDENCE IN SUPPORT OF ACHIEVEMENT	WEIGHTING		SCORE		TOTAL
			3 = MOST IMPORTANT	OUT OF 5	WEIGHT X SCORE	Actual score (total of column)	
4.	Business sustainability (eg. risk management)						
	CEO conduct & organisational culture						
5.							
	CEO development						
6.							
	<b>TOTALS</b>						
			Possible score (total of column x 5)				Actual score (total of column)

CEO's summary of the year:

Signature: \_\_\_\_\_ Date: \_\_\_\_\_





# appendix B: when Board Directors are also organisational executives

In some organisations the CEO, and sometimes other executive staff, are also members of the organisation's Board. These Board Directors face a conflict of interest in certain circumstances.

In its simplest form a conflict of interest arises when a public sector employee, their friends, family, associates and/or enemies could, or be perceived to, derive some advantage – or disadvantage – because of actions the public sector employee undertakes in their official role.

In situations where Board Directors are also executives within the same organisation, advantages may be obtained as a consequence of Board discussions and decisions about executive remuneration, organisational structure, succession management and the recruitment and performance assessment of the CEO. Advantages that may be – or perceived to be – obtained could include salary increases, preferential treatment in the workplace, increased career opportunities, or the creation of impediments for rivals.

The Public Sector Standards Commissioner has issued a policy framework for dealing with conflict of interest. In this document, the Commissioner states that, 'all public sector employees have a duty always to put the public interest above their private interests when carrying out their official duties.'<sup>12</sup>

There are a number of options available for managing conflict of interest.<sup>13</sup> Each public sector Board needs to follow clearly documented procedures for identifying and managing actual, potential or perceived conflicts of interest.

In the situation where some Board Directors are also executives within the same organisation, the best option is for the Board Directors who are also employees of the organisation to remove themselves from all activities, including discussions and decisions, whose outcomes could deliver benefits to them as individuals.

This includes activities to define the requirements of the CEO role, establish terms and conditions of the CEO role, ranking of CEO role candidates, the decision to offer the role to a particular candidate, and all discussions relating to the assessment of the CEO's performance. Only Board Directors who are not also employees of the organisation should take part in these Board activities.

12. Public Sector Standards Commissioner, *Conflict of interest policy framework: Victorian public sector* (State of Victoria, 2009) available at [www.ssa.vic.gov.au](http://www.ssa.vic.gov.au). See also advice provided on the SSA website about conflicts of interest and duty (<http://www.ssa.vic.gov.au/governance/governance-structure-a-policies.html>).

13. The conflict of interest policy framework identifies six common responses: register; restrict; recruit; remove; relinquish; or resign.

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