

# Models for Board Performance Evaluations

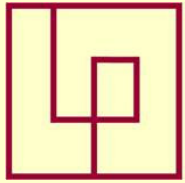
Presentation by

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to AES International Conference, Brisbane

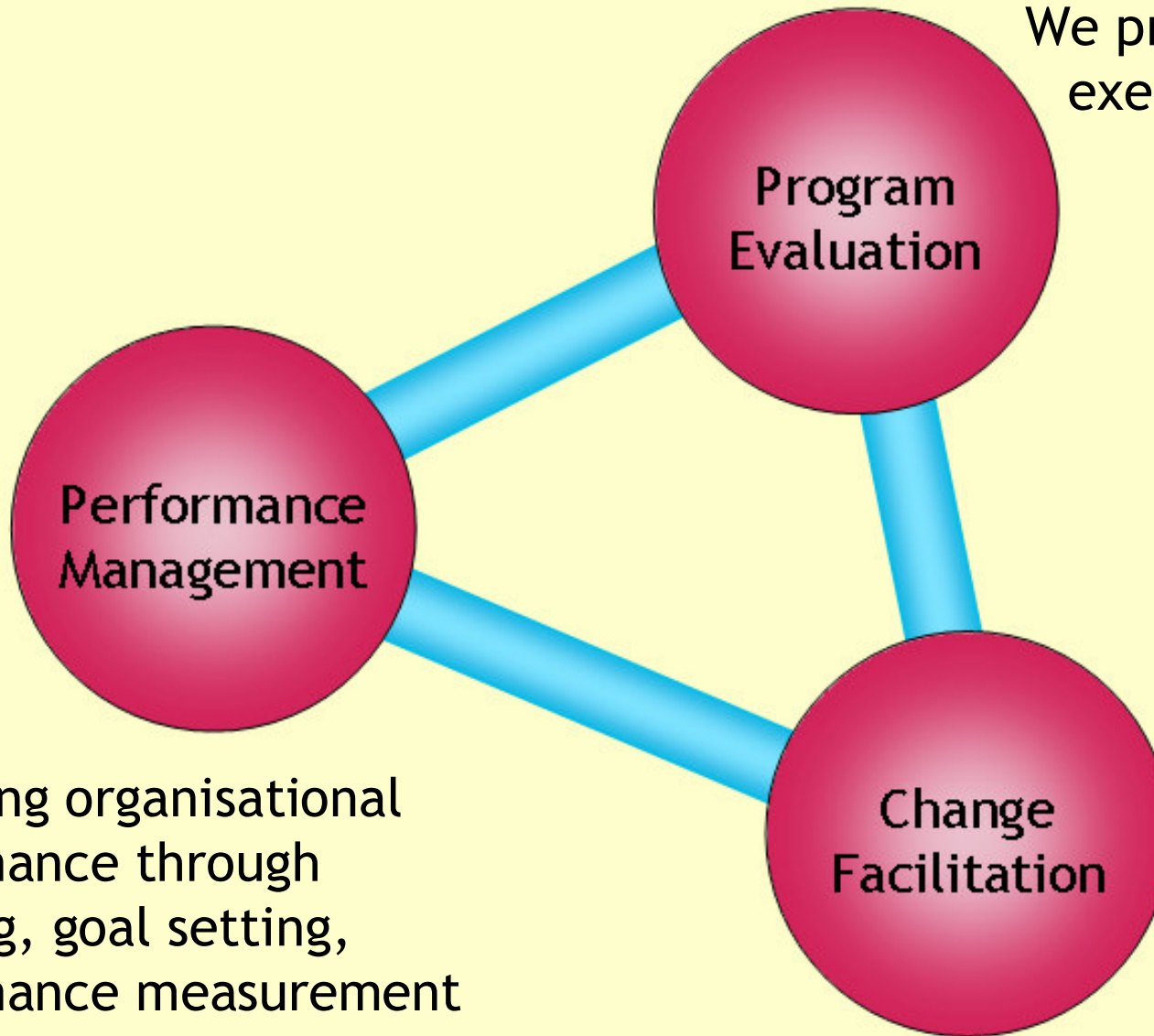
10 October 2005





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of programs and projects  
We produce answers that  
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Improving organisational  
performance through  
planning, goal setting,  
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Facilitated group  
decision-making  
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leadership and  
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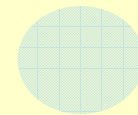
# Presentation structure

- background & current practice
- another model
- directions forward

# Background

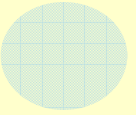
- ASX
  - Principles of Good Corporate Governance and Best Practice Recommendations (March 2003)
  
- ANAO
  - Public Sector Governance Better Practice Guide (July 2003)

# ASX corporate governance



- Principle 8
  - fairly review and actively encourage enhanced board and management performance
- How to achieve better practice
  - disclose the process for performance evaluation of the board, its committees, & individual directors
  - regularly review the performance of the board “against both measurable and qualitative indicators”

# ANAO assessment factors



- board impact
    - value
    - leadership
    - risk management
  - individual performance
    - act as team
    - question and debate
    - effective chair
    - participation
- 
- regulatory requirements
  - board functions
  - governance framework
  - board charter

# current practice?

“a description of the process for performance evaluation of the board ... should be made publicly available, ideally by posting it to the company’s website...”

- opportunity sample of 8 companies

# these gems

**WMC:** The board has a process for reviewing its performance and that of its committees, individual directors and executive management. The board meets once a year to consider these issues. The chairman discusses their contribution, one-on-one, with each director.

**Rural Press:** The Board, at least annually, evaluates the structure of meetings and their effectiveness for the previous year and implements any changes emanating from those discussions. The performance of individual Directors is reviewed with the Chairman at least every two years. The effectiveness of the Chairman is also reviewed by the Board at least every two years.



# ASX (and Netcomm)

- one-to-one review by chairman with each member
- whole Board discusses & analyses its own performance
- 3-part Board Performance Assessment Questionnaire
  - to assist the Board to think about their performance
  - to enhance the Board's overall effectiveness
    1. Board's performance against KRAs
    2. Board's administrative and operating arrangements
    3. opportunity to make any general comments or suggestions

# another company

- The nomination committee has procedures in place to review and evaluate the performance of the board. The committee carries out an annual survey of directors to:
  - review the role of the board
  - assess the performance of the board objectives and the annual budget
  - review the board's interaction with management
  - review the type and timing of information provided to the directors
- from time-to-time the board may use an independent advisor to assist in the review.

# Orica

## Assessment of individual directors' performance and the Board as a whole from:

- surveys of Board and individual directors concerning their perceptions about Board and director performance
- one-on-one interviews with directors with the Chairman
- (on occasions) use of an external facilitator to assist with the overall evaluation process

# Crane Group

- individual directors reviewed with Chair every 2 to 3 years - Chair discusses each director's review with the relevant director (!)
- Relevant matters include:
  - attendance & participation at Board meetings
  - involvement with sub-committees
  - commitment to Board activities
  - director independence
  - appropriate mix of Board skill and experience
  - length of tenure as a director on the Crane Board
- from time-to-time the board may use an independent advisor to assist in the review

# Australian Agricultural Company

- each Director completes a Board Performance Evaluation Questionnaire
- Chairman conducts one-on-one interviews with each Director on the performance of:
  - the Board
  - each Board Committee
  - the Chairman
  - the Managing Director
  - themselves
- Performance assessed quantitatively and qualitatively
- Chairman collates the questionnaire responses and interviews for discussion by the Board.
- Chairman discusses face-to-face with each Director his or her contribution to the Board
- the Board will collectively determine any shortfalls in Board performance as well as any skills, education and or development required over the forthcoming year

# common themes

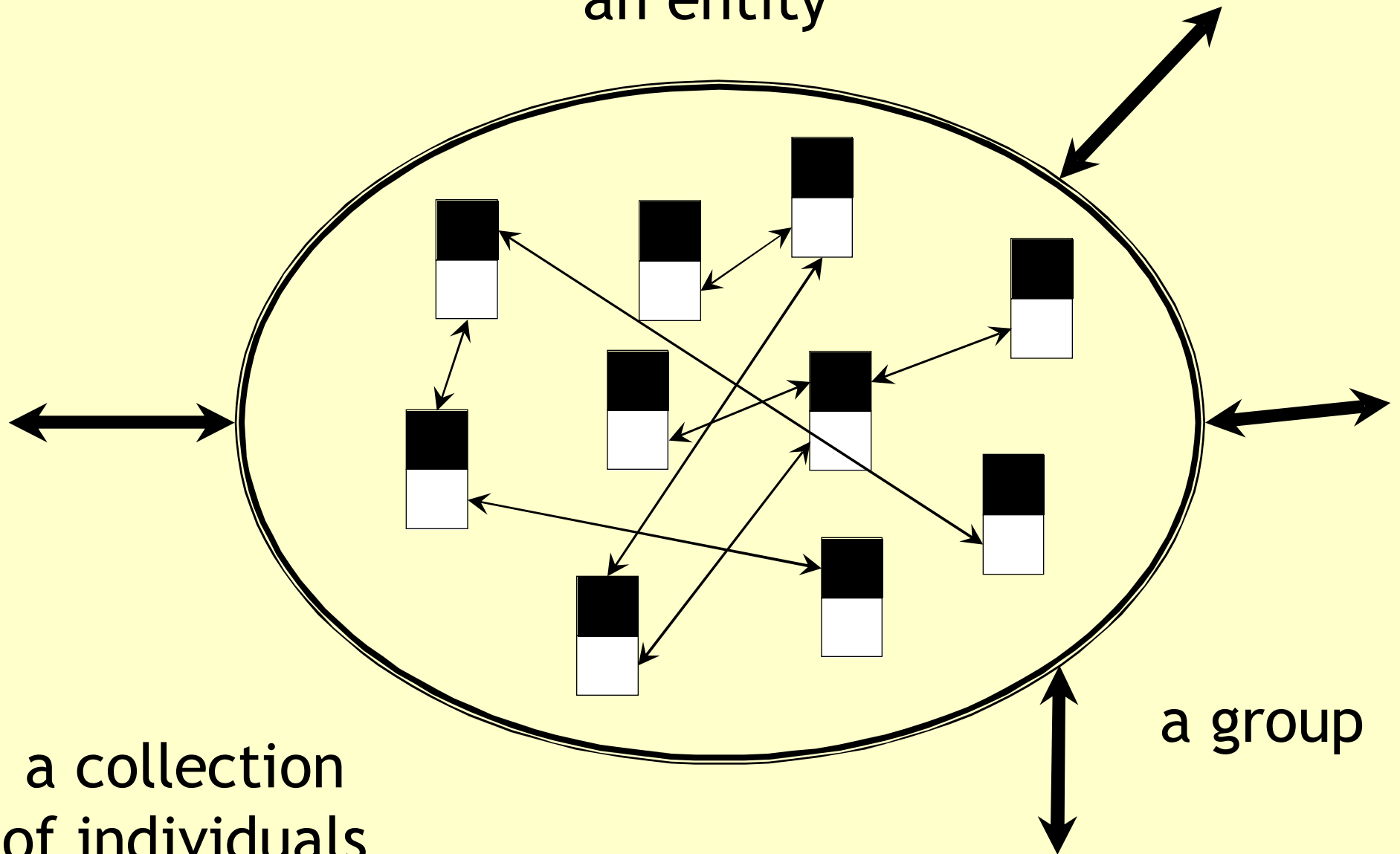
- chair does 1-on-1 interviews
  - weak chair?
  - superior/subordinate model
- perception questionnaire
  - social desirability / halo
- knowledge questionnaire
  - who filled it in?
- performance against KRAs

# what's missing?

- expertise of board
- recognition that it is a peer group
- smarter methods than tick-and-flick or 'Likert' scales

# How the board works

an entity



a collection  
of individuals

a group



# Assumptions

- each Board member has expertise
- the Board knows the Board best
- Board reviews itself
  - as an entity (eg KRAs)
  - as a collection of individuals
  - as a group

# the model

- Board members rank (not rate) each other by paired comparisons on multiple dimensions confirmed by interviews

- relative not absolute judgments
- simpler than ranking
- can check for consistency

- feedback from chair

- observation of group processes
- assess against KRAs
- collectively look at skill mix and PD

eg

- specialist contribution
- team work
- contribution to debate
- meeting participation
- meeting preparation

# key features

- triple perspective on board
  - entity / group / individuals
- board members assess each other
  - moderated
- observation of group processes
  - disinterested observer
- multi-method, multi-rater



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# DISCUSSION

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