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Performance management in the boardroom

Realizing the value of managing employee performance, companies spend significant money and time to develop elaborate individual or team objective-setting, coaching and mentoring programs. There are mid-year and year end performance reviews, with many companies moving towards multi-rater feedback methodology. Clearly there is an understanding that exemplary performance doesn't just happen without formal systems and methodologies in place.

How curious then that performance management frequently does not extend to the boardroom — where decisions made by a relatively small group of people, meeting on an infrequent basis, can have profound implications for a company's success, or lack thereof. With the recent publicity surrounding Enron and other high profile corporate failures, public attention on corporate leadership and boards has and no doubt will intensify. This, in turn, will force boards to focus more attention on how they are performing as a group and as individual members.

As for "group" performance, a well-designed assessment process should include any or all of the following:

• Annual surveys of board/committee members that address such questions as:

— Is there a proper focus on strategic leadership versus micromanagement?

— Is decision-making expeditious and appropriate?

— How effective and appropriate are interactions between directors and management?

• Follow-up discussions within the boards and committees, with or without outside facilitation, to discuss survey results and identify improvement opportunities.

• Accountability assignments and timelines to implement improvement opportunities. Without this step, the entire process is a waste of time.

Survey data indicate that over 40 percent of all corporate boards now have a formal process in place similar to the one enumerated above. A recent survey conducted by RSM McGladrey of small to mid-size community banks indicates that less than 15 percent of those respondents currently have such a process. For directors subject to such a process, a clear majority rate it as effective or very effective in improving the board's performance.

Managing individual board member performance may be even more critical in the success equation for boards. The process should start with new member orientation. Approximately 60 percent of boards have a formal orientation program that includes mentoring by seasoned directors, on-site meetings with key executives and staff, and/or briefing books that provide a comprehensive understanding of the company and the environment in which it operates. Ideally, new members should be interviewed after their first year of service to ascertain that the orientation process was effective and that members feel completely integrated to their role.

Beyond orientation, 20 percent of Fortune 500 companies and 16 percent of small to mid-size community banks surveyed by RSM McGladrey formally assess individual directors' performance. Over 80 percent of directors subject to assessment rate the process as effective and rate their boards' overall effectiveness more positively than directors in other organizations.

The process can involve directors completing a self-assessment of their contributions. Better yet, have directors complete anonymous assessments of each other (i.e., multi-rater feedback). Sample questions may include:

— Is the member fully prepared for board meetings?

— Does the member communicate persuasively?

— Does the member manage conflict constructively and productively?

Whether self-assessment only or multi-rater feedback, results pertaining to any given director should be

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compiled, summarized and distributed to only the director and his/her chosen mentor — typically the chairman or a lead outside director. Director and mentor can then work together to address areas of concern, which could include developing and monitoring action plans. Hopefully any identified performance problems can be addressed in this context. If not, the board should have clear criteria for replacing ineffective board members, rather than waiting years or decades to shed itself of "dead wood".

Moving from passive to strategic, high-performing boards will be a cultural shock for many companies. However, the current and anticipated future operating environments will dictate that the shift be made. Employing some or all of the practices identified above are keys in making such a transition successful.

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