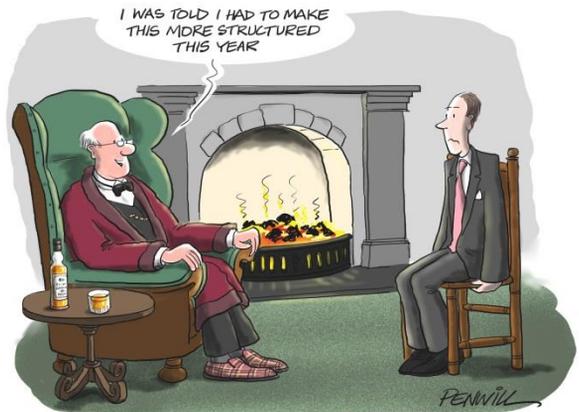




Better to give than to receive? Individual directors' performance review

The different options for reviewing the effectiveness of the whole Board are well-rehearsed and most companies now take a pretty serious approach. But the UK Corporate Governance Code also requires an annual review of individual directors. This is a bit more tricky. It's not unusual for non-executive directors to bristle at the idea of a formal evaluation. Chairmen often don't feel comfortable doing any more than a "fireside chat". The Board (or SID) aren't sure what to do about the Chairman (or the committee chairmen) either. And when a formal review is done badly, it can backfire. Here are a few thoughts based on what we've seen work well – or not so well.



Good practices to consider...

The "fireside chat" with the Chairman has a structure. The points to be discussed with the director are set out and communicated to him/her in advance so they have time to consider.

Enough time is allowed. If there are any issues, they can be discussed for long enough that a good understanding or conclusion can be reached and actions agreed.

Open questions are used. One which can work well is: "how do you think your company/your colleagues can help you contribute more?"

The focus of the discussion is on the future. The temptation to focus on what the director could have done better in the past is avoided and a constructive, "non-critical" atmosphere is maintained. The outcome informs the personal and board development agendas.

The formal review doesn't become a substitute for giving feedback during the year.

Things to avoid...

The chat is a casual ramble. The director isn't clear on what's actually going to be discussed and hasn't prepared. Or the Chairman is so non-confrontational that the director misses the main points, or even doesn't realise that the chat is supposed to be about their effectiveness at all.

The chat is squeezed in between meetings with a tight cut-off point. The discussion that is ended prematurely, with issues left hanging, can be worse than no chat at all.

The review is seen as an evaluation with an "end of term" grading being given. Time which should be spent on learning how to do better is spent on diverting blame.

The focus is on the past – the past year or even further back. Examples of weaknesses can be useful but will cause the discussion to become defensive unless used very carefully. Better to discuss how to help the director contribute more.

Comments are "saved up" for the annual exercise rather than nipping unhelpful behaviours in the bud.

Good practices to consider...

A questionnaire-based approach avoids negativity or being seen as an appraisal. It talks about "the extent to which..." a director displays characteristics rather than looking for a good/bad or does/doesn't style of evaluation. You're looking for opportunities for improvement, not a score.

If a 360 degree review is used (with each director assessing each other) it is positioned carefully and constructively. The ground rules set out how to avoid being unnecessarily personal. The Chairman retains tight control. If the atmosphere is strongly positive and collaborative this can work, especially if it's a regularly used approach in the organisation.

If you've opted for an external review, the reviewers are asked to pick up comments on individuals subtly and with discretion. What they learn is used to inform the Chairman's "one to one" chats.

The Board's review of the Chairman's performance has some structure. Being a good chairman is a complex art and crucial to the Board working well. So the review deserves more than a quick nod. Having some structure also helps people to speak up on aspects that they might find awkward to raise without a prompt.

The same considerations and need for care apply to the Committee Chairmen. But it can't be avoided: the Chairman's approach will be a major determinant of the committee's effectiveness.

Things to avoid...

Numerical scoring or rating is used. These systems are fraught with difficulties which arise from different people interpreting the scores differently. And most directors feel uncomfortable with being rated – or rating their colleagues – in this way.

Inadequate preparation or inappropriate structuring leads to friction once the results are shared. Relationships which may be a bit tense can become unmanageable if comments leak or are misinterpreted.

The external reviewers dodge the individual performance issues as too sensitive. Or they comment on individual performance in their formal report, causing embarrassment and damaging relationships between individual board members.

The Chairman's performance is a quick chat at a NED-only session, tacked on to the end of a board meeting. There's a risk that people are tired or needing to leave – or possibly frustrated after a tense meeting. And there's no structure or pointers to guide the discussion. "How do we think the Chairman's doing...?" is not a good place to start.

The committee review is simply tacked on to the end of the board review and doesn't do justice to their Chairmen's styles and approaches. In other years, committee chairmanship isn't really considered at all.

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