

SUCCESSFUL BOARD APPRAISALS

Board members must constantly review their performance and outcomes in order to deliver. **Robyn FitzRoy** explains.

Over recent years, boards of ADIs have increasingly moved from an older governance model of a monitoring entity, to a model of an experienced team of people helping management set and implement strategy.

Companies know that maintaining the status quo is not an option. An active, engaged board can add real collective ongoing value, significantly assisting an ADI, from appointing, assessing and mentoring the CEO, through to the provision of special expertise around the board table, and participation in strategic planning processes. However, value needs to be monitored and measured, both as a collective and as individuals, applying the same degree of continuous improvement and review that is expected of the CEO and senior management. Board performance appraisals are one way of measuring value and are also required annually by APRA.

Sometimes board appraisals are undertaken reluctantly as boards struggle to satisfy apparently competing needs. Issues include: cost-effectiveness; director engagement; regulatory requirements and how to interpret them; a genuine approach to performance enhancement; and measurement of whether the investment in time and money actually produces relevant outcomes and improvements.

THE SECRET

What's the secret to getting all this right? Boards should adopt a positive attitude and decide the best way to conduct their performance review. Ideally, the approach should engage participants and not be a 'tick-the-box' exercise.

The aim is to have constructive discussions and improvements, not a compliance approach. Appraisals can be both qualitative (usually an interview), and quantitative (usually a questionnaire) or combination of both.

When assessing performance appraisal options, a good place to start is at the end. How will you evaluate the appraisal itself? Consider not only the actual process but outcomes and key goals achieved during the year following. There is no single robust assessment method

that ADI boards should adopt every year. Variety can be helpful to keep the process fresh, but some questions should be common to enable comparative data year on year. Confidentiality is important as directors are more likely to contribute openly if they can be assured of this.

Appraisals are useless if the feedback is not acted upon. Board improvement is a journey, but it should be a speedy one. In today's competitive financial services environment, we should be tough on also-rans, just as we would within the company we run.

ANNUAL BOARD OBJECTIVES

The establishment of board goals that are measurable and relate directly to the board's role and sphere of influence is important in ensuring valid assessment processes. The goals should be linked to the strategic plan and can be part of the overall agenda for the board for the year. The chair or an appropriate committee should ensure the board is paying attention to the goals during the year. Examples of board goals (three to five

- goals are sufficient):
- Engagement in the development of the strategic plan;
 - restructure of board meeting agenda to reflect strategic goals;
 - enhance stakeholder relationships via a networking program;
 - continued implementation of governance best practice (board assessment, development, structure and succession); and
 - structure board committees to handle both compliance and oversight of the delivery of the strategic plan.

AN EXTERNAL EXPERT'S ROLE

From time to time, firms engage the services of corporate governance consultants to manage the board performance review process in an impartial manner.

Engaging a third party facilitator involves a budget commitment that self-assessment processes avoid. It also involves a more significant time commitment. However, it does assist the chair and is seen by directors, staff, regulators and stakeholders as having

A GUIDE TO BOARD APPRAISALS	
AVOIDING THE NEGATIVES	GAINING THE POSITIVES
<ul style="list-style-type: none">• Reduces the overall risks for the company and fellow directors from poor decisions made as a result of inadequate knowledge of corporate governance, risk management, internal controls and financial reporting.• Helps ensure directors do not wake up one morning and find the organisation is insolvent, or worse, has been insolvent for some time.	<ul style="list-style-type: none">• An independent, objective assessment of skills.• Assists in identifying what value the board actually adds to the organisation.• Identifies the skill gaps of the board in general.• Forms the basis for professional and personal development.• Facilitates the setting of board goals/KPIs which line up with the organisation's strategic plan and have clear timelines.• Can be team-building if handled well.• Improves the effectiveness of board meetings.• Meets regulatory requirements and best practice.

impartiality and objectivity. The role of consultant can include:

- administration and analysis of an initial self-assessment questionnaire;
- face-to-face interviews with board members;
- interviews with key staff and/or stakeholders – 360 degrees;
- attendance at a board meeting;
- review of agendas and minutes;
- facilitated discussions on issues arising from the questionnaires, interviews, board meetings, and board papers;
- recommendations and action/development plan; and
- leading the subsequent development process.

Whatever method or combination is chosen, it's important to ensure:

- The consultant has credibility and is personable;
- the terms of the project are very clear to all;
- the whole territory is covered;
- candid responses are elicited;
- the outcomes are easy to act upon.

EVALUATING SUCCESS

A board that conducts reviews is more likely to anticipate problems. The results of an evaluation process can provide tangible evidence of where action needs to be taken. However, the link between reviewing the board and director effectiveness and improvements in overall organisation performance is hard to establish. Some outcomes can be quantified. They include:

1. Satisfied regulators.
2. Enhanced team dynamics (if exercise is well-handled).
3. More obvious leadership from the chair.
4. Professional development needs are understood.
5. Board goals for following year are set.
6. Directors feel emotionally satisfied that chair has spent time on them and they have been heard.
7. CEO and management start to see a value-adding board – greater respect

BOARD APPRAISAL CHECKLIST

1. Agree the scope, spirit, timing, budget, method of appraisal via the appropriate committee and then with fellow directors to ensure understanding.
2. Agree the agenda topics to be covered including: the annual Fit and Proper assessment; performance against board goals/KPIs; any issues directors may have identified.
3. Brief external party, if using. Or, devise questionnaire and distribute via the governance committee, nominations committee or company secretary.
4. Confidential interviews are also conducted, if required. Completed questionnaires returned to either external party or appropriate internal person/s.

5. Analysis and comparison and any follow-up clarification. Reports and graphs distributed if appropriate.
6. Third party and/or chair give and seek feedback to individual directors. These 'fireside' chats can enhance relationships, unearth hidden issues and provide an opportunity for two-way dialogue and feedback.
7. Chair and/or third party presents to the board as a whole for workshop discussion. Board debates findings and agrees general goals/KPIs for board year ahead.
8. Action outcomes including training and development needs garnered

from the questionnaires. Invest generously in appropriate director development to build a more sophisticated board.

9. Process is reported in the annual report. Finally, despite the fading belief of some CEOs that boards are value-decree, most boards contribute substantial value to both the ADI and the shareholders they represent.

A board that is a high-performance team constitutes a valuable resource to a company, providing independent judgment, intellect, constructive dissent and broad participation. ■

REVIEW INSTRUMENT	ADMINISTRATION	COMMENT
Ranked questionnaire – online (self-assessment, peer assessment, board as a whole and chair).	External agency	<ul style="list-style-type: none"> ✓ Quick and easy ✗ Not expensive ✗ Can be seen as 'tick-the-box' – may not engage directors ✗ Fails to capture directors' thinking ✗ Not a platform for discussion
Structured questionnaires	Internally or externally	Quantitative responses enable comparisons but statistical responses alone don't always draw out the key issues or problems.
Exclusive *, structured questionnaires supported by interviews	Externally, with options for feedback discussion-consultant &/or chair	<ul style="list-style-type: none"> ✗ More expensive ✓ Provides structure for a discussion
Structured questionnaires supported by interviews – inclusively (360 degrees)*	Externally, with options for feedback discussion (consultant and/or chair)	<ul style="list-style-type: none"> ✗ More expensive ✓ Provides a structure for discussions ✗ Broad sample of respondents
Full board audit	Independently conducted	<ul style="list-style-type: none"> ✗ More expensive ✗ Significant time commitment ✓ Worthwhile outcomes
Two part assessment: a) externally facilitated workshop aiming to enhance board working relationships via a sharing of concerns and an examination of what will be required of the board in the future. b) Chair facilitated one-on-one discussions. (chair of board governance or company secretary reviews chair)	<ol style="list-style-type: none"> 1. Directors self-complete a simple form (individual contribution over last 12 months; contribution against board goals; committee contribution; any issues). 2. Chair discussions using forms as guide + focus on general director development and plans for the future. 3. Externally-facilitated workshop aimed at enhancing board working relationships. +A workshop/presentation on a specific area or item 	<ul style="list-style-type: none"> ✓ Less expensive ✓ Small time commitment ✓ Very effective on the 'in between' years for building on team dynamics

*Custom-designed, company-specific questionnaires can be open-ended, multiple-choice or seeking rankings.

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CONNEXUS

SEARCHING FOR
DEPOSIT GROWTH
BLUEPRINT FOR
BOARD APPRAISALS
REPORT CARD
FROM KPMG

FIGHTING THE GOOD FIGHT



Abacus
Australian Mutuals



a different
kind of banking



FIGHTING THE GOOD FIGHT

It's 'steady as she goes' for a lot of mutuals as they try and maintain market share in a competitive marketplace.

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THE FEELINGS WEREN'T MUTUAL

The coming together of three Hunter region credit unions was not a merger made in heaven.

NEW IMB LEADERSHIP

While keen to stay true to IMB's core philosophies, the new team aims to remain competitive and relevant.

MUTUAL FINANCIAL REPORT CARD

With market pressure set to increase, experts predict a new wave of mergers and acquisitions.

MECU S&P RATING

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Introducing the upcoming CUFA Cambodian Education Program.

A PERSONAL APPROACH

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Abacus and CUFA awarded the 2007 Consumer Affairs Victoria Award.

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GATEWAY'S RE-BRANDING OPENS DOORS

Gateway Credit Union has changed its image. And the makeover is a success.

CUA STANDS OUT FROM THE CROWD

CUA has revamped, rejigged and reworked its image to better represent its members.

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EVENTS

An industry calendar for all conferences, forums, professional development events and industry meetings.

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