

Monitoring and Managing CEO Performance

One of the key responsibilities of the Board of Directors (the Board) is to monitor and manage the Chief Executive Officer's (CEO) performance. The Board can successfully administer this responsibility through a tailored Performance, Planning and Review (PPR) process.

What is PPR?

PPR is a periodic structured discussion between the Board of Directors (the Chairperson is often the Board representative) and the CEO about performance. The process facilitates the formal setting of individual targets and goals with the foundation being the organisation's strategic planning framework.

Why undertake a PPR?

The PPR process is designed to:

- Make plans and set priorities for the CEO's work utilisation and development;
- Ensure cascading of the organisation's strategic plan from the Board through to the CEO and staff;
- Strengthen the relationship between the Board and CEO through an open, face to face, free-flowing and frank interchange of ideas;
- Provide specific performance feedback in summary form to the CEO; and
- Identify and solve any job issues and problems.

Development of a PPR Process

There are many different types of PPR processes and systems that can be tailored to suit your organisation and culture. Ideally, the process should include a PPR

Policy and PPR Tool. The Policy provides the framework and guidelines for the PPR process including timeframes, responsibilities and expectations. The Tool will vary in design depending on organisational size and needs, however, may include measurement and assessment of:

- Leadership Behaviours and Competencies
- Achievement of Organisational Performance Objectives
- Training and Development Needs
- Role Accountabilities
- Organisational Values

The organisation's Strategic Planning documents and the CEO's Position Description should be used to develop the individual Performance Objectives. These objectives, and the relevant timelines, should be set in consultation with the CEO.

Frequency of PPR

Many Boards will have a contractual obligation to review their CEO's performance on an annual basis. Boards must be aware of such obligations and take the necessary steps to ensure these obligations are met. PPR is commonly scheduled at the end of the financial year (ie. July, as review is often linked to remuneration), however the Board and CEO may agree on another time.

It is essential the Board and CEO meet informally throughout the year to discuss any issues or problems which may arise and to address these in a timely manner. This also provides an opportunity for the Board and CEO to review or amend any performance objectives or timelines. Such meetings will

allow the Board to provide the CEO with timely and constructive feedback which will work to strengthen trust and respect between the parties.

Remuneration Review

As with PPR, there may be a contractual obligation for the Board to consider a review to the CEO's salary and/or provide a performance bonus. If there is no such obligation, the organisation should consider the issue regardless to ensure the CEO position package is competitive in the market. Any salary increase or bonus payment should be based on the CEO's performance, attainment of agreed objectives, market forces and the organisation's ability to pay.

Other Considerations

Some Boards find it useful to involve a consultant or external party in the PPR process to facilitate discussion and assist with the development of outcomes. The Board should not view such involvement as a means to distance themselves from the review process, and the Board must remain accountable for the overall process and their decisions.

MJSP has a range of PPR products that can be tailored to assist Boards conduct a review of the CEO.

For more information, please contact Mark Smith on (07) 3839 1233.

Be sure to look out for Issue 3 of the MJSP Governance Newsletter in April where we will discuss the Board of Directors Code of Conduct.

About MJ Smith & Partners

MJ Smith & Partners (MJSP) is a specialist management consultancy that provides clients advice and support in establishing Board and Corporate Governance processes including:

- Establishing and maintaining Boards;
- Board Practices and Protocols including Performance Monitoring, Role Clarification and Evaluation and Board Review; and
- Review and Development of Constitution and Rules.

MJ Smith & Partners Services & Products

Board of Directors Governance Procedure Manual

The Board of Directors Governance Procedure Manual provide the Board, its Executive and Chief Executive Officer with a set of agreed policies and procedures to assist in establishing a Governance framework and guidelines for effectively managing the authority, operations and delegations of the Board. The 'manual' provides the Board with operational procedures that bring its Constitution and Rules into practical execution.

Board of Directors Advisory Service

MJ Smith & Partners can also provide an organisation with immediate telephone or e-mail advice relating to general Governance issues or to any of the policies contained in the Board Governance Procedure Manual. This service includes:

- Access by the organisation's Chairperson, CEO and Board Members to a dedicated MJSP Partner with specialist knowledge and experience in the provision of Governance advice;
- Telephone or email advice on all Governance matters, including interpretation or application of your Constitution and Rules as well as policies within the Board Procedure Manual. For example:
 - Performance Management;
 - Delegations of Authority;
 - Conflict of Interest.
- Exceptionally quick turnaround time on any call / email.

Governance Workshops

MJSP have developed a number of half and full day workshops (and related services) on a range of Board Governance issues, including:

- Developing a new Constitution and Rules
- Introduction to Good Governance
- Managing Conflict and Internal Dispute Resolution
- Delegations of Authority
- Strategic Planning
- Roles of Board Members
- Policy Development
- Implementing a Procedure Manual
- Board Performance Appraisal
- Board Member Induction Program
- CEO Performance Management and Evaluation
- Board Meeting Procedure and Management
- Role of CEO & Relationship to the Board