

## SOE Board Talk

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This week Board Talk discusses the process of the Board Performance Evaluation. For many SOE boards this is a new initiative and it is something that should become routine.

Remember: SOEMU is here to help!

Please contact SOEMU if there are any concerns or clarifications needed.

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### Continuous Board Member Training

Good international practice is to provide on-going training for board members. There are many commercial training organizations that provide relevant training courses, some specifically targeted to SOEs. Donor's also provide tailored training programs on occasions. In many countries a local Institute of Director's is the main body for director training in both public and private sector; such institutes have become more popular and supported by donors and governments in light of the increasing focus on director obligations and liability.

Broadly, it is the responsibility of each SOE, and the board themselves, to identify training needs and to arrange appropriate training courses. SOEMU can and will facilitate training programs for RMI SOE directors.

Most important is to acknowledge at the SOE level, collectively as a board and as individual board members, that the full suite of responsibilities, obligations, potential liabilities and duty of care vests with the board and its individual members. Thus, it is incumbent upon them to ensure that suitably qualified, knowledgeable and aware, individuals are appointed to board roles and that they are assisted in fulfilling the responsibilities of that role through ongoing training and development.

Performance reviews are an important part of this training and development program, their primary focus being to identify training and development needs. The chairperson should inform a new board member prior to their acceptance of a board position that the board's performance as a group and their performance as an individual will be evaluated on an annual (or bi-annual) basis.

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### Effective Director Performance Reviews

It is important to note that reviews are NOT intended to punish poor performance. If a SOE director is not performing up to the standard required, then that should be dealt with at the time of the lapse, by either the chairperson, SOEMU or the Minister as the circumstance requires. Performance reviews are intended to assist boards and individual directors to be the best directors they can be: they are focused on training and development. Their aim is to assist the board, and individual directors, work better as a team and develop and enhance their skills as SOE directors. To be the best directors they can be.

Individual director reviews, including the chair's, need not be shared with SOEMU. But if they are going to be shared, this needs to be disclosed prior to the reviews being undertaken. If the review is not shared, then a summary of the key conclusions from the review and any agreed training or development plan should be shared with SOEMU in summary form.

Performance reviews are intended to:

- Provide high level feedback to Minister/s on overall board performance,
- Provide individual development / training plans,
- Develop a board succession plan, and
- Assist directors to be the best they can be.

The first step is to develop a position description (PD) for all directors and chair. The PD should include

- Statement of purpose of the SOE,
- Statutory duties of the director or chair. This would be drawn from the Companies Act – if the SOE is a company – the SOE Act and the SOE's establishing legislation in the case of statutory authorities. It is sufficient to summarize the duties or refer to the relevant legislation. It is important to note that the PD is a summary and that the expectation is that the director will familiarize themselves with their duties and obligations as defined in the relevant legislation, law or code,
- Specific requirements for that director or chair,
- Fees and allowances and expected work commitment,
- General statement of attributes and core competencies,
- Summary of fiduciary duties.

The assessment tool is then developed based on PDs. The assessment tool should refer to the requirements in the PD.

SOEMU has available guidelines for a director/chair SOE position and draft board performance assessment forms. Note that each assessment requirement refers to a provision in the PD.

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An SOE director assessment should

- Allow for assessment of directors, chair and board as a whole (i.e. 3 separate parts),
- Allow for individual self-assessment,
- Not be complicated.

The whole of board review involves the board assessing its overall performance. It should be undertaken annually (or bi-annually) after the annual report has been adopted by the board. It focuses on governance roles; improving board processes; key functions and responsibilities; and how to achieve continuing improvement. It is an excellent means for the board to have an open and frank discussion on how they have performed in the preceding period and how they can improve. It should coincide with a review of the types, mandate and composition of any board sub- committees.

In the review, the board jointly identifies areas requiring development and improvement and agrees action plans. In the subsequent reviews the board would assess performance against the action plans and improvements made and if any further improvements are required. It is effectively a whole of board self-assessment.

Individual director reviews should be undertaken at least every two years. To do it more frequently is probably an undue burden on directors' time and the value of the input is limited. As a director's role is not full time and the reviews are based on development and improving performance/skills, it may take more than a year for a director to (a) undertake the training /development identified as beneficial from the review and (b) demonstrate the outcome from the training.

The process involves the chair reviewing the performance of the director and the director undertaking a self-review. The two "scores" and comments are then discussed, and a consolidated assessment is developed. The assessment questions follow the key attributes in the PDs and consider any future development needs. At the end of the review the chair and director sign off on the review. The outcome of individual director reviews is usually not shared with other directors, although the chair may seek other director's input to assist him/her undertake the review.

Chair reviews are undertaken by the deputy chair or a senior director nominated by the board and acting on behalf of board. Before the review, the reviewer should canvass the views of other directors and where appropriate the CEO. The chairperson completes a self- assessment and the reviewing director completes their assessment in a manner similar to the individual director reviews. The reviewer should give some feedback to the board after the review, but it should be process and outcome focused, not a detailed commentary.

The whole board review should be shared with the Minister and SOEMU, but not the individual chair and director reviews unless the board agrees (unanimously) to this before the reviews are undertaken.

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The chair is expected to report back to the Minister and SOEMU

- The fact that a review has taken place and an outline of the process followed,
- Any significant outcomes (good or bad), with reference to overall board performance,
- Areas identified for future development both for the board and individual directors, and
- Any follow up actions that have been identified through the review process.

At the discretion of the chairperson, or the unanimous agreement of the board, a third party may be invited to undertake an independent assessment or evaluation of the board. Such a third party may be a professional in management, the role of the board or professional training and/or lawyers as necessary.

The annual report is an important means of communicating with stakeholders. It can also be used to provide well thought-out disclosures on the company's governance arrangements and the board evaluation exercise. The chairperson has a key role to play in representing the company to its principal audiences and is encouraged to report personally about board leadership and effectiveness in the corporate governance statement in the annual report.

Good luck this week in the boardroom

SOEMU