

ACUI LEADERSHIP FORUM

It's All About Performance

It's All About Performance

- Monitoring Implementation of the Strategy
- Executive Performance Issues
- Succession Planning for Boards and Management
- Board Performance Evaluation

Monitoring Implementation of The Strategy

Equivalent to monitoring company performance

“There was a lack of accountability among senior management and the board of directors, and there was a singular failure to assess performance in the context of deteriorating results”

Monitoring Implementation of The Strategy

“There was blind faith in a leadership that was ill equipped for the task. There was insufficient ability and independence of mind in, and associated with, the organisation to see what had to be done and what had to be stopped or avoided. Risks were not properly identified and managed... There was a lack of sceptical questioning and analysis”

HIH

Monitoring Implementation of The Strategy

“The imminent departure of high profile chairman Dick Warburton from the David Jones Board is a victory for common sense. Over a lengthy period, Mr Warburton presided over a board that failed to provide the company with appropriate direction”

Monitoring Implementation of The Strategy

“More significantly for shareholders, the removal of the chairman represents a triumph in the battle to achieve director and chairman accountability for company performance”

The Australian, June, 2003

Monitoring Implementation of The Strategy

Performance Measures	Particularly Valuable	Adequate Disclosure
Earnings	100%	90%
Capital expenditure	100%	83%
Costs	96%	20%
Market Growth	90%	47%
Employee productivity	80%	37%
Statement of strategic goals	63%	73%

Monitoring Implementation of The Strategy

Performance Measures	Particularly Valuable	Adequate Disclosure
Customer retention	63%	13%
Customer satisfaction	23%	3%
Employee Satisfaction	16%	3%

Australian Institutional Investors and Analysts: PWC, 1998

- Do you think the results would be the same in 2006?
- Applicable to Credit Unions?

Monitoring Implementation of The Strategy

- “If you measure it, it happens” anon.
- Monitored by KPIs – annual and through the term of the strategic plan.
- Quantified and numerical measures, if possible.
- Financial and non-financial.
- Be nimble: review annually or where the world changes.

Executive Performance Issues

- Remuneration
- Objectives and KPIs
- Performance Management Process

Executive Performance Issues

“The Board will:

- Instruct only the CEO
- View all organisational performance as that of the CEO
- View any organisational failure as failure of the CEO
- Require that the CEO keep the organisational performance within policy criteria and restore it to this state should there be policy violations
- Never, in its official capacity, help the CEO manage”

John Carver

Executive Performance Issues

- Board policy requiring CEO to “cascade” performance requirements to direct reports and, then, throughout the company.
- Board may have a role in executive performance (usually remuneration) for CEO direct reports.
- Board policy on other staff issues eg reward schemes.

Executive Performance Issues

1990s Key themes:

- Incentive
- Reward for results
- Alignment with shareholder value
- 'Have to' compete internationally for good CEOs

International Comparisons

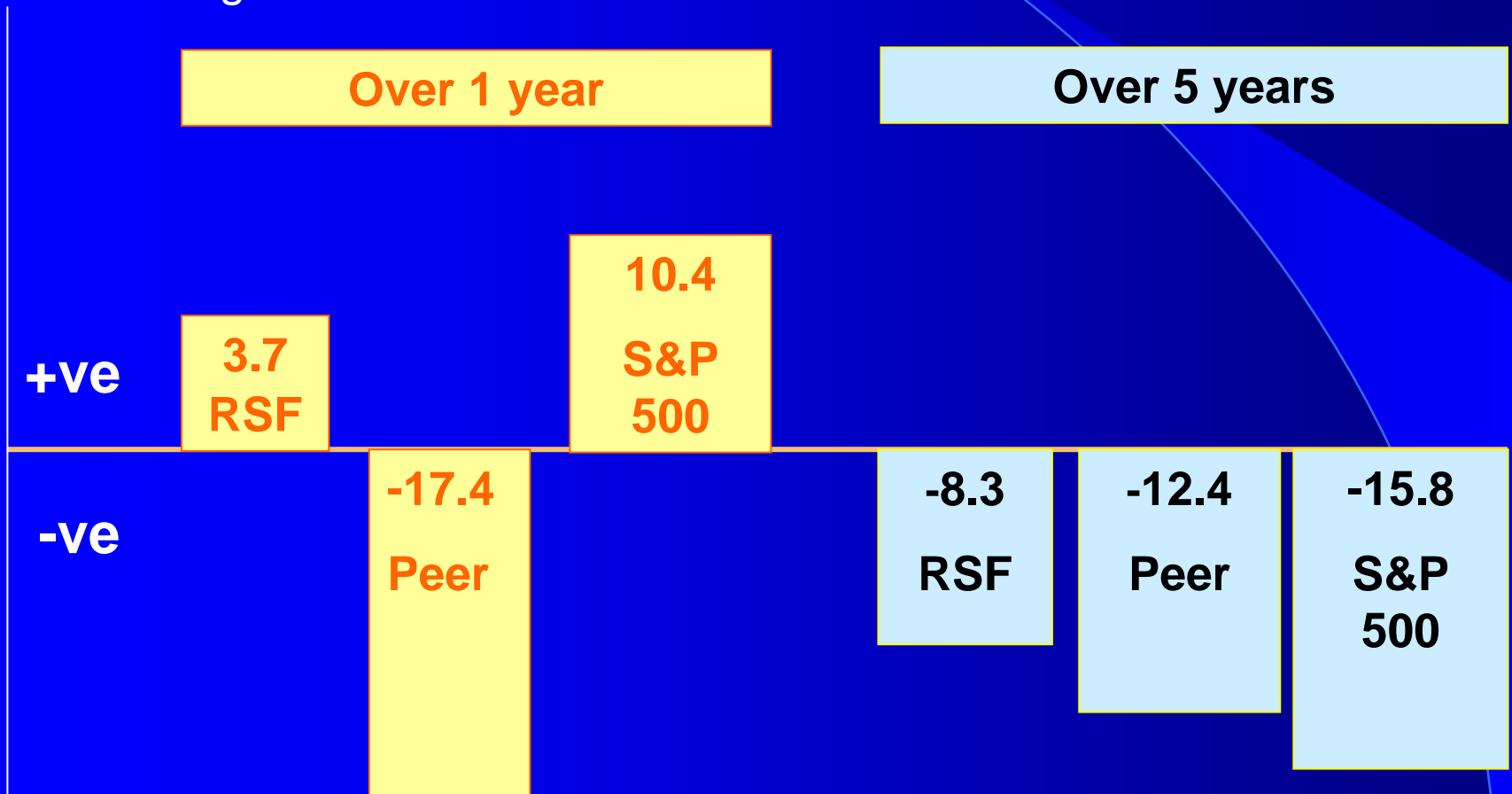
Aust = 100%	UK = * 385	USA = * 485
Salary 43	Salary 42	Salary 30
Short Term 14.9	Short Term 19	Short Term 24
Long Term 43	Long Term 39	Long Term 46

BCA, Cullan Egan Dell, 2001

Executive Performance Issues

Eisner, Disney's \$137.8 million CEO

% Change



Executive Performance Issues

What Has Happened?

- Remuneration ↑ but Shareholder Return ↓
- CEO pay now 400 times Av Worker's
- Shareholder value ↑ through sale or break up of company
- Fund managers support CEOs
- Retail shareholders do not have power

Incentive methods → Wrong behaviours

What We Know

- Bonuses Backfire: **Ask NAB**
- Profit/Market Share encourages fraudulent accounting: **Ask One.Tel**

Are Golden Handcuffs the answer?

- Delayed payment (future)

Remuneration

Reasons for CEO salaries escalating:

- Smaller number of “sellers” for the position
- Risky decision, so advice from recruiters who are paid % of first year’s salary
- Strict confidentiality where boards appear to have the strong bargaining position
- Board’s concern to preserve good relations
- Belief that CEO is above - average leader

Allan Fels, Australian, 2004

Remuneration – A Case At Hand

The Disney Saga

Remuneration

- Benchmarked: AIM; Mercers; credit union data
- If we follow the USA trend – greater “at risk” component

Objectives and KPIs

- To what end? Bonuses (compared with options or shares) both annual and longer-term.
- What is longer-term? Kicks in at years 4 and 5 of a five year plan.
- Annual bonus and agreed % of salary.
- Longer-term bonus can exceed salary.

Objectives and KPIs

- Align with the annual and longer-term objectives and KPIs of the business and strategic plans.
- Based on a “balanced scorecard” approach.
- Quantified, numerical measures where possible.
- Some subjectivity in assessing achievement of qualitative measures.

An Example

To achieve 100% of agreed annual bonus

Scorecard	What?	Mandatory or Discretionary	Percentage of Bonus
Financial	Revenue EBIT budget ROSF	M	25%
Strategy	1. Market share agreed 2. 3.	M	25%
Service 1	Internal: 70% Staff attitude	D	12.5%
Service 2	Customer: 68% satisfaction	D	12.5%
Innovation	1. Applied Research division profitable 2. 3.	D	25%

Performance Management Process

- Usually a committee of the Board, for example, Nomination and Remuneration Committee – recommends to Board.
- May be Chairman (and another director) after consultation with Board and recommending back to the Board.
- Chairman should be coaching and mentoring constantly with more formal six monthly discussion on performance.
- Formal performance review annually.

Performance Management Process

- It works both ways
- "What can the company / Board do to support you / give you a chance to learn / grow?"

Succession Planning for Boards and Management

Boards

- Depends on Constitution: maximum terms? Appointed as well as elected directors?
- Depends on Board, Chairman and director evaluation process – APRA requirement – “Fit and Proper”.
- Coca-Cola Amatil and “pre-nuptial” agreements.

Succession Planning for Boards and Management

Management

- A risk management issue
- A once-a-year exercise
- CEO and CEO direct reports
- What would we do if X “falls under a bus”, does not perform or resigns:
 - In the intermediate term?
 - In the medium term?
 - In the longer-term?

Board Performance Evaluation

Directors' opinions on how stakeholders would apportion accountability for corporate performance between the Board and Management

Board Performance Evaluation

Measure of Company Performance	Median % of Board Accountability
1. Growth of assets	30%
2. Strong and healthy organisation	25%
3. Profitability	20%
4. Value to Community	30%
5. Quality products and services	17.5%
6. Innovative products and services	17.5%

Future Directions: The Power of the Competitive Board, Francis, 1997

Board Performance Evaluation

APRA:

- Board
- Chairman
- Individual Directors
- Committees

Board Performance Evaluation

How?

- Internal – self assessment
- External assistance:
 - Briefing
 - Documentation review (eg Constitution; Annual Report; Board policies; Agenda, papers, minutes)
 - Discussions
 - Tailored surveys with quantitative and qualitative questions
 - Benchmarks
 - Reports with conclusions and recommendations
 - A positive experience: strengths and “areas for improvement”

Evaluation Survey Categories

Board: Strategic direction and planning;
Policy; Monitoring and Supervision;
Accountability; CEO and Succession;
Structure; Skills; Leadership and
Teamwork; Agendas, Papers, Meetings;
Governance Protocols and Practices

Chairman:

Director:

Evaluation Reports

- Board receives Board and Committee reports and agrees improvement actions / plan.
- Chairman receives Chairman's report for consideration and tabling at Board meeting with suggestions for improvement actions.
- Individual directors receive their own reports either in confidential discussion with Chairman to agree improvements or for tabling at Board meeting if that is agreed process.

Frequency of Evaluations

- When sufficient time to implement improvements from earlier evaluations
- Between one and two years
- Can see improvement through benchmarks

Nominations' Committees

- To assess candidates for election or appointment
- Considers "Fit and Proper" policy
- May be an Independent Committee
- Makes recommendations to Board
- Board may recommend to members

Case Study

1. What do you think of DingoBank's KPIs given its statement of strategic intent and strategic plan? What other measures would be useful?

Case Study

2. From the information provided, if the Board of DingoBank undertook a robust performance evaluation what critical factors are likely to be uncovered?
3. What should DingoBank do about Board succession?