

Understanding Poor Performance

Each of your board seats is precious. If you have 5 directors and 1 is not performing up to expectations, your board is functioning at a maximum of 80% effectiveness. You wouldn't tolerate this level of performance in any other area of your business so why would it be acceptable for your board?

Even if you haven't experienced a major performance issue with a director, you can be sure one will eventually arise. It's wise to plan ahead and think about how to address that situation if and when it arises.

Understand Before Acting

When you encounter a situation where one of your directors is not performing up to expectations, the first step is to understand the reason for the poor performance. Too often, we jump to the conclusion that the "problem director" needs to be replaced without taking the time to understand the cause. Experience shows that whenever possible, it is better to try to improve a director's performance rather than starting over with a new director. There are many possible reasons why a director might perform poorly. The cause and the potential to improve performance determine whether remedial actions can be effective or that director really does need to be replaced.

Wrong Skill Set

Sometimes, a company simply outgrows one of its directors. This tends to happen over a long period of time, usually several years. It occurs because the changes in technology, business environment or other factors that might cause a decline in that particular director's contributions. In cases like this, a smooth transition plan can be put into place to have the director not stand for re-election at the appropriate time and then replace that director with a director with the proper skills.

Bandwidth

Governance requirements today require that a significant amount of time be devoted to meeting preparation and participation. The recent economic climate is placing continuously increasing demands on active executives who may be facing crisis in their own businesses and couldn't devote the time and energy to yours. If this continues and a director is not prepared or cannot actively participate in board activities, they need to tender their resignations and be replaced.

Lack Of Training

Many CEOs assume that their board is well versed in changing industry dynamics, competitive positions, business strategy etc. This is a dangerous assumption and can leave some directors behind. Lack of knowledge about your business and competitive environment is dangerous and severely diminishes the value provided by that director. Many times, this is a situation that can be

easily remediated by more focused director education. Be careful that this is not just isolated to one director but that others may also need additional education and information about your business.

Health Or Personal Reasons

Many of us have faced health or personal issues during our careers that diminished our performance for some period of time. Should this occur with a director and strong performance starts to suffer, it's best to have a candid and confidential conversation with that director and decide on a solution that's best for the individual and the company. This does not reflect negatively on the director's capability but solely on their ability to perform at an acceptable level.

Changes In Job Responsibility Or Personal Priorities

One of your directors may experience a significant change in their responsibilities through a job change or assuming additional responsibilities in a promotion. A director who is an active investor may get involved in a new project requiring significant time commitment. This might affect their commitment and performance on your board. To address this many boards have put in place a process whereby a significant change in job or responsibility needs to be reviewed by the N&G committee so that a frank conversation can occur and the appropriate action taken. If you don't yet have such a committee, you should have the conversation with that director.

Manage Poor Performance Thoughtfully

Ultimately, you need to be sure that each of your directors has the time, desire and capability to provide the proper level of governance to your company and provide value as an advisor to you and your management team. Effectively manage a poor performing director by first understanding the cause and then taking the steps needed to help improve performance or transition smoothly to a new director.