



Avoid the Usual Traps in Setting Performance Expectations

Boards of all types seem to struggle in setting performance expectations for their chief executive. Many organisational and executive performance problems stem from this fundamental shortcoming.

Clarity of mutual expectations is essential to a successful board/chief executive partnership. This must be achieved as early as possible in a new board/chief executive relationship and revisited at regular intervals to ensure that both parties are always 'on the same page'.

In establishing valid performance expectations there are 2 main elements:

- Desired outcomes - results to be achieved
- Planned actions – ways in which results will be achieved

It is the board's job to specify what the organisation is to achieve but, within reasonable limits, the board should let the chief executive determine the actions required.¹ After all, the executive team can be expected to be the experts in the business. It is also important for the board to ensure that its expectations are formally recorded not just left hanging in the air as some sort of vague, ill-defined 'you know what we mean' type of understanding.

Performance expectations go hand-in-hand with well designed performance measures. However, we do not recommend this as a job for the board. In fact it is more powerful (and empowering) if the formulation of performance measures is assigned to the chief executive. The board can help, though, by challenging the chief executive to think through how he/she will be able to 'prove' to the board that its expectations have been fulfilled.

The chief executive's thinking about suitable performance measures should be shared with the board ahead of its need to evaluate performance. This is so that the (performance) goalposts are in place before the game starts. This process often leads to the conclusion that the stated outcomes are not sufficiently precise and need to be more clearly expressed before performance measures can be selected.

It is the way expectations are written, however, that is ultimately the most significant issue. In our experience, boards and executive teams regularly fall into the same traps.

These occur when there is:

1. Reliance on how people might 'feel' or 'might think' about a situation. As far as possible a board should set expectations that will encourage assessment based on demonstrated evidence. If this can be done, performance reviews are likely to be more factual and less emotional.
2. A misuse of adjectives. When words like 'appropriate' and 'excellent' used in stating performance expectations (e.g. "facilitate an appropriate relationship with the XYZ organisation") achievement (i.e. what constitutes appropriate) can only be assessed subjectively. A practical way to deal with this problem is a "complete the sentence" type of question to tease out what the board really wants. For example, "we will know that the relationship with XYZ is appropriate when _____". A question like this usually exposes varying ideas among board members about what should be achieved. By revealing possible ambiguity, this process can lead to a far better primary statement of the desired outcome and a stronger consensus about what the board really wants.
3. A misuse of verbs. The use of words like promote, coordinate, facilitate, etc directs attention to the 'action' ('how') instead of the intended outcome ('what'). Deal with this problem by using the question 'why?' For example, 'why **promote** the annual conference? Note that 'Why' questions can be used in different ways depending on where the emphasis is placed in the sentence. For example, why promote the **annual** conference?
4. A misuse of 'comparison' words. Words like 'increase', 'improve', 'more', should not be used unless a baseline or reference point for the comparison is also included. For example, "achieve a 15% increase in funding" should be "achieve a 15% in funding compared to the 2003/04 base-year".
5. A failure to be exact. It is even better if there is more specificity: e.g. "achieve a 15% increase in funding **from non-governmental sources** compared to the 2003/04 base year".
6. A misuse of prepositions. The use of words like 'to', or 'by' usually means that desirable 'what' statements end up being combined with undesirable 'how' statements. For example, "The CEO shall conduct a survey of members by 30 June to determine their priorities". The board should be clear about the desired outcome (an understanding of members' priorities) without prescribing the method (survey) of gaining that understanding.
7. An unreasonable expectation. A typical example is the "ensure that the Government increases funding to the organisation" type of expectation. The CEO has no authority or control over the Government so cannot achieve this.

By continually testing its statements of performance expectation for these common errors a board sharpens its thinking and improves the influence it has over chief executive and organisational performance.

1 The ends do not always justify the means. If necessary, therefore, the board should limit the scope of allowable management actions in order to control perceived risks.

