Assessing CEO Performance

Advice to the Board on What to Do and Not to Do

By Richard M. Biery

Effectively assessing the performance of a CEO is one of the most complex and sensitive tasks for any organization's board of directors. Because the CEO assessment isn't easy for a board to do, it frequently gets put off and/or mangled. Here are some suggestions to make the process less awkward and more effective:

What You Shouldn't Do

- **Don't use subordinate units of the board to assess the CEO,** such as a specially appointed committee, the executive committee, the personnel committee, or worse yet, the chairman. The CEO will—consciously or unconsciously—end up, in his mind, working for whoever assesses him or her.
- **Don't spring surprise criteria on the CEO.** I've served on boards where the chair or personnel committee chair presents criteria for assessing the CEO which the CEO has never seen. There's absolutely no integrity or trustworthiness in this practice of *"guess what I'm going to be thinking about when I evaluate you."*
- **Don't use a 360-degree evaluation tool.** This popular idea, when applied to a CEO, violates good governance principles on assessment, assessing the CEO based on unknown criteria. If it's anonymous, it's an invitation to mischief, but even if it's honest, it may not be in accord with the board's assessment criteria. (However, the 360º, if done thoughtfully, *may* be a valuable tool for the CEO to use for himself.)
- **Don't use surveys to assess the CEO's performance.** Don't use a member survey of CEO performance or a customer survey. Usually these are anonymous, and the criteria used to make the judgment are unknown. Only in unique circumstances should the board, or preferably an auditor, survey individuals concerning the CEO's conduct in certain situations, and in any case, such an investigation must be policy-relevant. Of course, the board (but better the CEO) *can* use a membership or customer satisfaction survey to assess organizational service or product performance, as long as the survey is data-relevant to a board policy.
- **Don't use rumors or ad hoc observations or experiences** sprung on the board during its CEO assessment executive session. Educate the board regarding CEO assessment, including what to do when something comes to a board member's attention that might affect a performance assessment.
- **Don't have the entire board meet with the CEO for the assessment.** Boards often try to manage the dynamics of this kind of process and it usually doesn't work. (When one thinks about it, the board cannot orally speak with one voice. Individual voices are heard and must be synthesized. The CEO shouldn't be put in that position.) Some argue that the full board should be present to "pat the CEO on the back," but exactly in what words, and what about the critical and corrective comments which should also be part of any evaluation?
- **Don't guess at what the next compensation level should be,** or at what the "market" is paying. And don't assign that task to a committee without clear and confined guidelines. (Don't permit the CEO to set his/her own compensation.)

What You Should Do

Recognize that, in a sense, the CEO is continuously assessed every time the board receives a monitoring report—this is especially true of Policy Governance® boards. The annual review is a consolidation of that process.

- **Review the monitoring reports.** Have the board members bring their monitoring reports for the last year, including the external audit and any special external audits conducted as compliance checks, and when reviewing them, take notes on board members' observations.
- **Review board policies concerning CEO evaluation** and assess them for fairness and clarity. If the board wants to refine the evaluation process, the time to do it is during this policy review.
- **Pull together all data bearing on compensation ahead of time,** including comparability data, any counsel received, benefit package, anticipated next year's COLA, etc.
- **Convene an executive session with no staff present.** Keep a record of that meeting and the discussion, not necessarily with attribution.
- **Have the chair or designee gather assessment ter-**

minology and phrases the board agrees it would like to use in a written assessment, displaying them on a flip chart for the board to discuss.

- **Have the chair or designee write an assessment letter** accurately reflecting the board's discussion.
- **Circulate the assessment letter to the board for review and confirmation,** emphasizing that it reflects the board's comments as a whole.
- **The chair or designee (or both) meet with the CEO** to present the letter and any comments the board has authorized, but none of his/her own assessment (which would undermine board authority and violate board policy).
- **Give CEO compensation instructions to the CFO in written form.**

By following these guidelines, the board will find that this once-dreaded task can be handled in a manner that's fair and effective for everyone involved.

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