Assessing the CEO's Performance

Questions directors should ask before initiating a review.

By Ben Dattner

As a board member, one of your most important responsibilities is to evaluate the current performance of the CEO, while simultaneously ensuring that he or she receives the right feedback, incentives and support in order to develop in the role over time.

While this sounds simple and straightforward in theory, in practice evaluating a CEO can be both fraught and potentially risky.

In my experience evaluating CEOs on behalf of boards, I've learned that in order to maximize the benefits of a CEO evaluation while minimizing the risks, there are two sets of questions board members should formulate, discuss and debate before initiating a performance review.

The first set of questions are about the evaluation process itself and should be asked of, and answered by, board members. These overarching questions, once properly considered and answered, then inform the second set of questions which are then asked of board members, senior management and others about the CEO in the evaluation process.

Questions about the process

- *Where does the CEO currently stand?*
- *What questions do we want to ask?*
- *Who do we want to ask the questions, and whom do we want to ask the questions of?*
- *What messages will these questions send?*
- *What answers are we open to?*

If a board has complete confidence in a CEO, the goal of an assessment might be to evaluate the CEO's performance against metrics and goals in order to determine compensation, while also gathering feedback that will help the CEO further improve his or her leadership and management skills.

If a board totally lacks confidence in a CEO, the goal of an assessment might be to urgently determine whether he or she should remain in the role and, if so, whether some kind of intervention may be necessary. Depending on the dynamics between company management, the CEO and the board, the board may choose to ask the questions themselves or engage an outside resource to do so. In any scenario, boards need to keep in mind that any questions they (or anyone they engage to inquire on their behalf) ask about a CEO will have an impact and send messages about a CEO's standing and potential future outcomes.

Some feedback providers may fear that the process opens up the question about the CEO's future at the organization, while others may hope it will.

Most CEOs fall between the two extremes, e.g. the board members have some level of confidence in him or her but their support is contingent on the CEO's and the company's ongoing good performance. In this most-common middle zone, a board should keep an open mind and see where the process leads.

Sometimes, when asking questions about how well a CEO is doing, feedback providers will indicate that the board should be asking a different question, e.g. should the CEO still be in the role? At other times, the board can get feedback about its own role and how the board itself might be able to create conditions that make it more likely that a CEO and the company achieve success. A micromanaging board that conveys a lack of confidence in a CEO can create negative self-fulfilling cycles and make it less likely that a CEO will succeed. At the other end of the spectrum, a hands-off board that doesn't give the CEO any feedback or suggestions is not adding the value that it should in corporate governance.

Questions within the process

Once the board has achieved consensus about goals and the overall path forward, it's helpful to then draft, discuss and debate the questions to be asked within the process. Considering the past, present and likely future of a CEO's role and his or her past, present and likely future performance can be a helpful lens through which to consider how the extent to which the CEO has, or has not, successfully navigated external challenges or made the right internal changes.

Perhaps the CEO added substantial value in a previous stage of the company's lifecycle or growth but is having, or may soon have, challenges taking the company to the next level.

The board should ask itself, and gather feedback from others, about the following questions.

- *How do you define the role of the CEO?*
- *How would you evaluate the CEO's current success in the role as you have defined it?*
- *What are the CEO's strengths in the role and what value does he or she add?*
- *What are the CEO's development areas in the role and what additional value could he or she potentially add?*
- *How has the CEO's role been evolving and how does it need to further evolve?*
- *What else would you suggest the CEO do in order to achieve greater future success in the evolving role as you have described it?*
- *Any other feedback or suggestions?*

The answers to the second set of questions can help the board determine whether the CEO is on the right track and has the right skill set and approach to continue to successfully lead, whether he or she needs some kind of intervention, coaching or other support to get back on track and improve his or her leadership and management, or whether the CEO no longer is likely to be successful in the role.

A micromanaging board that conveys a lack of confidence in a CEO can create negative self-fulfilling cycles and make it less likely that a CEO will succeed. At the other end of the spectrum, a hands off board that doesn't give the CEO any feedback or suggestions is not adding the value that it should in corporate governance.

The board can also get feedback about what it can do better or differently in order to create conditions that make success more likely. A productive process simultaneously combines a rigorous evaluation of the CEO in the role with an openness to considering alternative paths forward. ■

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