

CEO Performance Reviews: Five Tips for Moving from Good to Great

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Though CEOs retain responsibility for company success, they could never deliver top performance by themselves, and particularly not without directors acting as their closest allies. Directors can be especially helpful by giving CEOs candid and thoughtful advice on what the CEO is doing well and what the CEO might do better.

Most CEOs welcome information that can improve their impact and effectiveness. As such, CEOs depend on directors for thorough annual reviews—reviews that cover not only financial results but also management and leadership competencies and operational excellence. The weakness in many reviews is that they underestimate the value of rigor behind the feedback and the quality of the conversation. Here are five tips to revitalize reviews to help the CEO deliver long-term sustainable performance.

1 Establish assessment criteria and expectations up front. Have a conversation about the areas on which the CEO will be focusing throughout the year and what success looks like. Acknowledge criteria that may need to get more attention in one year versus the next. With an up-front conversation and structured criteria, the board and CEO agree in advance what's important. Feedback throughout the year becomes more focused, so the end-of-year review is a natural culmination of an ongoing dialogue.

2 Have the right people conduct the review. Choose at least two directors to sit down with the CEO, preferably the compensation committee chair and either the lead director (or board chair) or a compensation committee member. Be sure the CEO knows which directors are responsible, and the responsible directors keep the rest of the board apprised. With two people facing the CEO, directors can deliver a balanced message and be sure they get key points across. The designated directors should “own” the end-of-year dialogue; the CEO then knows whom to call on as resources throughout the year.

3 Focus on more than financial results. The financial numbers, however good, reflect past performance and only part of the picture. Although the financials remain a key part of the review, the question is, what is the CEO doing to guide the company's trajectory for the future? How is the CEO doing on key measures that indicate the company's ability to sustain performance and grow? What about leadership and culture? Long-term strategy? Risk management? Managing and nurturing stakeholders? Succession planning? As a follow-up, ask: How can the CEO work best with the board to further these objectives?

4 Gather data to support the review. Turn expectations into a scorecard, where actual results can be reported versus expectations. Survey board members for their perspectives on the CEO's achievements against the scorecard. Structured feedback from board members, once aggregated and quantified, adds depth to the review conversation and provides a good source of observations and examples to bring key points to life. In addition, a self-review allows the CEO to come prepared, engage in self-reflection, and ably frame his or her big-picture view of the year. It in turn allows directors to respond to the CEO in depth.

5 Make the review a conversation about development. End-of-year conversations bring along with them the question of pay implications. This is natural, but try to keep the focus on building the enterprise for the future. What can the CEO do better? Above all, what can he or she do personally, to advance his or her skills and capabilities? Directors have expertise and viewpoints that complement the CEO's. What can they see or impart that will make the CEO stronger? The connection to pay shouldn't be a reason for directors to sideline the more important, and more far-reaching, discussion, one that's holistic, balanced, and broad, about the company's future.

At the end of the day, a great performance review is about having a great series of conversations. These conversations start up front with expectation setting and continue as directors provide interim feedback, gather helpful observations and examples, and deliver their best thinking of how the CEO can continue to move the company forward.

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