CEO reviews: Helping the boss get better

Boards should show a firm grasp of five key elements of successful CEO reviews.

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The annual performance review. Many boards don't take full advantage of them as a leadership-development mechanism for the CEO. But CEOs are no different from other employees: they need honest, direct and timely feedback. In the CEO's case, getting unfiltered feedback from most people can be especially tricky, so a rigorous review by the board matters all the more.

At the start of the year, directors should establish a structured review process that sets CEO performance expectations. At the end, they can use the structure to evaluate the CEO's performance in handling both planned and unexpected issues. They can also leverage the structure to guide the CEO in becoming a better leader. The review provides the right venue to help the CEO to acquire new skills and knowledge — and to get advice on topics in which he or she is weak or unacquainted.

For directors, the reviews are not just a means to check an administrative box or demonstrate good governance practices. They can genuinely contribute to improving company performance. For new CEOs, they provide a chance for the boss to get off on the right foot. For long-tenured CEOs, the reviews can allow the board to launch or continue a constructive dialogue.

Consider the case of a brand new CEO who took his post upon the departure of a roundly admired predecessor. He couldn't possibly fill the veteran's shoes. So he sought feedback and development suggestions from his board. Although he was a guru of operations and finance, his previous experience didn't cover all that a seasoned CEO needs to master. Especially important for him were relationship-management skills with stakeholders. Like most new CEOs, he had previously had limited exposure to stakeholders such as investors, government officials/legislators, and the board itself.

This CEO was fortunate in that his board showed a firm grasp of five key elements of successful CEO reviews:

• First is that a review should take the form of an ongoing, year-long dialogue about development. In this way, it serves as a complement to the more extensive ongoing dialogue between the CEO and board about issues like strategy development and execution. Although the CEO and board will want to talk during reviews about near-term pay issues, the best reviews have the directors spending the bulk of time on how the CEO can acquire the capability to make the company prosper in the years ahead. In particular, they highlight what the CEO can do to advance his or her skills, and they provide a forum for the CEO to hear the viewpoints of the board as a whole.

• The second element of a successful review is to focus on more than financial results. The financial numbers largely represent past performance. The CEO needs to be guided and assessed equally on creating a strong foundation for sustainability and future performance. Measures should be included that show the CEO has the company on the right track when it comes to leadership, culture, strategy, succession planning, and managing risk and stakeholders.

• The third element is that directors establish assessment criteria and expectations up front. This requires a conversation between directors and the CEO on focus areas or key objectives for the upcoming year, creating a pre-established agenda for discussing priorities later.

• The fourth element is selecting the right people to conduct the review, preferably two directors. An appropriate choice for one of the two is the lead director, or chair, particularly if he or she heads the compensation committee. A powerful choice for the second is a current CEO. Other options include directors with skills and experiences the CEO needs to develop.

• The fifth element of success is for the board to conduct the review with a formal structure that is informed by data. The lead director can distribute a scorecard for every director on the board to fill out. How did the CEO perform compared to expectations? The lead director, or a third party, can aggregate the results, based on the structured criteria from the beginning of the year with any modifications, and in turn allow the whole board to shape and take responsibility for the messages delivered to the CEO.

Boards can easily lose focus on the CEO review process when the company enjoys many successful years. They may also lose focus when the CEO seems to have firm control on the right direction. But good times are not the time to let reviews fall by the wayside. It is then when directors want to establish a strong and consistent process that will work well when performance takes a downturn. ■

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