Assessing the CEO

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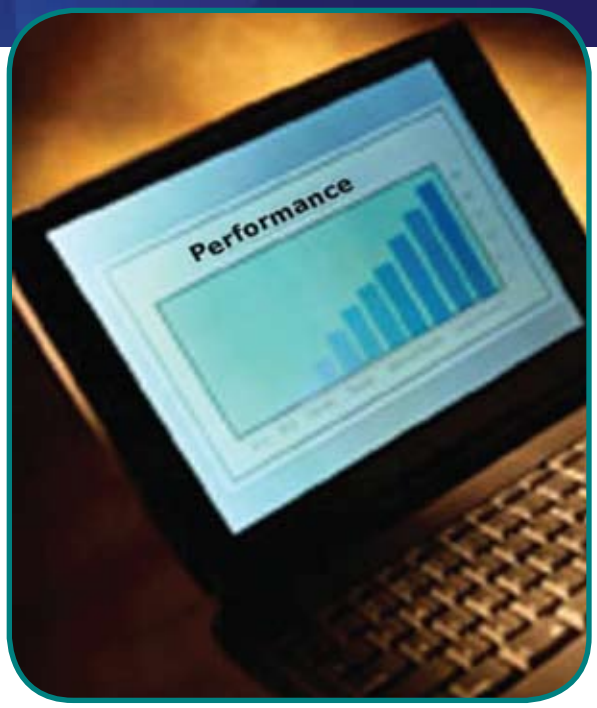

One of the primary responsibilities of the board of directors is to hire and supervise the work of a chief executive officer, who conducts the credit union's day-to-day business. The board sets the credit union's policy; the CEO exercises administrative authority over credit union products and services, procedures, and staff. Working together, they carry forward the credit union's overall purpose and are the driving force behind its growth and success. These two entities assure the safety and soundness of member funds, and provide the services members need to realize their financial goals. And a key element to making this partnership work well is how the board monitors the CEO, assesses his or her performance, and provides constructive feedback that the CEO can use improve performance. We will provide you some tools and insights into making this a productive and functional relationship for the benefit of your members, which is, of course, your ultimate goal.

Objectives

- Examine characteristics of a successful CEO assessment process
- Explore common pitfalls in conducting assessments
- Review board and CEO responsibilities for effective performance management

Purpose of Performance Evaluations

Why should directors be concerned about evaluating their CEO? There are several reasons:

- The health of the credit union is at stake.
- The board is responsible for the CEO's pay adjustments.
- This helps protect the credit union from litigation.
- CEOs want and need to know how they are doing

First, the board of directors is ultimately responsible for the credit union's welfare, and the CEO's performance evaluation serves as a way to ensure the credit union is in good hands. The CEO's actions are the most important influence in determining the overall health of the organization. By providing oversight, the board fulfills its fiduciary duty to members to assure the credit union's continued success.

In order to pay the CEO fairly, directors need to set clear goals based on performance. Salary and incentive pay needs to be tied to objective data.

Traditionally, performance planning has been a top-down process, with a supervisor evaluating a subordinate's work. In recent years, that system has given way to self-evaluations, team goal-setting,

and reverse evaluations, all of which are expected to foster a partnership relationship between a supervisor and subordinate. The board and CEO relationship has a unique set of characteristics that modify the classic top-down model and therefore, call for a unique approach to planning. In the board and CEO relationship, there is much less day-to-day contact. Therefore, the board must rely on demonstrated accomplishment of stated goals as the primary measurement of success.

Directors should not involve themselves day-to-day operations, yet they are legally responsible for the credit union. A performance appraisal can help protect the credit union and its directors because it sets out the parameters of acceptable behavior and monitors progress. In other words, the board judges performance on what is done, not on how it is done – so long as it is done ethically and in line with the credit union philosophy of people helping people. Generally, the types of goals set, how they are developed, and the way they are measured are quite different in board/CEO relations than they are in the standard manager and staff relationship. Goals are longer term in nature and must be tied to the strategic plan. The consequence of failure to achieve goals is also more severe.

The nature of the board and CEO relationship means the performance appraisal system must also be tailored to the situation. The partnership relationship between board and CEO is supported, strengthened, and enhanced by a partnership in performance planning.

A third reason directors need to be concerned with evaluating their CEO is to protect the credit union from litigation. A good performance evaluation system depends on clear measures set by the board and communicated to the CEO. The CEO needs to understand the board's expectations, and there needs to be continuous documentation of the CEO's performance. In the unlikely event of termination, this documentation protects the credit union against claims of unlawful termination.

An appraisal process also can help answer key questions about the CEO's performance: Is the chief executive officer living up to the board's expectations? Are goals being met or surpassed? Is staff morale high? This essential feedback goes a long way toward ensuring both the CEO and the credit union are on track to fulfilling their missions.

Characteristics of a Successful Process

In a successful appraisal process, the parties agree on the credit union's strategic direction and develop shared, agreed-upon goals – goals that are clear and aligned with the strategy they support. Assessment is based on objective, observable and measurable data.

Goals are flexible to respond to changing conditions, and feedback mechanisms are ongoing. For example, the board may incorporate a review of the goals set for the CEO once each quarter. This check-in should be simple, brief and include appropriate adjustment of goals. Consider tying goal achievement to some type of incentive or bonus.