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The CEO Evaluation Process: Four Principles for Better Results

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While CEO evaluation remains one of the most important responsibilities of boards of directors, the process for setting expectations, completing CEO performance reviews, and providing feedback is often ad hoc and/or superficial. In many cases, neither the board nor the CEO is satisfied with the discussion or the outcome.

A robust CEO evaluation process provides the board an opportunity to add significant value to the CEO and the company. If it is a 2024 goal for your board to execute a more productive evaluation—and it should be—getting the process right is a critical point from which to begin.

In past work on CEO evaluations, we have seen several factors that hindered the effectiveness of the company's efforts:

- *Misalignment on results that matter:* Too often, the board and CEO are not in agreement on the basis for the evaluation. For example, is the discussion about company performance or is it about the CEO's performance as a leader or both? Lack of a foundational understanding agreement upfront leads to confusion and frustration for both sides, and potentially trouble later on.
- *Lack of open dialogue:* While many CEOs do want to hear the "real story" (and some don't), boards can be reluctant to challenge the CEO or concerned about the consequences of delivering critical feedback. While delivery styles can be managed, a lack of frankness in the discussion diminishes its results.
- *Superficial treatment:* When the process becomes a "check the box" exercise or is performed for compliance reasons alone, neither the board nor the CEO reaps the benefit of a robust, candid discussion designed to support their performance. Relying solely on company performance measures and/or a short board survey can never tell the story sufficiently.

Guiding Principles for Getting it Right

Make it a collaborative process between the CEO and board.

While the board owns ultimate accountability for designing and managing the process, the CEO should play a proactive role in defining goals, deciding what information to collect and how, and determining how results may impact rewards. Such coordination will lead to better decisions about what to assess and how, and it will help avoid turning the process into an administrative exercise that adds little value.

Gather quantitative and qualitative data from multiple sources.

In order to accurately evaluate the CEO's performance, the board should gather data on results against the stated business metrics and it should get input from reliable sources who have direct observations of the CEO's performance and leadership. Ideally, those sources will include all board members and key members of the CEO's leadership team, plus their own self-assessment. In some cases, it may also be helpful to get input from external stakeholders such as partner organizations, customers, or others. Feedback can be gathered through confidential surveys and/or interviews and organized into a draft report to be refined by the compensation committee or those on the board responsible for completing the CEO evaluation.

Align the full board.

Before providing feedback to the CEO, the full board should review the evaluation report, engage in a discussion about the results, and align on a core set of messages to be delivered about his/her performance and the suggested business and developmental priorities for the following year. Gaining alignment among directors helps avoid sending mixed messages to the CEO about their performance and the future direction for the company.

Ensure ongoing, candid discussions.

Don't wait for the annual review process to provide feedback—make it an ongoing part of your dialogue. (This is a two-way street; also ensure the board is truly listening to the CEO's perspective on an ongoing basis.) Then, during the formal annual process, the responsible board members have an opportunity to avoid surprises and make space for a candid, constructive, and fruitful discussion with the CEO.

About the Author

Peter Thies is a managing director with Pearl Meyer. Before joining Pearl Meyer, Peter was the co-founder and president of The River Group, a leadership and organization development firm. He has over 30 years of experience helping global companies implement strategic organizational changes. Present and past clients include public company CEOs and executives across numerous industries, including financial services, consumer products, healthcare, retail, industrial, professional services, telecommunications, and the nonprofit sector.

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