

## Evaluations for All: Even the CEO Needs a Report Card

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After an intensive yearlong strategic planning process completed over seven years ago, Citi Performing Arts Center (then known as the Wang Center) knew it needed to begin implementing transformational changes throughout the organization. Using the [Balanced Scorecard](#) (a strategic management framework used extensively by business, government, and nonprofits worldwide) and a [Strategy Map](#), both board and management teams embarked on a human resources initiative that would be critically important in aligning staff with the new strategic priorities.

Recruiting a volunteer advisory group of seven human resource professionals from a variety of fields, the team met regularly over two years as the organizational culture shifted to embrace the new strategic plan. At the same time, staff members voluntarily formed an “HR Task Force,” which worked in tandem with the professionals. As a result of this joint effort, an organizational core values statement was developed; a peer-driven employee awards program was launched; teambuilding social events were planned; and interdepartmental training workshops happened monthly. At the foundation of all of this was an overhaul of the performance evaluation system, with updated job descriptions and a new standard format that linked to the strategy.

These new programs had a profound and lasting effect on the organization. Within three years, the results were dramatic:

|  | Pre- | Post- |
|--|------|-------|
| Staff who understood the strategic plan            | 40%  | 79%   |
| Staff who understood goals                         | 50%  | 90%   |
| Staff who understood how success is measured       | 27%  | 83%   |
| Staff who understood the performance review system | 8%   | 87%   |

Within a few years, the new performance evaluation had become a natural part of the organizational culture. But what happened at the CEO level?

The board had always reviewed the CEO’s performance, but the feedback system had been more informal. Committed to continuing the success of the earlier human resource reforms, the board charged the six-member Executive Committee with reviewing the overall process. The existing format already included a frank discussion with the CEO about progress against the organization’s strategic priorities, annual goals, and metrics. But they realized that these indicators were not the only measure of performance. Success as a leader, manager, and visionary were also viewed as critical performance factors, though harder to quantify.

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They decided that a 360 Degree Review would be the most useful tool in revealing more qualitative information. Jeff McCormick, vice-chair of the board who championed the effort, explains “A board’s responsibility is to the overall enterprise, not just the leader. It is important to think about what you are trying to learn, framing the right questions, and strategically gathering input from a variety of sources. Ultimately, the results should help identify where the CEO should focus and where he or she actually is focusing.”

The Executive Committee developed a short questionnaire that focused on communication, trust and vision, adaptability, relationships, task management, results orientation, the development of others, and personal development. The also engaged an unbiased facilitator to encourage honest feedback from the various interviewees. The month-long process ultimately targeted approximately 20 diverse individuals who regularly worked with the CEO: junior staff, the senior management team, board members, and community members.

The final results of the 360 Degree Review were summarized in a report shared with the entire board and included as part of the annual performance discussion with the CEO. Joe Spaulding, CEO and president of the Center, remarked, “Knowing that the feedback reflected the voices of junior and senior staff, non-board and board members, and external stakeholders made a lasting impression on me. Thanks to the 360 process, I was provided with a refreshing opportunity to step back and look at my overall performance in a new light.”

Successfully evaluating a nonprofit CEO’s performance is not easy—their jobs are complex, their skills are diverse, and their responsibilities are many. But establishing an organizational culture where a formal, documented, fair, and pragmatic annual evaluation is routinely expected by both the CEO and board is a healthy one. It ensures that the board is actively engaged in leading the institution and fulfilling its role as public stewards; it also provides the CEO with important feedback in what can often feel like a solitary role.

### **Sidebar: Evaluation Basics**

Only three out of four boards actually conduct a formal, written performance evaluation of their nonprofit executive according to a 2012 BoardSource Nonprofit Governance Survey. This is even more astonishing considering that the IRS asks all nonprofits to describe their process for setting chief executive compensation in Schedule O of the Form 990—and performance evaluation is assumed to be a critical component. Failure to comply with the appropriate due diligence can be costly on many fronts as nonprofits risk potential legal and regulatory entanglements, diminished public trust and support, and weakened mission-driven effectiveness.

So, why don’t boards pay more attention to CEO performance evaluation? The reasons are varied. Many board members join nonprofits because of a friendly relationship with the CEO and are reluctant to formalize the review process. Other boards fear conflict, anticipate a time consuming process, aren’t familiar with available tools or frameworks, or simply lack a disciplined performance evaluation system. But none of these are valid excuses. The board has a job to do – just like the CEO does. And one of the most important responsibilities of the board is to annually engage with the CEO in a formal, written performance evaluation.

### **Why formalize executive evaluation?**

For the board, the process becomes an important element in compensation decisions, organizational goal setting, and public accountability. For the CEO, it aligns board and

management goals with actual results and strategies. It also allows both sides to celebrate successes, acknowledge challenges and/or gaps, and discuss strategies in a forward-looking way.

### **What is the role of the board?**

Typically the Executive, Governance, or Compensation committee is tasked with reviewing data and benchmarks, gathering feedback, and meeting with the CEO. The committee also documents the review process, performance details, and meetings, but the entire board is part of the final discussion.

### **What are the elements of a successful evaluation process?**

Often linked to fiscal year results, a comprehensive review also recognizes successes, identifies improvement areas, and raises key strategic questions. Goals should reflect financial, operating, and strategic metrics, but also address leadership skills, interpersonal abilities, and personal traits as they relate to job effectiveness. Referencing specific examples can provide critical context, and sometimes a self-evaluation component can help highlight synergies or missed connections.

### **How does compensation figure in?**

Compensation discussions are informed by performance evaluations and reflect the value that a board puts on a CEO's performance. Establishing industry, local marketplace, and peer benchmarks provides important data as does budget constraints, parity issues, and job expectations in developing a reasonable compensation package. But ultimately, the CEO performance evaluation provides a critical foundation and important context for those decisions.