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Behind the boardroom door: The board and the CEO performance review

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Robert Sullivan, Managing Partner, Korn Ferry Hay Group in Boston

The most important job a corporate or non-profit board of directors performs, it's often said, is to hire — and sometimes fire — the CEO. But just as the CEO's position in the organization carries unique powers and responsibilities, evaluating a CEO's job performance poses unique challenges for a board.

What are some of today's best practices, strategies, and tactics for the CEO performance review? This month, the National Association of Corporate Directors New England Chapter asked Robert Sullivan, managing partner for Korn Ferry Hay Group in Boston and one of the city's top CEO recruiters, for five things boards should know. Recently honored by the Boston Business Journal as one of the 50 Most Influential Bostonians, Bob has more than 20 years' experience leading CEO searches and performance evaluations in technology, financial services, venture capital, higher education, and corporate organizations.

Q. What are some job-performance metrics that you might see on an annual CEO evaluation that you wouldn't see on any other employee's job review form? Many of the competencies for which boards need regularly to evaluate the CEO are similar to what other managers or even line employees would be reviewed on, just at a much higher level: Results, collaboration, building teams, developing talent. Beyond that, however, one of my favorite CEO review rubrics includes elements we summarize as "manages complexity," "manages ambiguity," "global perspective," and, simply, "courage." To be a CEO means almost always making decisions without perfect information, and amid constantly changing, globally connected markets and technologies. The best CEOs aren't afraid of change — they embrace it.

Q. Aside, of course, from bottom-line results, is there one leading metric by which boards should evaluate CEOs? Developing talent and building teams. Talent makes or breaks the organization. Some CEOs do really well at recruiting talent. If you're not good at it, you've got to commit to getting good at it. It's a job you can delegate only so far to your chief human resources officer or chief personnel officer. If a CEO can't go out and tell the top people why theirs is the best place to work, they're not going to win.

Q. Since 2001, the percentage of S&P 500 companies whose CEO also serves as board chair has dropped from 74 percent to now under 50 percent. Has that led to more candor and objectivity inside the boardroom? It's certainly helped — but just about every board can always do better. It's now widely accepted that a formal annual review of the CEO is a best practice in governance, but hopefully, a director has been in conversation with and evaluating him or her in action all year long. Greater board independence also means you see more situations where a company has bought a firm or sold or closed a division — and the CEO wasn't on board with it. The directors will have to evaluate: Without being a "yes man" or "yes woman," how well did the CEO adapt to and implement that decision, for the best interest of the company?

Q. Whom should a board be talking to when they evaluate the CEO? Direct reports, customers, and peers certainly need to be on that list, and evaluating the CEO as part of a total business review process by the board will always provide critical context. I'd also say, don't underestimate technology and behavioral science. The tools available now in psychometric-based testing and behavioral interview techniques have become extraordinarily effective for assessing CEOs' skills, personal qualities, and areas for growth.

Q. What's next for a CEO who gets a poor or "needs improvement" review from the board? Specifying a clearer set of strategic targets at the beginning of the year, with quantifiable measures for each, will focus the CEO and board on key objectives. Just the process of establishing these targets can often spark a better dialogue between the CEO and board about the path to achieving long-term strategy. After that, a lot of it is driven by linking compensation to delivering on those strategic targets. Compensation can be a derailer, but done right, it's huge in how people behave, in the cultures they build, because it's how they get rewarded.