BEST PRACTICES OF
CEO/ED EVALUATION

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The Standards for excellence
An Ethics & Accountability Program for the Nonprofit Sector

by **Debra Thompson**
Founder/CEO, StrategySolutions, Inc.

A CEO/Executive Director evaluation is a critically important topic today for nonprofit organizations. The Standards for Excellence Institute provides guidelines for an ED evaluation that every nonprofit should follow to ensure sustainability of their organization. The Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector states:

> Governing Body
> A. Board Responsibilities
> *(4) The full board or some designated committee of the board should hire the executive director, set the executive's compensation, and e valuate the director's performance at least annually. In cases where a designated committee performs this responsibility, details should be reported to the full board.*

These guidelines for a CEO evaluation are certainly appropriate for nonprofits across the country. While the Standards code does not give an extremely detailed outline of what an ED's evaluation should look like, it does make one extremely important point - that this exercise must be performed, at minimum, once per year, every year. And while the lack of specificity is problematic for many nonprofits, this does not diminish the necessity of performing the evaluation. Annual performance evaluations constitute a best practice but despite this, even large and sophisticated organizations either forgo them entirely or perform them infrequently or insufficiently. More often than not, we see an ED performance evaluation based on "a few hot button topics" defined by the Board President or Executive Committee which are not a reflection of what the organization should be accomplishing to be sustainable. Additionally, they are often quite "subjective in nature," even if they appear "quantifiable."

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A good example is that many organizations use the "bottom line" as a measure of success in the ED's evaluation (and sometimes it is the only measure). However, while quantifiable as a number or percentage, it is typically not a reliable method of measuring true performance. There are a number of reasons that nonprofit's bottom line could dip or spike for reasons that are entirely unrelated to the performance of the ED. For example, the economy plays a large role in this (as nonprofits are certainly aware of in recent years) as do some large donations that may be unrelated to the work of the ED. Additionally, (and we see this frequently) nonprofit cost accounting or financial forecasting methods are not sophisticated enough to detail "strategic investment" in new program development. This would allow a board to see that the "bottom line" is $XXX less than it "should" be this year because those resources are being invested in a new program that is expected to bring a return on investment and increased revenue (and bottom line) next fiscal year.

While many agree that "objective measures" should drive an ED's

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performance, this does not stop organizations from neglecting this critically important practice. A few weeks ago, I was talking to a board chair whose board had not completed a formal evaluation of the ED for three years, but was beginning to question the ED's ability to lead the organization. I asked about the ED's performance criteria and how they were tied to the strategic plan and organizational performance metrics and received the response "We don't have time for that." Every organization believes that they have a good reason for not performing a CEO evaluation sufficiently (or at all) or spending meaningful time developing a "dashboard of organizational performance with related targets" that become the foundation of the ED's evaluation.

> **"Many board chairs** and executive committees don"t know what to do to get started with this, so they stay stuck doing the same old thing (or nothing at all)."

However, a proper CEO evaluation is one of the most important tasks that a nonprofit can perform to ensure that they are operating optimally and that the ED performance stays on track. Additionally, this is the most important thing that the board Executive Committee should do (and update every year). Many board chairs and Executive Committees don't know what to do to get started with this, so they stay "stuck" doing the same old thing (or doing nothing at all). Here are some guidelines to get you/ your board started on a more effective process:

1) Set the criteria for the evaluation

Set the criteria for the evaluation far in advance and communicate with them so that the CEO understands the criteria that she or he is being evaluated on so that the goals and expectations are transparent and fair. I have seen numerous EDs "surprised" during their performance evaluation regarding what the board was actually evaluating them on.

2) Set the goals for CEO performance

Set the goals for CEO performance based on "objective" criteria related to organizational performance and strategic plan goal achievement. Too often board members have their own "agenda" that includes a handful of items that an individual or a few members of the board deem important, that are often unrelated to the "big picture" of organizational performance. This leads some EDs down the path of "playing the fiddle" while "Rome is Burning" in order to keep their board members happy.

3) Involve the CEO/ED in identification of metrics/targets

Involve the CEO/ED in identification of the metrics and the targets. The CEO/ ED often knows what measures are meaningful and can identify targets that are "stretch" goals without being unrealistic given the environment. This should be an iterative dialogue between the ED and the Executive Committee.

4) Include "scenario planning" along with a measure of adaptability

Include "scenario planning" in the discussions along with a measure related to "leadership and organizational adaptability" in the CEO's performance criteria. In today's environment, flexibility is one of the most important indicators of success. The nonprofit industry is changing and most likely your products and services and internal fundraising efforts need to adapt to the changes in funding. The ED's ability to support agency evolution is a critical success factor and should be part of the ED evaluation process.

5) Do not evaluate the ED on "how" they do things

Do not evaluate (or attempt to micromanage) the ED on "how" they do things. While the board has a role to provide input into the vision and direction for the organization (the "what"), the staff is responsible for strategy and execution ("the how") of the plan. Board members should recognize when and where there may be "style differences" between how the ED may approach things and how board members may wish to approach things and allow the ED to embrace their own leadership/ management style.

While the primary reason that the evaluations are conducted are to assess ED performanc
on the same page concerning the future of the organization. If done properly, they can ens
view the evaluation process as what it is— a best practice to ensure excellence in nonprof
can allow a board to support the ED and also provide a platform for the ED to convey th

*Debra Thompson is the President of Strategy Solutions, Inc., a strategic planning, researc
Pittsburgh, PA. She is an adjunct professor in the Master of Organizational Leadership
Excellence Institute Licensed Consultant.*

6) Include legitimate professional development goals for the ED and provide appropriate support

Include legitimate “professional development” goals for the ED and provide appropriate support for the ED to achieve them. All professionals today should recognize the need to be “life-long learners” and that there may be some new technical or management skills that the ED needs to learn to continue to be effective in their positions. This should be a positive and proactive discussion that identifies the training and/or coaching resources that would benefit an ED in their professional development, especially if the board has a concern about ED performance on a particular dimension. ED skill building or executive coaching if it is required should be made available to the ED through professional training programs, trainers, consultants and coaches, with the results and outcomes evaluated as a component of the overall evaluation process. This is not something that should become part of the board chair’s job description because they are the ED’s “boss.”

7) Evaluate the ED on how well they provide “staff support” to the board

Evaluate the ED on how well they provide “staff support” to the board. As long as an organization has paid staff, part of the ED’s job description is to provide “staff support” to the board. This includes educating the board on key issues facing the industry, assistance with setting agendas to keep the board’s attention on policy and strategy, organizing meetings and preparing and distributing meeting minutes. At the same time, the board should not hold the ED accountable for the board’s performance (or lack thereof) in support of the agency’s goals. Yes, the board should hold itself accountable for its own performance related to governance and fundraising and conduct an annual self-evaluation based on the Standards for Excellence as well.

8) Educate the entire board about the evaluation process and their role in it

Educate the entire board about the evaluation process and their role in it. Sometimes board members do not understand the purpose of conducting the ED evaluation or their role in it. It can be difficult for a busy board president to understand why they should spend their time on an exercise or take the time to get the entire board involved when they may not understand how to apply what they learn to support both the ED and organizational performance. In other words, they may not think that the review process makes a meaningful difference so they don’t execute it well and they miss the advantages an evaluation can bring if it is performed correctly.

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e, they often have another side benefit, because it gets (and keeps) the board and ED
sure that strategic plans don’t sit on the shelf. It is important for the ED to
it management and not as a threat to their position. The evaluation process
he support they need from the board to accomplish the ED’s goals.

h and organizational development firm, with offices in Erie and
program at Duquesne University and a Standards for

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814.480.8000