

# Evaluating the Performance of the Chief Executive Officer

The Results of Survey Research  
Involving Executive Directors of  
Human Service Agencies

Conducted by  
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## I. Introduction

Periodic employee performance evaluation is a common practice within all organizations. Employees in both line and staff positions typically meet with their direct supervisor annually to review and appraise the employee's work and to determine the extent to which the employee will receive an increase in his or her compensation. Some organizations are quite sophisticated in conducting employee reviews and they follow written guidelines and complete standardized forms which have been adopted, refined and perfected over years of use. Performance reviews often provide the basis for promotion of employees and for identifying training and development opportunities as well.

When it comes to evaluating the performance of the chief executive officer or executive director of an organization, however, a different scenario exists. Whereas agency staff are evaluated by line staff, the CEO is evaluated by volunteers who serve in their capacity as members of the Board of Directors. Whereas agency staff have functional responsibilities for one part of the organization's work, the CEO is accountable for management of the entire agency and its multiple goals and objectives. And whereas the performance review process for agency staff generally follows proscribed guidelines and the use of evaluation forms within the organization, these guidelines and forms do not easily apply to the evaluation of the CEO performance. As a result, the CEO evaluation process can differ greatly from one organization to the next and the outcomes of those reviews can be influenced by numerous factors, for better or for worse.

In attempting to understand the process of CEO performance review, Kittleman & Associates conducted survey research during the summer of 1998. Questionnaires were sent to 142 chief executive officers of large and mid-size human service agencies throughout the Midwest. With a 43% response rate it was noted that this was a topic of great interest to social service agency leaders. The survey instrument was designed to gather and analyze information in three key areas:

1. The Basis for Performance Review – This included inquiries into the extent to which documentation exists about what constitutes an evaluative review, what is evaluated and how performance is to be measured.
2. The Nature of the Review Process – This included inquiries into such aspects as who does the evaluating, when it occurs, how often, how many people are involved, and how the process has changed over the past few years.
3. Salary Raises and Bonuses – This included the identification of correlations between CEO performance and the amount of additional compensation given, incentive pay, attitudes and practices concerning bonuses, and other variables affected by the particular process of performance review carried out by the agency.

## II. Findings

### A. The Basis for Performance Review

It was found that 64% of the respondent group of CEOs has a written understanding with their organization regarding the conduct of their performance reviews. The written understandings may be as basic as simply spelling out the fact that an annual review is to be conducted. Others describe who is involved in the review, and still others relate to language contained in an existing employment agreement. About 60% of the respondents indicated that they prepare performance review documents prior to their evaluation session. These documents include “actual to goal” comparisons (41%), progress made toward the strategic plans (20%), program or statistical reports (20%) and financial reports (15%). About 60% of the respondents also stated that their performance criteria are stated in measurable goals, i.e. quantitative.

One-half of the CEO respondents said that during the past few years there had been changes made to the process of CEO evaluation. In describing those changes, 43% stated that the process was now more formal, 31% stated that they expanded the review process, and 24% changed who conducts the review. But regardless of what changes were indicated, it appears that the Executive Committee of the Board is most often the body conducting the CEO’s performance review and, therefore, is the primary decision making body on what changes, if any, are made in the evaluation process. No data was available

to indicate whether Executive Committee changes in CEO evaluation are ratified by the full Board of Directors.

B. The Nature of the Process

Of those CEOs responding, 42% stated that their annual performance review is conducted concurrent with the organization's fiscal year. For 34% it is conducted on or near the anniversary of their employment and for 24% it is the calendar year or some other specific date. For about half of the CEOs, the performance review is conducted by the Executive Committee. About 21% of the CEOs have their performance evaluated by the entire Board of Directors and only about 7% of the evaluations are conducted by the Personnel Committee. About 5% are evaluated solely by the Board President or Chairperson. For roughly half of the CEOs, the performance review takes place at a special meeting called solely for this purpose. In 15% of the cases it occurs in Executive Session of a regular meeting of the Board of Directors

C. Raises and Bonuses

CEO respondents indicated a wide range regarding the percentage of their most recent raise: zero to 14%. Both the median and mode salary raise were around five percent with about 57% getting a five percent or more raise and about 36% getting less than five percent. Two out of three respondents said that the raise they received fairly represented

the level of their performance. For 61% the raise was a true merit increase, for 23% it was a cost-of-living raise only and for 13% it was all the agency could afford or was willing to offer. In 86% of the cases, the salary increase was recommended by the same group that did the evaluation.

One out of every three CEOs received a bonus payment as a result of their most recent performance review. Of those who received bonuses, 61% received up to five percent of their base salary, 28% received six to ten percent and 11% received more than ten percent. About 70% of the respondents felt that bonuses should be paid to CEOs for outstanding performance even though it appears that only 33% of the organizations in fact offer a bonus arrangement. That bonus arrangements are a relatively recent phenomenon in human services is revealed in the number of years the CEO has been on the job. About 65% of the respondents who receive bonuses have been CEOs for less than 10 years, compared to only 35% who have been CEOs for more than 10 years.

D. The Relationship Between Basis and Process of Evaluation

It was instructive to observe findings which pointed to certain interrelationships among key variables. The variables that were identified included 1) whether a written understanding for conducting the CEO evaluation exists, 2) whether the CEO is asked to prepare documentation for his or her performance review, and 3) whether performance review criteria are stated in measurable terms. The following was observed:

- As the CEO, if you have a written understanding with the Board regarding your annual performance evaluation, you are 2.5 times more likely to be asked to provide documentation for the review.
- If you are asked to prepare documentation for your review, it is more than 2 times more likely that your performance evaluation criteria are stated in measurable terms.
- If your performance evaluation criteria are stated in measurable terms, you are 2 times more likely to receive a salary increase in excess of 5%.
- If you are asked to provide documentation for your review, you are 2 times more likely to receive a salary increase in excess of 5%.

In assessing the strength of the interrelationship among written understanding, preparation of documentation and measurable criteria, it was interesting to note that simply having a written understanding does not directly correlate to the CEO receiving a raise in excess of five percent. The data revealed that 59% of the CEOs who have a written understanding received a raise of five percent or more, but 65% of those who do not have a written understanding received five percent or more. Thus, it appears that the stronger correlation to the amount of raise received is with the preparation of documentation which is stated in measurable terms.

Of those respondents who received a raise in excess of five percent, 62% are earning a base annual salary in excess of \$100,000. In fact, there was some evidence of correlation: the higher the base annual salary, the more likely the CEO received a raise in excess of 5%. It was interesting to note that more women (71%) than men (54%) received a raise of 5% or greater. The percentage of women who had a written understanding, who prepared documentation and whose performance criteria are stated in measurable terms, all were higher or equal to the percentage of men on those variables.

Also, a slightly higher percentage of women received a bonus payment. This is particularly interesting since the survey revealed that the greater the organization's annual operating budget, the more likely the CEO receives a bonus. Women tend to be CEOs of smaller organizations. Of women CEOs responding, only 37% run organizations with an operating budget in excess of \$5 million, compared to 60% that are run by men.

#### Other Findings

- Whereas 6 out of 10 respondents with ten years or less CEO experience are asked to prepare documentation for their review, nearly 9 out of 10 CEOs with more than ten years are asked to do so.

- The larger the organization (based on annual operating budget), the more likely the CEO will have a written understanding regarding the conduct of his or her performance review.
- When the CEO's performance review is conducted by the Executive Committee, it is three times more likely that he or she will have a written understanding with the Board when compared to any other group who conducts the review.

### III. Conclusions

The survey results indicate the importance of the CEO having a written understanding with the Board about the conduct of his or her annual performance review. This was revealed in several ways. The respondent group strongly agreed that the Board should set performance criteria for the chief executive and they also strongly agreed that the stated goals of the organization and the performance goals of the CEO should be one and the same. These two observations create the basis for establishing a written agreement for performance review and it sets the stage for defining performance criteria in measurable terms, which is critical in conducting an objective evaluation of performance. While there is strong evidence to support this conclusion, CEO respondents still tend to believe that performance criteria should be more qualitative and less quantitative. Based on the finding of interrelationship among the variables of written understanding, preparation of documentation and measurable criteria, however, it seems to be in the best interests of

CEOs to push for more quantitative criteria, not less, given the variance in salary increases based on this variable.

The responsibility for carrying out CEO performance review seems best undertaken by the Executive Committee of the Board. Generally, it is this group of Board members who work more closely with the CEO and the survey information reveals that this committee is much more likely to have a written understanding and to stay on top of changes in the evaluation process. The full Board of Directors should ratify this understanding and put it into Board meeting minutes as well as any future changes to this process.

About 70% of the respondents agreed that bonuses should be paid for outstanding performance, but only 1/3 of the CEOs actually receive bonus payments. We conclude that many Boards of Directors have not sufficiently addressed this issue with their CEOs. Establishing a compensation arrangement requires diligent consideration of performance criteria, clear documentation and measurable criteria on which bonus amounts may be distributed. Here again, if CEOs strongly agree that their performance goals and the goals of the organization are one in the same, benchmarks for triggering incentive pay can be established by the Board with little difficulty. We suspect, however, that changing the attitudes of Board members about instituting an incentive compensation program is where the discussion will need to start. The source of funds for creating a bonus “pool”

will also need to be discussed given that many sources of revenue coming into the organization are likely to be restricted to specific programs and purposes.

Salary increases given to CEOs on the basis of true merit or outstanding performance occurred to 6 out of 10 of the respondents. For the others, we conclude that these CEOs have not worked out a good enough prior understanding about how goal accomplishment and compensation levels are related. Here again, the interrelationship among the variables of having a written understanding, providing documentation and having measurable criteria is important to understand if CEOs hope to attain satisfaction with their level of compensation.

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## About Kittleman & Associates, LLC

Since 1963 Kittleman & Associates has provided executive search and management consulting services exclusively to nonprofit organizations nationwide. It is the oldest firm of its kind in the country and its reputation for assisting volunteer Board of Directors/Search Committees in recruiting their chief executive officer or executive director is highly regarded. Headquartered in Chicago, all partners and search consultants associated with the firm have extensive nonprofit career experience in such areas as social services, healthcare, higher education and the arts. In addition to searches for CEOs, Kittleman & Associates is retained to recruit such positions as the chief financial officer, chief operating officer, chief development and communications officer and a variety of program management personnel. For thirty-five years Kittleman & Associates has stood by its one-year guarantee of placement of candidates and provides each client organization with periodic follow-up assistance during the transition of the successful candidate's employment.

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