

Evaluating Your CEO's Performance

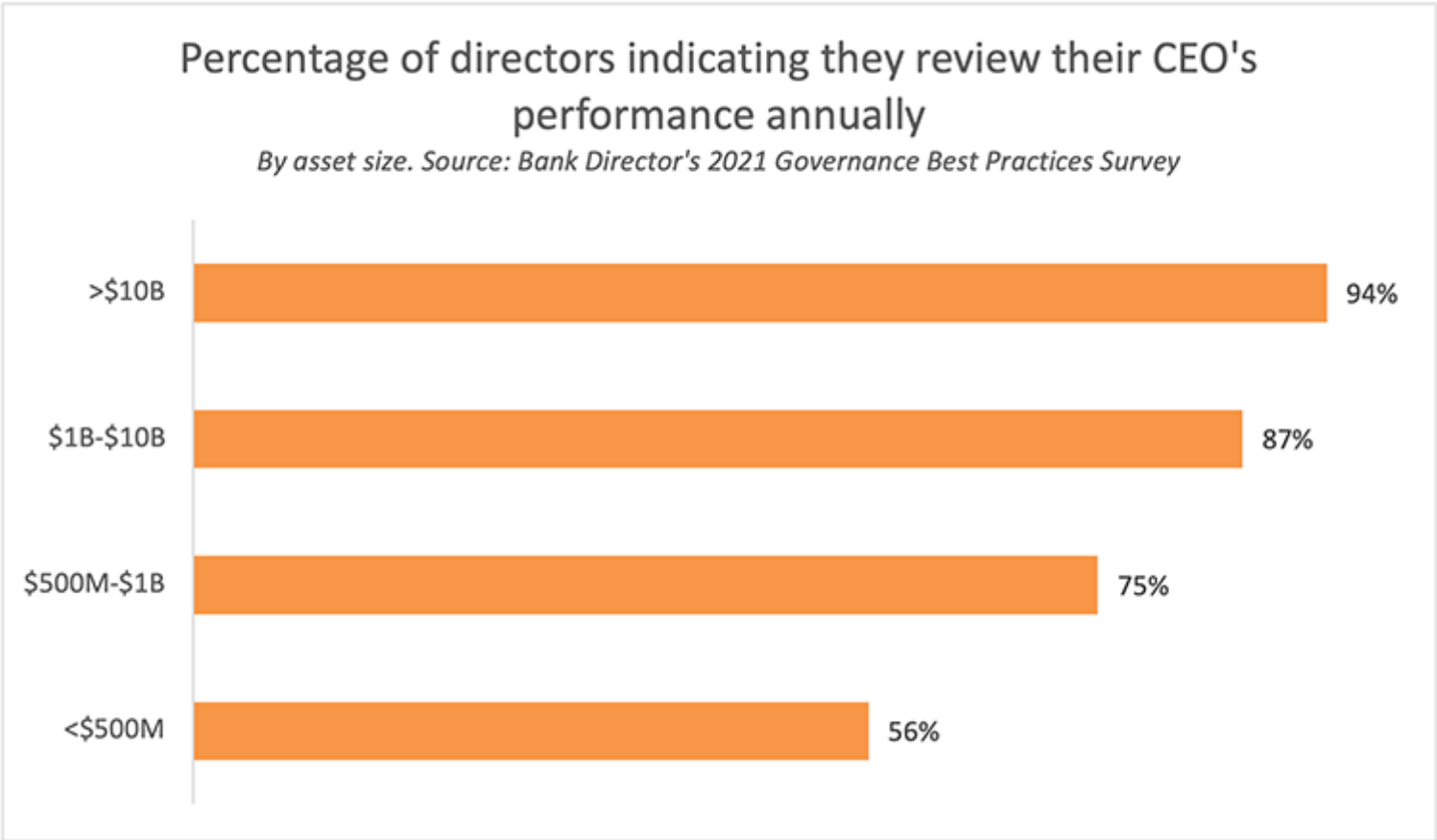
By: Jack Milligan, editor-at-large for Bank Director
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If a core responsibility of a bank board of directors is to hire a competent CEO to run the organization, shouldn't it also review that individual's performance?

In Bank Director's **2021 Governance Best Practices Survey** (<https://www.bankdirector.com/committees/governance/2021-governance-best-practices-survey-results-whos-driving-bank-strategy/>), **79% of responding board members said their CEOs' performance was reviewed annually.** However, 15% said their CEOs were not reviewed regularly, and 7% said the performance of their CEOs had been assessed in the past but not every year.

The practice is even less prevalent at banks with \$500 million in assets or less, where just 56% of the survey respondents said their CEOs were reviewed annually. Twenty-eight percent said they have not performed a CEO performance evaluation on a regular basis, while 16% said their boards have evaluated their CEO in the past but not every year.



Gary R. Bronstein, a partner at the law firm Kilpatrick Townsend, regularly counsels bank boards on a variety of issues including corporate governance. “It doesn’t surprise me, but it’s a problem because it should be 100%,” he says of the survey results. **“One of the most important responsibilities of a board is having a qualified CEO.** In fact, there may not be anything more important, but it’s certainly near the top of the list. So, without any type of evaluation of the CEO, how do you gauge how your CEO is doing?”

A CEO’s effectiveness can also change over time, and **an annual performance evaluation is a tool that boards can use to make sure their CEO is keeping pace with the growth of the organization.** “There are right leaders for right times, [and] there are right leaders for certain sizes,” says Alan Kaplan, CEO of the executive search and board advisory firm Kaplan Partners. “There are situations that sometimes call for a need to change a leader. So, how is the board to know if it has the right leader if it doesn’t do any kind of formal evaluation of that leader?”

One obvious gauge of a CEO’s effectiveness is the bank’s financial performance, and it’s a common practice for boards to provide their CEOs with an incentive compensation agreement that includes such common metrics as return on assets, return on equity and the growth of the bank’s earnings per share, tangible book value and balance sheet.

Bank Director’s [2021 Compensation Survey](https://www.bankdirector.com/committees/compensation/2021-compensation-survey-results-fighting-for-talent/) (<https://www.bankdirector.com/committees/compensation/2021-compensation-survey-results-fighting-for-talent/>) contains data on the metrics and information used by bank boards to examine CEO performance.

But just because a CEO hits all the targets in their incentive plan, and the board is satisfied with the bank’s financial performance, doesn’t mean that no further evaluation is necessary. **Delivering a satisfactory outcome for the bank’s shareholders may be the CEO’s primary responsibility, but it’s certainly not the only one.**

A comprehensive CEO evaluation should include qualitative as well as quantitative measurements. “There are a lot of different hats that a CEO wears,” says Bronstein. “It probably starts with strategy. Has the CEO developed a clear vision for the bank that has been communicated both internally and externally? Other qualitative factors that Bronstein identifies include leadership — **“Is the CEO leading the team, or is the CEO more passive and being led by others?”** — as well as their relationship with important outside constituencies like the institution’s regulators, and investors and analysts if the bank is publicly held.

Additional qualitative elements in a comprehensive CEO assessment, according to Kaplan, could include such things as **“development of a new team, hiring new people, opening up a new office [or starting] a new line of business.”** An especially high priority, according to Kaplan, is management succession. If the current CEO is nearing retirement, is there a succession process in place? Does the CEO support and actively participate in that? If this is a priority for the board, then including it in the CEO’s evaluation can emphasize its importance. “Grappling with succession in the C-suite and [for] the CEO when you have a group of senior people who are largely toward the end of their career should be a real high priority,” Kaplan says.

Ideally, a CEO evaluation should involve the entire board but be actively managed by a small group of directors. The process is often overseen by the board’s compensation committee since the outcome of the assessment will be a critical factor in determining the CEO’s compensation, although the board’s governance committee could also be assigned that task. Other expected participants include the board’s independent chair or, if the CEO is also chair, the lead director.

“I think it should be a tight group to share that feedback [with the CEO], but all the directors should provide input,” says Kaplan. Once that has been summarized, the chair of the compensation or governance committee, along with the board chair or lead director, would typically share the feedback with the CEO. “I think the board should be aware of what that feedback is, and it should be discussed in executive session by the full board without the CEO present,” Kaplan says. “But the delivery of that feedback should go to a small group, because no one wants a 10-on-one or 12-on-one feedback conversation.”

Another valuable element in a comprehensive assessment process is a CEO self-assessment. “I think it’s a good idea for the CEO to do a self-evaluation before the evaluation is done by a committee or the board,” says Bronstein. “I think that can provide very valuable input. If there is a discrepancy between what the board determines and what the self-evaluation determines, there ought to be a discussion about that.”

CEO self-assessments are probably done more frequently at larger banks, and a good example is Huntington Bancshares, a \$174 billion regional bank headquartered in Columbus, Ohio. In a [white paper](https://www.bankdirector.com/committees/governance/what-directors-think-about-diversity-independence-and-credible-challenge/) (<https://www.bankdirector.com/committees/governance/what-directors-think-about-diversity-independence-and-credible-challenge/>) that explored the results of Bank Director’s 2021 Governance Best Practices Survey in depth, David L. Porteous — the Huntington board’s lead director — described how Chairman and CEO Stephen Steinour prepares a self-evaluation for the board that examines how he performed against the bank’s strategic objectives for the year. “It’s one of the most detailed self-assessments I’ve ever seen, pages long, where he goes through and evaluates his goals, he evaluates the bank and how we did,” Porteous said.

Porteous also solicits feedback on Steinour’s performance from each board member, followed by an executive session of the board’s independent directors to consolidate its feedback. This is then shared with Steinour by Porteous and the chair of the board’s compensation committee.

Bronstein allows that not every CEO is willing to perform such a detailed self-assessment. **“If the CEO is confident about his or her position the board and with the company, they should feel comfortable to be open about themselves,” he says.**

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