10
THINGS
EVERY
BOARD MEMBER
NEEDS
TO KNOW

Evaluating the Executive Director

Your Role As a Board Member

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Mission

Our mission is to foster effective risk management practices and the overall development and advancement of nonprofits through unique, creative initiatives.

Ten Things Series for Nonprofit Boards

Welcome to this series of short briefing papers for nonprofit board members. Whether a seasoned leader or first-time trustee, there is a continual need to revisit the expectations and demands of the critical board member roles in steering, supporting and safeguarding nonprofit organizations. In this series, First Nonprofit Foundation has identified topics of particular interest to board members and will provide digests of time-tested wisdom, emerging thought, and the insights of highly experienced practitioners. We trust these papers will succeed in helping nonprofits to develop and advance. As always, we welcome your comments and suggestions.

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Organizational performance is synonymous with chief executive performance.[1]

—John Carver

John Carver, noted governance expert, put it succinctly more than twenty years ago: the organization's performance is synonymous with the chief executive's.

So it would seem simple, really: If the organization is doing well, the executive must be perfect. Problems in the organization? Must be an imperfect executive.

Life is never so simple. Organizations exist in complex environments that include the board itself, the staff, its customers, clients, donors, and other stakeholders; the organization's traditions, values, and history; its economic, social, competitive and regulatory environment; and on and on. The organization's executive serves a key role of carrying out the board's directives while balancing these numerous—and often conflicting—interests and pressures.

Still, the heart of Carver's pronouncement holds: the executive's job is to manage the board's abstract policies into concrete reality. If the board has directed astutely and the executive has managed shrewdly, the organization should perform well, given its challenges. Your job, as a board member, is to monitor that organization in such a way as to be sure the executive is delivering the goods. Moreover, your executive needs this monitoring. The executive can't do what you direct absent of feedback and direction.

Some boards neglect their duty of evaluating the director. They may fear conflict, be at a loss for the tools, or lack the tradition. All are poor, if common, reasons to avoid evaluation. That's too bad, because evaluation offers numerous benefits, including:

- Ensuring that the board is meeting its duty to actively lead the organization
- Monitoring whether organizational goals are being achieved
- Providing an opportunity to set new annual goals
- Maintaining a formal, documented, fair, and pragmatic process for providing feedback to the executive
- Helping the executive understand the board's perspective on his or her strengths and limitations
- Providing direction for specific improvements in skills and performance
- Providing documented processes that help the board retain, improve, or retire the executive, as well as justify changes in compensation and other matters of record
- Maintaining a process and documentation that can help protect the board if they let a chief executive go and the chief executive decides to sue the organization
- Helping board members examine the executive's accomplishments rather than personality
- Laying the foundation for an improved working relationship between board and executive
- Identifying opportunities, strengths, challenges, and strategic questions before they become troubling issues[2]

If your board is not currently evaluating the executive, you should know that across the sector, three-quarters of executives receive a formal, written evaluation from the board.[3]

The benefits are many, and, any discomfort aside, the board must evaluate its executive or it simply is not doing its job. The following steps will facilitate this task:

1. Set an executive evaluation policy
2. Set objectives and criteria
3. Choose monitoring sources
4. Choose an approach
5. Conduct an executive performance survey (Option A)
6. Monitor performance-to-plan (Option B)
7. Prepare a strengths and weaknesses evaluation (Option C)
8. Meet with the executive and document the review
9. Consider compensation
10. Avoid common problems

You will find specific advice about each of these steps below. However, the most important thing you should take away from this booklet is that the board should evaluate the executive at least annually—and it should be monitoring organizational performance (which is a reflection of executive performance) at every meeting. The specifics are less important than being sure that the evaluation is done in a timely and respectful manner.

1. Set an Executive Evaluation Policy

As with any employee, the provision of performance feedback should be ongoing. Nothing is more damaging than stockpiling mistakes to be flung at the director during a single session. Big surprises or "gotchas" delivered at a performance evaluation are sure sign that the board is doing a poor job of communicating with the director.

Your organization should have both a tradition and a policy of annual review of the executive, often connected to an annual review of the organization. For example, one organization's policy reads:

> *A formal in-person assessment of executive performance shall be carried out by the board of directors annually. The plan for the assessment will be developed in conjunction with the chief executive officer and submitted to the board for review and approval [at the] end of the fiscal year. Assessment criteria and standards will be specified prior to the appraisal. Findings will be given to the board and the chief executive prior to the evaluation session. The executive will have the opportunity to comment, respond, include other assessment information and suggest developmental ideas prior to and during the evaluation session.*[4]

In general, the goal of performance reviews is to recognize how well the individual is doing his or her job and to identify ways to improve. For the executive, the board should clearly identify performance expectations and standards relevant to the organization's performance, the executive job description, the annual work plan, the development plan set in the previous evaluation, and ongoing performance feedback given during previous board meetings.

Because the executive's performance is so closely associated with the performance of the organization, many boards choose to make the executive evaluation part of an annual cycle of broader organizational evaluation. This is very helpful, as the information on organizational performance likely includes very useful measurements. Further, most such evaluations lead to the establishment of next year's goals—which goals should be built into the plan for the coming year's executive evaluation.

2. Set Objectives

If your organization has never evaluated its director, you have some work ahead of you. It is unfair to judge an employee when you have not set objectives for the employee. Ensure that the board, as a group, has stated the organization's short- and long-term objectives with enough clarity that the executive—the board's employee—can reasonably be held accountable for accomplishing those objectives.

This booklet can't give a full account of a process for setting organizational objectives. However, there are several documents you should review when setting objectives (or determining what objectives may have been set) to which the executive will be held accountable:

- Last year's executive evaluation, including any developmental expectations
- The executive job description
- Board policies that set expectations and limitations for the executive
- The organization's annual plan (or, if no annual plan, then the strategic plan)

Previous evaluation

Providing the board conducted one, the previous year's executive performance evaluation most likely includes an action plan for the current year, with developmental goals for the executive. Include these in the evaluation; if not attended to, an excellent reason needs to be provided.

Job description

The executive job description should list major areas for which the executive is responsible. It's essential that the board review this in preparation for the job evaluation, especially if your board has never evaluated its director. These categories of responsibilities will also be helpful should the board choose to use a survey to gather information about the executive.

Board policies

Look to your policy documents for useful objectives upon which to evaluate the executive. These should specify, in some form, the major ends which the executive can be reasonably expected to accomplish. (Some of these ends are also reflected in the executive job description.) For example, some boards have adopted policies that express the mission, with subsections discussing the major priorities related to the mission. Or, boards may specify certain programmatic strategies, supported by short-term or annual goals that are core to the accomplishment of the mission. The board should hold the executive accountable for making reasonable progress towards these priorities.

Similarly, policy documents may set certain limitations on the executive. For example, the board may have a policy regarding finances that states the executive will not unreasonably risk organizational assets, including property, unnecessary liability, insufficient fund controls, or investing organizational surplus in insecure instruments. Or the board may have a policy limiting the executive from imprudent business practices, such as treating employees unfairly or choosing violating ethical standards relative to the organization's field of practice. With such policies in place, the board can hold accountable the executive who has failed to observe these limitations.

Annual plan

The final area to examine for objectives is the organization's annual work plan, or, if one does not exist, its strategic plan. These should clearly spell out goals for the organization relative to its practices. Examples might include establishment of a development office, generation of a surplus, reduction of a deficit, closing a certain program, establishing a beneficial new strategic alliance—whatever the board, executive, and staff have seen fit to establish. The executive is accountable for reasonable performance to achieve these goals within the timeframe established.

3. Choose Monitoring Sources

While the board is ultimately responsible for the executive evaluation, it may choose to consult with others to collect information. Some boards rely only on their own interactions with the executive when assessing performance. Others feel that relying on board perceptions is too narrow, and collect information from multiple sources. Since in most organizations board members interact primarily with the executive and rarely with staff, a failing executive has an easier time hiding problems from the board than from staff.

The choice of which information sources really varies with the board and its goals. Typical sources include:

- The executive's own written evaluation of his or her performance, outlining his or her accomplishments and concerns for the year.
- A compilation of the reports submitted to the board, either specifically in preparation for evaluation or throughout the year. (You may wish to use the "nonprofit dashboard" described in another *Ten Things* booklet, *Strong Partners: Building an Excellent Working Relationship between the Nonprofit Board and Its Chief Executive.*[5])

- Information collected from those staff who report directly to the executive (in larger organizations) or from the entire staff (in smaller organizations).
- Information from others with whom the executive interacts and whose perceptions impact organizational performance: clients or customers, funders, collaborating or partner organizations, volunteers, and even key members of the community.

Which of these sources you choose is also determined by the particular assessment approach you pick (see "Choose an Approach"). However, it is helpful if the executive is involved in selecting the sources.

The second aspect of this question is choosing who should conduct the annual review. This depends on the size and nature of the board. Most usual is for the board officers or a committee of the board to lead the evaluation process.[6] This group reports on the evaluation data to the entire board. The in-person performance evaluation, again, depends on the board size and the nature of the evaluation. (See "Meet with the executive and document the review.") In general, it is better to use seasoned board members with a deep knowledge of the organization.

Some organizations may use outside consultants to collect information or review executive performance. Keep in mind that evaluating the executive is like running an EKG on the heart of the organization: you will not get any closer to the pulse of the organization. If you use an external service, it should be as a contributing part of the overall effort. And, whether the in-person evaluation is presented by a committee, a board officer, or the entire board, the final evaluation must be the voice of the entire board. It is only as a single entity that the board has any power at all.

4. Choose an Approach

To some extent, you are always evaluating the executive director, via observation at formal and informal meetings, in conversations you have with other volunteers, donors, and stakeholders—basically, any time you hear something about the executive or the organization, you are making an assessment that reflects on the executive. However, such judgments are quite personal, subject to interpersonal chemistry, and resistant to hard data about organizational performance.[7]

Personal judgments should always be questioned and compared to data when possible, both by the individual who holds the opinion and by others on the board. Unaired and unexamined judgments—whether rosy or negative—readily morph into strong positions that can't be swayed by facts. Such positions prevent the board from guiding the executive objectively. Countless good executives have been fired and bad executives retained based solely on well-defended but woefully inaccurate personal perceptions. And that is bad for the organization.

By adopting a systematic approach to evaluation, your board can reduce the subjectivity of the information collected.

Boards usually choose from among three options when evaluating the executive.

- **Option A:** Assessment of performance via survey
- **Option B:** Assessment of "performance-to-plan" or organizational performance
- **Option C:** Assessment of executive's strengths and weaknesses

For clarity, we've separated these into three approaches. In reality, organizations often combine these options. In some cases, they will cast a very broad net, (sometimes called a "360-degree assessment"). They may review only the organization and interpret the results as a reflection of the director, or they may use the combined approach to review the executive director. At the conclusion of this booklet, we'll describe how one organization actually reviews its director—not as a model for you to follow, but as an illustration of what works in one organization.

Let's explore each of the options above with attention to their benefits and drawbacks. Points five, six, and seven below will explain how to conduct each approach.

Option A: Assessment of performance via survey

Surveys can help you gather performance information from a variety of sources. Typically, survey questions are geared to the categories established by in the executive job description, though they could also be tied to goals specified in an annual plan. Such areas might include finance, fundraising, community relations, human resources, program performance, planning, and governance. Surveys should be delivered only to the individuals and groups best able to provide feedback on executive performance—board members, staff, community members, other stakeholders—as noted in "Choose Monitoring Sources," above. Generally, respondents are asked to rank various categories on a five-point scale. Open-ended questions may also be included.

Surveys have several advantages. They can be automated via online survey tools such as Survey Monkey (www.surveymonkey.com). They can be sent via email to a broader range of respondents, often using the same software, which may also provide systems for compiling and analyzing the responses. They can assure anonymity for those responding to the survey—ensuring the executive's staff can respond more honestly.

Surveys can also be tailored for different groups. For example, community members might receive only questions about the CEO's representation of the organization to the community, while staff might receive a separate set of questions regarding internal communications.

The process of survey development forces the board to think through and specify criteria for evaluation, which the executive director can also see. Surveys can repeat certain long-term questions annually, enabling the board and executive to monitor changes over time. The survey assessment approach can also be helpful when an organization has not previously conducted an assessment and the board feels it needs the perceptions of others beyond the board.

But there are serious downsides. Unless questions are tested with a few people first and carefully worded, they may be easily misinterpreted. Hence, a poorly worded question can deliver useless or misleading results.[8] Surveys tend to weight all performance aspects similarly, so if the director does a great job on community relations and finances but has failed at an area the board thinks is very minor, the less important category can "drag down" the overall score. Surveys rely on perceptions, so that if objective data show that the executive director has met all the new business generation goals set by the board, but the individuals surveyed believe that the executive has not generated new business, the survey will show poor performance. Surveys are impersonal, as well. As the group delivering the survey, you have no opportunity to probe an individual's response. Similarly, the respondent can't ask you to clarify the question. Additionally, due to anonymity, open-ended feedback can sometimes be critical in a way that is vindictive instead of constructive.

Finally, survey data can make highly subjective responses appear as iron-clad judgments. Surveys usually report numeric ratings for performance. We are conditioned to think that numbers are more reliable and "scientific" than words. For physics and math and extremely scrupulous studies, that is the case. For any survey used to gather perceptions about an executive director, the numbers are simply helpful guidance. They are not facts.

Option B: Assessment of performance-to-plan

Performance-to-plan assessments realize the implications of John Carver's opening quote: Organizational performance is synonymous with chief executive performance. The approach in this case is that the board, with information from the executive and staff, sets organization-wide goals annually, consistent with the strategic plan and the policies it has developed. These are broad goals, achievable through a variety of means and through a coordination of the organization's activities. To the degree possible, measurable but realistic results are specified. For example, the goal might be to generate a three percent surplus at fiscal year end. Usually, the manner in which the measurable result is achieved is not specified (except as limited by policies—for example, achieving the surplus through risky investments or buying lottery tickets would be prohibited by most board policies). The executive is then evaluated based on the degree to which the objectives were actually met, bounded by situations outside the executive's control (for example, a surprise—a facility failure, natural disaster, or legislative change—that requires consuming the surplus the executive was so scrupulously building).

This approach has several advantages. It keeps the board in its all-important policy-setting role, and the executive in the policy-realization role. It keeps the board out of the micromanaging details, and frees the executive to focus on results delivery. Inother words, the focus is on making the organization succeed, per the board's direction. The approach also concentrates on measurable outcomes, which lessens the impact of subjective personal opinion, and potentially reduces conflict over strongly held positions.

This approach works well with a strong board and a confident, proven executive director; in such cases the measurable outcomes can yield dramatic growth and change. It works well with boards that are almost exclusively focused on governing (policy-setting).

There are disadvantages to this approach. It does not readily take into account broad environmental changes that may require a shift in priorities, particularly when the board does not recognize the changed situation and will not adjust policy measures accordingly. It does not lend itself to assessing less tangible aspects of management that lead to organizational success. Its focus on means (getting results) could also result in executive behavior that contradicts other important organizational values, if those values have not been expressly stated in board policies.

This approach, theoretically appealing, has real limits for many nonprofit organizations—small organizations with budgets less than $500,000.

First, resource restrictions limit the organization's capacity to collect and organize the data required for the "objective" monitoring described above.

Second, board members in these small organizations often do double duty. One moment they are directors who set policy and supervise the executive. The next moment, they are volunteer staff who greet new clients, stuff envelopes, or run the phone tree for the annual fundraiser. This is an inherent and unavoidable conflict of interest (though it is manageable). The board members are supervising the executive in their policy role, and doing the executive's bidding in their staff volunteer role. Holding the executive fully responsible for the delivery of service is acceptable when the executive can fire the employee or volunteer at will. But when that service is actually being provided by a board member who is one of the executive's supervisors, there's an obvious problem. How does the executive reprimand a board member who influences the rest of the board—who is one of his bosses? No matter how scrupulous board members are about this dual role, the conflict exists.

This situation—resource restrictions and inherent conflict of interest—is less than ideal, but it is a fact of life for many nonprofits. Such organizations can benefit from the discipline of the performance-to-plan model, but they must be aware of their reporting (monitoring) restraints and the situation wherein board members double as service volunteers. With regards to the reporting restraints, boards have to take care not to demand reports the organization doesn't have the resources (financial or time) to deliver. And with regards to their dual roles, wise boards and executive directors simply need to do their best to manage the complex situation.

Option C: Assessment of executive's strengths and weaknesses

In the strengths and weaknesses approach, the executive and board list and discuss the executive's strengths and weaknesses. They then focus on action plans for building on the strengths and addressing the weaknesses. In a typical strength and weakness review, the board will look at the job description, annual plan, and previous year's professional development goals. It may provide a rating for activities within each of these categories.

Option C is the most subjective and the least formulaic of the three approaches described in this briefing booklet. It is advantageous when the board has a more intimate relationship with the executive, and when the board prefers the comfort of a somewhat informal, qualitative discussion with the director. In general, there is a "gentle" feel to the approach; the board takes on a role similar to that of a supervisor who provides coaching to help the employee reach top performance. Boards can talk with the executive in the broad context of how the organization is doing and how the executive should tweak his management style to serve the needs of the organization.

Organizations with longtime executive directors known for some essential and difficult-to-replace strengths can use the "weaknesses" portion of the review to seek, with the director, ways to compensate for those weaknesses that don't ask the director to "fix" performances areas that are unfixable or not worth the executive's time. In this way, the strength/weaknesses approach facilitates discussion about what the organization needs, what the executive director can do best, and how to match needs with strengths. Personal though it is, the strengths/weaknesses model helps board and executive discuss performance in the context of the organization, its environment, the board, and the executive's specific skill set.[9]

The highly subjective nature of this approach can be considered one of its drawbacks. It also may be more difficult to connect this approach to organizational performance, as it tends to look more at skills and professional performance than at the degree to which the executive is managing the organization to produce the results the board desires. It can be very easy explain away performance problems that are genuinely hindering the organization. In organizations with a charismatic, powerful leader and a weak board, years of poor performance can be ignored until the problems threaten the entire organization. Even when the board and executive are honest about weaknesses, it can be difficult to decide when too many changes are required to account for natural weaknesses.

Ultimately, the board is not the executive's coach. Its job is to set policy and direction for the organization, and to hold the executive accountable for accomplishing its directions. While an attractive and comfortable approach, the strength/weakness approach should be used carefully.

Some boards of directors combine performance reviews with a review of the entire organization, using a "360-degree assessment" which takes in the perceptions from multiple stakeholders and may also include reports such as those provided by the nonprofit dashboard. This format has been borrowed from the for-profit world. It often uses survey tools, such as in Option A, with a goal to gather data from all stakeholders on the organization's performance. The 360-degree assessment holds the executive directly accountable for the organization's performance, as in Option B.

The benefit of this type of assessment is that it properly builds context for the chief executive's performance: the board sees how the executive is doing as a part of how the organization is doing as whole. It is especially helpful for board members who don't fully understand the challenges facing their executive.

However, boards need to be careful not to overweight the perceptions of other stakeholders. External stakeholders are in the position of the proverbial blind men and the elephant. They see only the very small part of the organization that they interact with—and hence may give unfairly glowing or negative reviews as a result. A client who sat too long on one isolated, bad day in a waiting room is going to give an angry review, while one whose family was rescued from disaster will be unfailingly loyal to the organization, and perhaps the executive, for life. Since one can never know the mood of a respondent in an anonymous survey, attend to comments but don't take them as gospel.

None of these approaches are ideal, and governance experts disagree about their use. Some governance experts (notably Carver) advocate for monitoring the organization only, and evaluating the executive according to the organization's performance. Others advocate for the replacement of all of these approaches with year-round communications that focuses on the entire system, of which the executive director's actions is just one part.[10]

However, all experts would agree that boards are failing in their duty if they do not regularly assess the executive director's performance. If your board has not yet established a regular system to evaluate the director, begin immediately; pick the approach that's most likely to get you started rather than the one you think is "best." If your board has long experience with evaluations, compare the approach you currently use with the three described above and consider whether changes would be in order.

Regardless of whether you choose one or a combination of these approaches or some alternate approach, your board must focus on being sure to evaluate at least annually, on setting careful objectives for the executive, and on providing continuous honest feedback.

5. Option A: Conduct an Executive Performance Survey

Surveys typically look at the aspects of executive performance most important to the board. Survey questions could be derived from the items in the executive director's job description, from goals set in the previous year, or both. The decision of what to survey should involve both the board and the executive, who will most likely have specific issues he or she wants to probe for deeper feedback.

Organizations that gather responses from a variety of audiences may tailor questions for each audience. For example, board members receive one version—perhaps the most thorough—that focuses on all the areas that the board needs to assess. Meanwhile, if community relations is important to the organization, a separate brief survey goes to community members, focusing on the executive's interaction with the community. If the work of the organization involves participation in advocacy coalitions, another survey might collect opinions from coalition members about the executive's work in the coalition, testimony at the legislature, and so forth.

When monitoring performance relative to the job description, collect information related to the categories expressed in that description. Typical performance areas include:

- Administrative management (including staff management)
- Professional skills, problem solving, and decision-making
- Business development
- General leadership
- Community and public relations
- Board relations
- Planning, finance, budgeting
- Fundraising
- Compliance with policies
- Risk management

Questions relative to these areas might include:

- (For board relations) How satisfied are you with the executive director's provision of timely information to the board?
- (For policy compliance) How satisfied are you with the director's performance in ensuring that the organization complies with new HIPPA regulations?
- (For business development) How satisfied are you with the new early childhood reading program acquired by the executive director?

If the board intends to use the same questionnaire over time, with an executive who likely will have long-term tenure or with a job description that is stable even as executives change, the repetition of certain questions over several years carries the added benefit of providing a longitudinal look at executive performance.

When monitoring performance relative to annual objectives, the survey should include those subjective areas that can't be demonstrated via internal reports. For example, if the annual plan includes an objective such as "improved community outreach," the survey should collect perceptions of those who witnessed the outreach. When the annual plan includes an objective visible via report, such as generating surplus revenue of three percent or better, than there's no need to waste valuable survey space (and respondent time) by asking such a question.

With such surveys, a six-point scale is effective. Typically, these scales are some variation on:

5. Outstanding
4. Significantly exceeds expectations
3. Meets expectations
2. Needs improvement
1. Unsatisfactory

N/A Not applicable/Don't know

Surveys can also include open-ended questions. For example, you might ask:

- What were the executive director's most compelling, significant, or beneficial accomplishments in the past year?
- In what specific ways might the executive improve her performance?
- Any other comments?

Keep in mind that audiences have limited interest and time to fill out surveys. Board members may want to collect information on thirty items, but a community member may not respond to more than five questions, and a busy staff member may have time for fifteen. And remember, someone (likely someone on the board) is going to have to compile and analyze the responses for the board. Don't ask for more information than you have time to compile, analyze, and use.

Surveys tend to assign the same level of importance to every question. The board may need to know that the executive is performing adequately relative to risk management, but their concern about the executive's planning and decision-making responsibilities is much greater. To deal with this, some boards attach a "weighting" factor as it computes the relative value of each answer. If a particular item accounts for only five percent of the executive's time and the board's priority, while another area gets 30 percent, weight them accordingly.

A related issue is that people interpret scales differently. Some are tough graders, some are easy graders, and some will vary their application of the scale as they proceed through the questions. The discrepancies in "grading" can be reduced by increasing the number of people surveyed.

Another issue is that wordy survey questions are easy to misconstrue. For example, one survey available online asks the respondent to respond "remarkable, satisfactory, unsatisfactory, or unknown" to the following question:

> "[The executive] serves as an effective spokesperson for the agency; represents the programs and points of view of the organization to agencies, organizations, and the general public."[11]

This survey question really combines two questions into one: a) a question about whether the executive was an "effective spokesperson"; and b) a question about whether the executive represented the organization to "agencies, organizations, and the general public." Some respondents will interpret the question as a general inquiry about the executive's qualities as a spokesperson. Others will break the questions into its components, which renders it all but unanswerable. For example, how do you respond if the executive was effective with the general public but ineffective with agencies? For this reason, structure your survey to ensure that you ask only one question in each survey item. Use fewer words, not more, to ask your question. If an example is necessary, add an example—after the question—as a point of clarification. With this in mind, the above question might have been better worded, "How effective is the executive as a public spokesperson for the organization?"

Since you won't be there to explain what you mean by a question, check your questions with a few people to be sure your question are clear and elicit useful responses.

There are links below to some helpful online survey templates. None are perfect—and some contain good examples of questions that combine too many elements—but they can help you see how a survey can be structured. Use the online template samples to develop your own surveys that incorporate areas your board is most concerned about.

> This survey, form the Minnesota Council of Nonprofits, is perhaps one of the most thorough: http://www.mncn.org/info/template_hr.htm#Sample%20Executive%20Director%20Evaluation%20Form.

Carter McNamara's well known nonprofit site, ManagementHelp.Org, provides a basic but helpful starting template. It can be viewed at: www.managementhelp.org/boards/edvalfrm.htm

The Board Café, a free online newsletter for boards at www.boardcafe.org,, offers a third template: http://www.compasspoint.org/boardcafe/details.php?id=74

There are many other sample surveys available; a simple search of the Internet will get you there.

6. Option B: Monitor Performance-to-Plan

As noted, the board must have a plan, with specific, hopefully quantifiable results if it is to use the performance-to-plan approach. The details of every plan change year to year. Unlike the categories addressed in surveys, plan categories tend to be about specifics such as performance to budget, development of new programs, increases in revenue, number of public speaking events, and so forth. Annual plans are about the organization rather than the executive. And when written with care, the plans are about results, not activity. So, a plan may specify that 1,000 school children will receive training in the organization's area of expertise. The executive is measured on the degree to which the organization actually accomplishes or exceeds that result.

An evaluation on performance-to-plan may use a simple form such as in the following partial example, which also rates the performance.[12]

Results Specified	Performance Result	Rating	Notes
Generate a three percent surplus at fiscal year end	No surplus generated, but see notes.	Acceptable	Court-ordered change in regulation required immediate hire of two new staff, as approved by board. Board informed that the choice would result in negative-to-break even budget for the fiscal year.
Raise $50,000 in unrestricted funds	$77,800 raised	Exceeds goal	New e-advocacy system expanded donor base
Train 1,000 school children in local school district	1,222 children trained	Exceeds goal	Initial follow-up with teachers shows improved organizational skills.
Lobby executive branch for regulatory changes to early education eligibility	No action taken	Failed goal	Executive states that she redirected staff activity given other priorities and time constraints. Board regrets shift and expects action.
Formalize HR processes; hire HR director per budget	HR director hired; Policy manual rewritten; Continuous improvement program instituted	Exceeds goal	Salary approved by board proved too low. Variance approved. New HR director is aggressively moving goals forward.

As with the survey option, various components in the plan may be weighted differently. In the example above, the executive did not cause the organization to perform one of the tasks. The executive director may have been negligent, or may have made a calculated assessment that other priorities were more valuable. In discussion, the board expressed the importance of this priority and notes that it expects action.

7.

Option C: Prepare a Strengths and Weaknesses Evaluation

A strengths and weaknesses evaluation can begin with the job description for the executive, but isn't limited to that. The partial example below, for a younger organization with an entrepreneurial leader shows how a chart can be used that shows the responsibilities, strengths, weaknesses, and responsibilities for each, and additional categories may be added.[13]

Responsibility	Strength	Weakness	Action Plan
External relations: Communicates organizational mission, vision, and programs to constituents, other publics as needed	A real strength. Excellent presenter. Quickly develops rapport with constituents, regardless of background; seen as "friend" in the community.	Could be better at remembering factual and statistical details related to programs and clients.	Develop method to capture annual stats on our programs and include in presentations. Combine numbers with moving anecdotes.
Resource development: Develops fundraising strategies; ensures that adequate funds are available for programs and goals	Excellent at talking with donors and prospects. Fundraising goals have been met.	Follow up on foundation grants is inconsistent. Keeps donor and prospect data "in his head."	Develop plan to systematize development; develop budget to hire development director and submit to board.
Board relationships: Models effective working relationships with board members; delivers reports as required by board	Warm, easy working relationship with all board members.	Requested reports delayed or incomplete.	Executive notes that there is not enough time or staff to develop the reports the board requires. Work with board member Amy W. to develop a plan for improved reporting.
(Other categories as needed)			

Additional objectives

- Improve follow through on board requests for information
- Develop organization policies manual
- Systematize staff supervision—ensure that performance reports are provided for all employees on time
- Develop regular e-news communications

Board role in achieving objectives

- Board member Niki B. will work with accountant to develop reporting template
- Board member Charles S. will assist on the formalization of personnel policies and the creation of a manual and the development of an annual performance review mechanism
- Board member Darnell W. will create a template and schedule for an e-newsletter

8. Meet with the Executive and Document the Review

An effective evaluation focuses the board members' individual perceptions and expectations. If the evaluation also includes perceptions from staff, the community, or other stakeholders, these also must be compiled. The board only has power as a body, and it must come to agreement on the overall thrust of the evaluation before the performance appraisal meeting. The evaluation is not a time for board members to air personal differences. The board should plan on a discussion prior to meeting with the executive, during which members agree to a common set of performance criteria and bring forth any unspoken expectations, concerns, and praise for the executive. The individual or group charged with compiling and summarizing the results of external data collection and organizational reports should have these documents fully prepared before the meeting, so that all can see the actual data.

The review meeting

Once the board has prepared its overall expectations and review, it's time to meet with the executive. Some boards have the board chair alone conduct the actual review. Others use the executive committee, the personnel committee, or the full board. Larger boards can have difficulty reaching consensus, and, if not managed well, can appear to "gang up" on the executive director. At the same time, the board has to decide if it is comfortable leaving the actual evaluation to a sole member or a representative committee.

Evaluation meetings can be uncomfortable. The data collection, the executive's own participation in the development of the review process and questionnaires, and the board's pre-review meeting should help to diminish the discomfort. Set the meeting at a time (and place) that eliminates outside distractions; you want every participant's full attention. So, this is not a dinner meeting, and if it is held during work hours, other staff must not be able to interrupt. Arrange the room to encourage discussion and opinions. If at all possible, don't put the executive on one side of the table and the review group on the other. And, when a group is conducting the in-person evaluation, have a point person who is responsible for keeping communications on track and healthy. Charge this person with ensuring that everyone, including the executive director, speaks.

Start the meeting by emphasizing accomplishments and strengths, using specific examples from the reports and information you've collected. Build on the strengths and then move to the areas of concern. Discuss these with diplomacy, but be specific about what needs improvement and which goals were not met. Allow ample room for discussion of whether goals or responsibilities were unrealistic, not specific enough, were inadequately funded as a result of board action, and when the executive director did not have the requisite knowledge or skill to deliver the result.

For unmet goals, the board will need to decide whether to move them to the next plan, or whether circumstances have changed so that the goal is no longer relevant. New goals for the next performance period can also be discussed during this meeting. Speak in terms of the results required, and ask the executive director to develop a plan and budget to meet the goal. Be sure that all goals are actually items the executive director can be expected to deliver, given the resources available and current environment. Don't demand more than can be reasonably expected.

Documenting the review

After the evaluation is complete, a board member should write it up as a formal report. This report should include:

- The accomplishments during the period and the documentation for those
- Ratings (if a survey or rated approach was used)
- A list of unmet goals (if any) and explanations
- Next year's goals (noting if they are from the organization's annual plan, discussions during the performance review, or both)
- Dates for any required follow-up with the executive director
- A list of professional development needs and opportunities, along with how the board will support the development through budget and other resources

The executive should sign and date the report, noting that he or she has read and understood the contents. The written report also needs room for the executive director to respond in writing. Those who participated in the in-person assessment need to sign the review. A summary should be delivered to the full board (if all were not present), and the report should be filed in the executive director's personnel file.

9. Consider Compensation

There is no easy way to assign monetary value to a person's performance—especially in the nonprofit world, where mission is so critical and people are often afraid to talk about money.

Experts are divided on whether to connect compensation discussions to the performance review. Some argue that parties won't talk openly about strengths and weaknesses when the discussion influences salary. Thus, compensation negotiations and performance assessment should be separate. This argument is nice in theory, but it dismisses the reality that compensation is an expression of value delivered; separating the discussions may be artificial.

Some argue that compensation drives behavior, and so performance should be directly linked to it. In this view, people should be paid for the value they deliver, and should be rewarded more handsomely for delivering greater value. However, that argument also has weaknesses. People derive rewards from a variety of sources, of which money is only one. The "value exchange" between employer (board) and employee (executive) is complex. Executives work for a compote of emotional rewards, altruism, relationships, prestige, challenge, money, and much more. Skew one of the ingredients too much, and the flavor no longer pleases. (A poorly conducted evaluation, or badly framed critiques can certainly upset the recipe.)

Whether or not performance evaluation and compensation are linked, the amount the board pays the executive does ultimately make a statement about the value it places on his or her performance. Chief executive salary also announces the competitive position the board wants the organization to hold in the nonprofit marketplace.

This booklet offers no recommendation on which approach is better—we only point out the advantages and disadvantages of each. That said, compensation is likely to come up some time near the performance review. The following tips will help you consider an appropriate value.

- Research the compensation of executive directors for similar organizations in your region. You can look to comparisons based on size, budget, field of practice, and background expectations of the CEO. You can make direct calls to your peers on the boards of other organizations; review their form 990s (using Guide-star.org), use reports provided by your state nonprofit association, and reports provided by professional salary review groups. If yours is a small organization with limited funds, a larger peer in the community may be willing to share their data.

- Consider the position of your organization in the marketplace. Who do you compete with? What do they pay their executives? How do you want to appear relative to those organizations?
- Consider the performance of your executive director relative to those of his or her peers.
- Consider the cost of retaining your current executive and of hiring a replacement. What would you need to pay to get the executive you want?
- Consider internal equity. How does the executive's salary, and the means by which it is set, compare to other salaries in the organization?
- Avoid undue persuasion by the chief executive—and avoid the perception of such persuasion. In salary negotiations, the board needs to have done its research separate from that of the executive. The board or its designee should research and supply comparative figures. If a firm is hired to do the research, that firm should report to the board, not the executive director.
- Remember, it's not just salary—it's a compensation package. Sabbaticals, time off, retirement planning, paid education, and so forth are all part of the picture.
- It's about the budget, too. No matter how much you feel your executive is worth, compensation has to be justifiable within a sound financial policy.
- Public perception is important. Donors who sense that a CEO is exorbitantly paid may choose to move their loyalties elsewhere. Underpayment also sends messages (true or not) about the financial state of the organization, its quality, and its concern for employee wellbeing.
- If you tie compensation incentives directly to performance, identify both the incentives and the criteria for measuring successful attainment of goals many months ahead of the evaluation. Take care that the total compensation (including incentives) does not grow beyond the marketplace.
- Remember that the IRS is watching. Excessive compensation can result in the loss of tax-exempt status.
- Be sure that the entire board has discussed and approved the compensation package.[14]

10. Avoid Common Problems[15]

Boards run into predictable problems related to evaluation. Check the following list to prepare for and avoid these.

- **Procrastination.** The board delays the evaluation for a meeting, then another, and then another…
- **Accentuating only the negative.** The board focuses only on problems, neglecting the executive's accomplishments.

- **Accentuating only the positive.** Fearing conflict, board members sugarcoat their concerns, and add a creamy nougat filling of vague praise for good measure. The executive never hears board concerns directly. Thus, he or she can't modify performance—or correct members' misperceptions.
- **Banking concerns for the big date.** The board stores its concerns for months, then vents them all on the executive during the review.
- **Reviewing personality, not performance.** Both matter, but personality matters when it influences the organization's accomplishments. You don't have to like the executive—you have to value the results he or she achieves through careful management of the organization.
- **Failing to debrief.** After each evaluation, the board should consider what worked and what didn't, including the executive director's frank appraisal of the process. Plan immediately for changes that will have an impact on the next evaluation cycle.
- **Forgetting the executive director's context.** The board may set plans and priorities, but absent input from staff, these plans and priorities can quickly overwhelm the executive director with demands. Remember, the executive director is also serving staff, volunteers, and other constituents.
- **Emphasizing the wrong outcomes.** The board focuses on performance-to-plan, but it has picked the wrong measures of success. Or, it attaches too much weight to performance measures that bring little benefit to the organization. The executive, closer to the work, chooses other outcomes more likely to bring success, and is judged a poor performer—for "failing" to do the wrong things!
- **Choosing the wrong assessment approach.** The board adopts someone else's evaluation system, chooses a boilerplate form off the Internet, doesn't get input on what to evaluate from the executive, follows outside guidance uncritically, or otherwise doesn't diligently prepare to assess its executive.
- **Ignoring situational changes during the year.** The board may have carefully set measurement criteria in the previous year. But a lot can change in a year—and the executive has to make adjustments, sometimes on the fly. While the executive director should be informing the board of such adjustments, the board's rigid adherence to criteria that no longer fit only sends the message that the executive should focus on the board's directives at the expense of organizational effectiveness. It's also a cue that the board's directives may be too narrow and inflexible.
- **Delaying feedback.** The executive director needs to hear board feedback when the board has it. The formal evaluation should be a place to sum and enrich the feedback that has gone on throughout the year.
- **Neglecting to evaluate itself.** The board comes down hard on the director but ignores its own problems and the role those may play in hindering the executive. Since it doesn't take time to evaluate its own performance, its judgment of the executive can be fairly questioned.

Wrapping it up

Here is how the process played out in one organization; we've changed the name of the organization to protect confidentiality. The organization, FZT, is an environmental advocacy group with a staff of thirteen and an annual budget just under two million dollars. The executive has been with the organization for many years and is well-respected as an effective manager and a community leader. As you read the brief description, note how it actually combines the methods we've described in this booklet.

> *At FZT, the board chair conducts the evaluation of the executive director. The executive director fills out a self-evaluation form that contains goals from the previous year's evaluation. The goals are a combination of organizational performance and individual improvement goals. The chair then contacts a range of other board members and some staff to discuss the executive's performance. At their option they may also contact organizational partners, colleagues, or stakeholders who may have some special experience or perspective on the executive director's performance that year. The entire board is encouraged to contact the chair if they have anything they'd like to add.*
>
> *The chair then fills out the supervisor's portion of the evaluation and meets with the executive to review it. During that meeting goals and objectives are identified for the following year and salary is negotiated on a preliminary basis.*
>
> *The evaluation is then presented to the full board in closed session and the salary negotiation is ratified or amended.*

This booklet has covered a lot of ground. You've learned what to consider when planning to assess the director, the pros and cons of various approaches, how to conduct three different types of evaluation, how to hold and document the evaluation meeting, what to think about when compensating the executive, and typical problems to avoid.

If there is only one thing you take away, it is that your board must systematically provide formal feedback of some sort to the executive. To a large degree, the performance of your executive director and the performance of the organization are one in the same. The executive needs your input to deliver the policies, priorities, and plans you have set.

Done well, the performance evaluation is a powerful dialog that helps executive and board move closer to their shared goal—turning the organization's vision into reality.

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Endnotes

[1] Carver, John. "Monitoring: Relaxing about the Present…So We Can Get on with the Future!," Carmel, Indiana: Carver Governance Design, Inc., monograph, 1989. p.5.

[2] Adapted from McNamara, Carter, "Executive Evaluation," www.managementhelp.org/boards/evalchef.htm#anchor894354 and from "Board Development: Evaluating Your Executive Director's Performance," www.wildrosefoundation.ca/bdp/bulletins/EvalEDNw.pdf, 2001.

[3] BoardSource, Nonprofit Governance Index 2007. Washington, D.C.: BoardSource, 2007, p 18.

[4] Adapted from The Nonprofit Board Book: Strategies for Organizational Success. Anthes, Earl, et al. West Memphis, AK: Independent Community Consultants, 1983. page 113.

[5] See page 11 of Strong Partners for a sample "dashboard."

[6] Occasionally, the chief executive is also a member of the board. Clearly, in these cases the executive director needs to recuse himself or herself from the evaluation process (and compensation, if it is part of the discussion).

[7] It should be noted that some board consultants advise basing the evaluation of the executive only on data collected through monitoring activities that are reported according to the policy demands of the board. Others recommend collecting a broad base of opinions.

[8] A typical problem—one that shows up in numerous survey questionnaires – is the inclusion of more than one item in a question. Consider, for example, the question on "How satisfied are you that the executive director has developed appropriate goals and strategies to advance the vision and mission?" The question contains four evaluative items that could exist in 24 combinations: goals, strategies vision, and mission. A thoughtful respondent cannot answer this question honestly. And a thoughtful board can't really use the information. Better would be to ask one question about each item, or to ask a single, more general question, "How satisfied are you that the executive director has advanced the cause of the organization?"

[9] Writers on leadership—notably Peter Drucker—have advised that it is better to spend time playing to strengths than to focus on repairing weaknesses.

[10] Temkin, Terrie, "Evaluating the Executive Director: Part 2 – Making Executive Director Evaluations Effective," http://www.uwkc.org/nonprofit/governance/edeval/Evaluating%20the%20Executive%20Director%20Part%202.pdf

[11] "Annual Evaluation of the Executive Director" by Board Café referenced at http://www.uwkc.org/nonprofit/governance/edeval/Annual%20Evaluation%20of%20the%20Executive%20Director.pdf

[12] Adapted from Masaoka, Jan. The Best of the Board Café: Hands-on Solutions for Nonprofit Boards. St. Paul, MN: Fieldstone Alliance Inc., 2003, p 61.

[13] Ibid, p 62.

[14] Portions of this list adapted from Vogel, Brian, and Charles Quatt. "Determining Executive Compensation," Washington, DC: National Center for Nonprofit Boards, 1995. http://www.tgci.com/magazine/Determining%20Executive%20Compensation.pdf.

[15] Some tips are adapted from Temkin, Terrie, "Evaluating The Executive Director: Part 1–Why Evaluations of the Executive Director Don't Work," October, 2002. Available at http://www.uwkc.org/nonprofit/governance/edeval/Evaluating%20the%20Executive%20Director%20Part%201.pdf

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