CEO Evaluation Process in Nebraska Agricultural Cooperatives

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One of the most challenging functions of a cooperative's board of directors is evaluating the CEO's performance. Directors, who devote only part of their service to CEO evaluation, face the challenge of assessing full-time CEO effort. Careful thought to the CEO evaluation process design can complement a board's forward-looking nature. Boards should invest in evaluation processes that make realistic assessments of CEO contributions to the cooperative's value.

This document describes CEO evaluation practices among Nebraska agricultural cooperatives today. Statistics are from a poll of Nebraska cooperative CEOs conducted in Fall 2018. Fourteen responses were received.

CEO Evaluations Should be Forward-looking

CEO evaluations are a valuable contribution when built around assessing progress toward goals promoting member wellbeing. Boards are forward-looking when evaluations of CEO efforts are related to shaping strategy, reviewing the competitive landscape, and developing risk management, among other areas. Nebraska agricultural cooperative CEOs were asked to indicate how strongly they agree that current CEO evaluation processes facilitate the forward-looking nature of a board of directors. The average response was 5.1 (somewhat agree), on a scale of 1 (strongly disagree) to 7 (strongly agree), with approximately 79 percent of respondents expressing some form of agreement.

Typical Evaluation Process

A good evaluation process gets to the bottom of how CEOs contribute to the cooperative's value during the year. Directors may participate in a number of CEO assessment activities. Among these are verbal interviews between all, or some, directors and CEO; a written CEO performance evaluation completed by all, or some, directors; a written self-evaluation completed by the CEO; and performance discussions with outside consultants. Boards, ideally, collect objective and subjective information about CEO efforts prior to these activities.

CEOs reported what activities typically occur during their evaluations. The most reported activity was that the entire board completes a written CEO evaluation (10 of 14 responses). Verbal interviews between the entire board (9 of 14 responses), or a portion of the board (5 of 14 responses), occur. A self-evaluation by CEOs was uncommon (2 of 14 responses). No consultants were used and no other activities were reported. The most common combination of activities was an interview between the entire board and

CEO in conjunction with a written evaluation of the CEO by the entire board (6 of 14 responses). Two cases were reported where an interview between a portion, and then full, board and CEO occur.

Performance Standards

Boards and CEOs should make transparent their expectations of performance standards. Job descriptions and strategic plans are sources of statements for what CEOs should focus on. Boards should take time to observe CEO contributions in each key performance area.

CEOs reported whether annual evaluations assess their managerial strengths. They indicated evaluations do assess their strengths (86 percent). When asked whether the evaluation process clarifies what the CEO is doing well, the average response was 6.1 (agree) on a 1 (strongly disagree) to 7 (strongly agree) scale. CEOs reported a variety of standards used to make these assessments, including fiscal results and subjective assessments of CEO strengths, effectiveness, communications, entrepreneurship, leadership, conflict management, planning, delegation, and decision making. These comments indicate both objective and subjective measures are used to form performance standards. At least in the case of subjective standards, the absence of clarity in expectations can be a source of frustration for CEOs, an experience indicated by a handful of comments in poll responses.

CEOs reported annual evaluations assess managerial performance gaps. Ten (of 14) respondents agreed annual evaluations facilitate discussion of gaps between expectations and performance. This is related to whether goals, especially financial metrics, were attained; gaps are also detected through subjective measures of performance, such as a scale of “below” to “far exceeds” expectations; informal discussions about how boards arrived at the indicated assessments or what they believe can be improved are also held.

Assessments of managerial performance gaps, however, do not necessarily translate into CEO professional development goals. Five (of 14) respondents agreed the evaluation process identifies priorities for CEO professional development. When asked how strongly CEOs agree with the statement that evaluations are important for professional growth, the average response was 4.9 (somewhat agree) on a 1 (strongly disagree) to 7 (strongly agree) scale. Respondents indicated there is some boardroom conversation about this topic, but at least one respondent indicated boards are challenged when identifying specific professional development goals and often leave this to CEO discretion.

Matching Performance with Compensation

Compensation rewards CEOs for their contribution to a cooperative’s value. External audits and annual evaluations are two sources of information to justify a CEO compensation philosophy. CEOs were asked whether evaluation processes and whether external audits were linked with compensation modifications. In both cases, 9 (of 14) CEOs agreed these were linked. CEOs reported specific compensation changes related to the evaluation process, including bonus payments or other methods beside changes in base pay. Information from audits was described as being linked to financial metrics or as an input to subjective evaluations made by the board.

Planning Ahead

Boards exercise judgement when assessing CEO performance. Boards may assess their level of engagement in the CEO assessment design process by including questions about CEO evaluation in their own board evaluation process. For instance, CEO evaluation design is discussed in Phase 4 of the Director Certification Program offered through the Nebraska Cooperative Council. CEOs were asked whether boards participate in any regular board evaluation process; 2 (of 14) indicated yes.

Conclusion

Carefully designed CEO evaluation process can be a method boards of directors indicate support for CEOs. Evaluation processes assess CEO performance relative to goals selected by consensus between CEOs and boards. Selecting performance standards, whether from external audits or strategic plans, can complement the board's forward-looking perspective. Responses by Nebraska agricultural cooperative CEOs indicate no single format is used to evaluate CEOs, but that elements of these processes can be helpful for assuring the CEO acts in the co-op membership's best interest.