Appraising your Chief Executive
About the Chair's Challenge Series

There are some topics that pose challenges for the Chair of the board, but on which there is little guidance written from the Chair's perspective. The Chair's Challenge series is our new programme of briefings and events to explore these issues. Our briefings will identify key issues for Chairs; signpost you to what already exists that is relevant and useful; and draw on the experience of Chairs and others to offer ideas and suggestions for how you can manage the challenge.

From our supporter

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Our media partner

We are grateful to Third Sector for being our media partner for the Chair’s Challenge series.

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Appraising your Chief Executive

Foreword
At the core of effective performance and well-being of an organisation is the relationship between the Chair and the Chief Executive. This briefing is welcome as it examines the management aspect of a Chair's role, focussing on ongoing dialogue and appraisal of the Chief Executive's performance, agreement of future objectives and support from the Board.

The authors have skilfully outlined the 'how' in terms of process, managing expectations, who to involve and the approach to the easy and difficult conversations. A clear, practical guide that supports a Chair in encouraging open culture, transparency and a spirit of collaboration and impactful leadership.

Julia Oliver
Head of the Not-For-Profit Practice, Odgers Berndtson

Introduction
The Chief Executive, using the powers delegated by the Board, is critical to the charity delivering its aims. The Chief Executive provides leadership, insight and specialist skills and experience. The success (or otherwise) of your charity owes much to the performance of your Chief Executive. As Chair you have a key role in holding the Chief Executive to account and creating the conditions for your Chief Executive to succeed. This includes agreeing and reviewing goals; providing timely, constructive and balanced feedback; and having ongoing dialogue.

The challenge for the Chair (regardless of their own background) is to ensure that a good feedback and appraisal process is in place, that enables objectives to be agreed and progress monitored; any concerns to be picked up in a timely and effective way; and for your Chief Executive to feel supported and motivated to do even better.
Existing knowledge and guidance

Most employers are not legally obliged to appraise the Chief Executive\(^1\), but it is widely regarded as good practice, and is explicitly recommended in the Charity Governance Code.\(^2\) Your charity’s own employment procedures may require it. The core purpose of a performance appraisal is to present feedback to employees on how they are performing.\(^3\)

Our literature review (available to members on the AoC website) suggests that when done well, the process of appraising the Chief Executive is helpful for the individual, the board and the wider organisation. However, we found little that focuses on the Chair’s key role in the appraisal process, a gap which we explore in this briefing.

We also found that the practice of senior staff appraisal is patchy. ACEVO reports that among charities who employ staff, over a quarter of Chief Executives (28%) do not have a regular appraisal and 8% have not been provided with any recent learning or development opportunities.\(^4\)

**Potential benefits of a performance appraisal process:**
- Enables mutual clarity about the Chief Executive’s key objectives and indicators of success
- Provides increased accountability for performance, improving oversight of the charity
- Enables early identification of and action on any area of concern
- Motivates, encourages and develops the Chief Executive
- Improves communication and increases trust between the Chair and Chief Executive
- Offers an opportunity for structured feedback

For broader guidance on building an effective relationship with your CEO, see our publication *A Question of Balance*. 

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The Chair’s role

The board has a responsibility to hold the Chief Executive to account to ensure that the charity is well managed, and progress is being made towards its charitable aims. At the same time the Chief Executive is entitled to expect timely and balanced feedback to help them understand and meet the board’s expectations of them. Typically, these responsibilities are taken on by the Chair (but may be shared with others).

The Chair needs to ensure there is mutual agreement of goals, including how they will be assessed, and that good progress is made. You also have a role to play in creating the conditions for your Chief Executive to succeed. This includes ensuring they are clear about expectations; and that they receive consistent, accurate, insightful and constructive feedback on their performance. The simplest way to achieve this is to put in place an effective appraisal process.

Appraisals – what can go wrong?

If you’ve agreed to conduct appraisals of your Chief Executive, congratulations. But remember a poorly conducted appraisal can be damaging to your relationship with your Chief Executive and to their performance. It’s worth considering some of the factors that can undermine an appraisal.

Gaps in knowledge or experience

Chairs come from a wide variety of backgrounds and cannot always understand the demands their CEO faces. You may not have senior management experience; or experience of managing a charity where budgets may be tight and unpredictable; perhaps you are unfamiliar with the complexity of the charity's work e.g. the regulatory environment; perhaps your experience is of very large organisations, not small ones. It can be hard to understand just how demanding the role of your CEO is, especially if you’ve not experienced something similar yourself. It helps to be aware of any gaps in your own knowledge and experience. And be willing to ask questions of your CEO and others. Otherwise you run the danger of unrealistic expectations.
Emotional factors

Our ‘people skills’ vary. Some of us are not very good at reading and managing our own emotions, never mind someone else’s. But these ‘softer’ skills, together with some experience or training in leadership or management, are invaluable when conducting appraisals. You are looking to create an open and trusting environment where you and your CEO can be constructively candid. You also want to avoid your own emotions getting in the way. You do not want your Chief Executive to unfairly bear the brunt of your anxiety or that of your board. When in a tight spot, it’s all too easy for a single individual or a team to become a scapegoat. Be wary of one or more board members becoming unfairly or disproportionately negative about the CEO.

Mismatched expectations

Sometimes you and your Chief Executive or your Chief Executive and the board have got out of step with each other. This is a particular danger when there are rapidly changing circumstances, or when the Chair is new in post and has a very different approach to their predecessor, or there have been a number of changes in the board membership. It can also be an issue where the CEO has a dominant personality. Good communication helps. Take time to explore what has happened, to see if differences can be reconciled, and whether there has been sufficient opportunity for your CEO to adjust.

If any of these factors may apply to you, it's worth considering what you can do to cover the gaps, or whether you need to get some support. For example, the Vice Chair or another board member, such as a Chair of a Governance, Nominations or Remuneration Committee, may carry out the Chief Executive’s appraisal or can assist you in the process. Alternatively, you can seek support from an external adviser such as a coach or human resources adviser.

It also helps if you have experience of being appraised yourself, can relate to how it feels, and can demonstrate your own positive commitment to being held accountable, and willingness to learn and change. Indeed, the most effective Chairs ask for and receive regular feedback on
their own performance from fellow trustees and other key stakeholders including the Chief Executive.

**Importance of HR expertise**

Most Chairs will not be employment law experts. It is important to get expert advice in areas where you are unsure of the legal implications. If there is no human resource function, specialist legal advice should be taken. Where your charity has a human resources function, they may be an obvious source of advice at an early stage when dealing with issues of poor performance. However, the issue may be such that you will need to access advice from outside of the organisation. Where formal action that might lead to a dismissal needs to be taken to address poor performance, it is important that the Chair reads, understands and follows the organisation's disciplinary procedure. Bear in mind that appraisal material can be referred to in employment tribunals (by either side) where there are complaints of discrimination or unfair dismissal, so it's important to have a clear and fair process and properly recorded documentation. Under data protection legislation, employees can request to see the information that is written about them.

**Elements of a good appraisal process**

If you don't have an existing appraisal process in place, agree the approach and timescale with your Chief Executive. You do not want to spring it upon them.

**An on-going dialogue**

Appraisal is often thought of as a one-off annual event, but it’s more helpful to see it as part of a continuous dialogue with ongoing feedback throughout the year. Consequently, the formal yearly appraisal discussion should contain no surprises. In all your discussions aim to build mutual trust and respect, with an honest and open approach to both praise and critique.

It does however offer an opportunity to mull over together what needs to be done to develop the positive and address anything viewed as negative. The only new subjects that you are likely to end up discussing with the Chief Executive might be agreeing new objectives and goals for the following year, or perhaps a new approach. It's also an ideal
opportunity to ask your CEO what you can do to support them, and whether there are things you need to change.

**Agreeing objectives**

You will want to agree and record a set of objectives, goals or deliverables with your Chief Executive for the year. It’s best to set these within the context of your strategy or business plan, highlighting those aspects of the Chief Executive’s performance that will be evaluated. These objectives will help to shape your discussions during the year as well as at the annual appraisal discussion.

The objectives you and the Chief Executive agree are likely to fall into three categories:

1. **Corporate or business objectives.** These will align with the charity’s overall goals and aims as described in its strategy. They are not however identical; you may need to tease out the CEO’s particular contribution.

2. **Behavioural objectives.** These are objectives which go to the values of the charity. For example, a behavioural objective may be to encourage and reward creativity and innovation in the charity.

3. **Personal objectives or development opportunities.** These are objectives which aim to develop the Chief Executive’s knowledge, skill or proficiency in an area. For example, they may have an objective to develop their networking skills or public speaking.

When thinking about the Chief Executive’s personal objectives a good starting point is to think about their strengths and weaknesses. For example, in some arts charities the Chief Executive is recruited because of their artistic background and skills. They may need support and personal objectives to develop their understanding of the commercial side of the organisation. Similarly, a Chief Executive with a commercial background may benefit from personal objectives which build up their understanding of artistic commissioning and choices.

Setting a combination of corporate, behavioural and personal objectives means that the appraisal will have both professional and personal benefits for the Chief Executive and be more than a simple performance assessment. In
many charities, the Chief Executive proposes objectives which the Chair then discusses with them to ensure that they provide sufficient stretch and challenge, as well as being appropriate and realistic. Of course, objectives are not set in stone. Changing circumstances mean you may need to agree to adjust them during the year.

**Setting SMARTA objectives**

It is a helpful technique to set objectives that are:
- Specific
- Measurable
- Achievable
- Realistic
- Time-bound
- Agreed

**Seeking a rounded perspective**

Given the part time and non-executive nature of the chairing role, it can be very difficult to get a rounded view of your CEO’s performance. It is a good idea to invite the views of others before carrying out the Chief Executive’s formal appraisal. Seek the Chief Executive’s agreement before approaching others, and anonymise responses when feeding back.

Depending upon the size and nature of the charity, there are a variety of techniques that can be used:

- **360-degree feedback:** This process frequently takes the form of a simple questionnaire covering aspects of the Chief Executive’s performance. It is circulated to, say, three to five knowledgeable people (chosen from the senior management team and selected trustees) who comment on the Chief Executive’s performance, strengths and areas for development. The results are summarised by the Chair and reported back to the Chief Executive. The Chair follows this up with a structured interview (ideally face to face) with the Chief Executive.

- **Using a Third Party:** Here a third party or outside agency helps the Chair co-ordinate the appraisal process or generally assists with it. This can help ensure the feedback given is balanced, and less likely to be coloured by the history of the current Chair-CEO relationship, and the Chair’s own biases or preoccupations. This appraisal
is sometimes combined with a wider board evaluation exercise, especially if it includes an appraisal of the Chair and trustees.

**Feedback from external stakeholders:** Some charities, periodically (say every two or three years) or with the arrival of a new Chair or Chief Executive, include external stakeholders in the exercise. They seek feedback from external partners such as government agencies, major donors or other CEOs, to provide another perspective on the Chief Executive's performance. Engaging with external partners can also help you as Chair to maintain a useful relationship with these external stakeholders without cutting across the Chief Executive's role.

**Reviewing objectives**

It is common for the Chief Executive to provide a written or verbal self-appraisal of their performance as the starting point for the formal evaluation.

The formal appraisal discussion can then focus on whether the objectives were delivered, and the reasons for any over or under-achievement. There is considerable overlap between the CEO's objectives and those of the organisation which you may need to disentangle, to understand how the CEO has contributed (or not) to key organisational successes or challenges. Ideally, your discussion will focus not only on what happened, but also on what has been learned and how that might affect future action. The types of question you will find useful to ask at this stage are, 'Why did things go well?'; 'What can we learn from that?'; 'What do we need to do differently?'; and 'How can I help?'

The Chartered institute for Personal Development identifies the following as important for a constructive appraisal:

- Recognition of achievements
- Genuine two-way conversation and reflection
- The whole period is reviewed, not just recent or isolated events
- Agreed action plans

Focus not only on what happened, but also on what has been learned and how that might affect future action.
Motivating your CEO

Ideally, a good appraisal process will leave your Chief Executive feeling more motivated. It helps to acknowledge the challenges of the role, and the loneliness of their position.

A good starting point is to focus on the positive by asking a Chief Executive about what they have achieved rather than looking at the outset at the negatives. This will help you to keep your appraisal discussions as positive as possible, for as long as possible. Also aim to include a discussion about ways of motivating their wider teams, for example agreeing objectives which relate to the impact they have in leading the whole organisation, and how that might be evidenced.

Areas for development

The Chief Executive will often be aware of their own limitations, and in the right environment willing to discuss them. If not, you can use questions and the feedback you have gathered to help them identify areas for improvement. You can then agree steps to support their development such as training, coaching, mentoring or joining a support organisation such as ACEVO.

However, if you do have doubts about an area of performance be sure to raise these in other contexts, so that the principle of ‘no surprises’ at the appraisal meeting holds. Equally, be careful if you hear ‘noises’ about the Chief Executive from elsewhere in the charity as it is important that you do not undermine them. Handle such situations with care. Using techniques such as the 360-degree feedback or a third party can help ensure a fair and balanced approach to the appraisal.

The question of what you can do if there is a serious problem with performance is explored further on.

Engaging the whole Board

Both you and your CEO are accountable to your Board. After each formal appraisal round it’s a good idea to routinely tell the trustees that the review has been carried out. If there are any substantive issues about performance
or achievement, you can use a trustee-only session to inform the Board and discuss the matter in confidence. Trustees will expect you to update them regarding any subsequent action so that they are all aware of what is happening. In all cases agree with your trustees the process at the outset and be clear what has been delegated to you, so that you are all able to avoid getting into inappropriate detail.

Generally, if there are few or no concerns you will need to say very little to the board, whereas you will need to more actively engage with them and keep them up-to-date where you need to act to tackle poor performance.

**Is your Chief Executive under-performing?**

There may be occasions when the Chief Executive may not be meeting their objectives or delivering the performance that the charity requires. As Chair you need to use your judgment to decide if the issue is fundamental or a temporary blip.

Think the issue through thoroughly before deciding how to handle it. For example, consider whether there are personal reasons behind the under-performance (such as illness, bereavement or a relationship breakdown). Also consider whether the apparent under-performance is genuinely related to the objectives that have been set for the Chief Executive or whether it only reflects an area that only one or two board members feel strongly about. In other words, be clear what the evidence is to indicate under-performance.

Remember no one is perfect. How critical is this? Can you put in additional support, or allow time for your Chief Executive to improve? Or perhaps another team member can take on this aspect of the role.

Ask yourself whether the performance issue is because of a poor fit (i.e. this particular task is just not a good match with the Chief Executive’s talents) rather than poor performance. For example, the skills and attributes required to start up a
new charity from scratch can be different to those required
to lead a well-established organisation with a sizeable staff
team that may be going through a big change process. Did
you recruit to the right criteria? Has the nature of the job
changed? Then consider what can be or has been done to
enable the Chief Executive to perform well in the different/
new areas.

If there are issues of concern, don't ignore them. Find an
opportunity to explore these constructively with your CEO.
Some or all of the following actions can help:

- Get support for the Chief Executive from a trustee who
  is an expert in an area where they have development
  needs, for example in operational delivery or financial
  management; or consider training or coaching; or some
  reassignment of duties.

- Discuss the matter with the Vice Chair (or a trustee with
  HR expertise) as they can be a useful sounding board for
  you.

- Set up a small working group of trustees to help resolve
  the performance issue. This can help to ensure that the
  issue is not perceived as a conflict or battle between
  the Chair and the Chief Executive. If it exists, the
  Remuneration and Nominations Committee or a similar
  committee might fulfil this role. Keep the entire board
  abreast of the action being taken so that you do not end
  up with an outer circle of board members who feel left
  out: perhaps use a trustee-only part of a board meeting
  for this. As part of that briefing it will be important to
  remind the board to maintain confidentiality. This is
  especially important if the issue is such that formal
  negotiations are required with the Chief Executive.

- Consider the part that you might have played if your
  relationship with the Chief Executive has become
  problematic. If the relationship has broken down, the
  priority should be either to repair it or to effect a change
  in the individuals involved. Where they exist, the Vice
  Chair can be a helpful source of support or intermediary,
  help to address any emerging tensions, and play a key
  role in helping you to resolve the breakdown.
In taking any action you will need to respect the Chief Executive’s rights as an employee. Essentially, you will need to balance the charity’s duty of care to the Chief Executive with the charity's primary task i.e. delivery of its aims, as well as legitimate protection of its ongoing reputation. Remember to comply with your internal policies and procedures. If in any doubt take specialist advice. Mistakes in this area can be costly financially and reputationally. Keep the board briefed as necessary, reminding them of the need to maintain confidentiality.

A bigger challenge may be where a Chief Executive’s performance is just about adequate, but neither stellar nor bad. In such cases the concern is that opportunities are being missed because of the Chief Executive’s routine or average performance. You may need to engage in regular coaching with the Chief Executive to encourage them to improve their performance to the standard that the charity needs if it is to thrive. If you do not have coaching skills, or do not wish to play that role, you may want to use an external coach. Some staff also prefer outside coaching in such situations. If coaching and an ongoing dialogue do not improve the situation then you will need to turn to more formal performance management.

**Appraisals and remuneration**

It is not good practice to discuss the Chief Executive’s pay at the same time as their appraisal. Ensure that there is a gap between the formal appraisal discussion and any discussion about future pay.

The exceptions to this are the small number of charities that operate a system of personal or organisational performance-related bonuses. In such cases you will need to ensure that any bonus is linked to the achievement of clearly defined objectives. The literature review discusses the advantages and disadvantages of linking pay to performance in more detail.

If your charity has a Remuneration Committee, that will be the best place to discuss pay. In the case of under-performance that Committee should take the appraisal into account in reviewing remuneration.
In conclusion

If you fail to appraise your CEO, or mishandle an appraisal, you run the risk of allowing problems to develop or worsen. Conversely ongoing dialogue and an effective appraisal provide assurance about your CEO’s performance and are an opportunity to celebrate and consolidate your CEO’s achievements and encourage them to make even greater progress towards your charity’s aims.

Further reading

For broader guidance on building an effective relationship with your CEO see our publication: *A Question of Balance: A guide to the Chair and Chief Executive relationship*. Association of Chairs, 2015.

ACEVO provide templates and other resources to plan and implement an effective appraisal process. See for example www.acevo.org.uk/leading-ceo-and-chair-effective-governance-downloadable-material which includes a checklist for Chairs and CEOs.

*Good governance: a practical guide for trustees, chairs and CEOs* by Dorothy Dalton, (NCVO, 2011) also provides some templates and examples.

Information is also provided on the knowhownonprofit website: https://knowhownonprofit.org/people/people-management-skills/leadership/chiefexecutive/appraising-the-ceo-3600-profiling.

Endnotes

1 Advisory booklet – *Employee appraisal* www.acas.org.uk/media/pdf/s/b/B07_1.pdf ACAS, 2006

2 Charity Governance Code for larger charities recommendation 2.4.3 www.charitygovernancecode.org/en/pdf 2017

3 CIPD website www.cipd.co.uk/knowledge/fundamentals/people/performance/appraisals-factsheet July 2017


6 CIPD website op cit

7 CIPD website op cit
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