Girl Scouts

Memo

Attachment F

Girl Scouts of Western Ohio

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Date: June 5, 2008

To: Board of Directors

From: Nancy Dawes, Chair

Subject: Executive Session

At the June board meeting, we will enter into Executive Session for a brief meeting to discuss two items:

1. Approval of the minutes of the January 12 Executive Session. I will provide copies of the minutes of that meeting during the Executive Session.

2. Discuss the recommendations from the CEO Performance Review Task Group on the process to be used in evaluating the work of the CEO. Several documents are attached for your review.

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DRAFT

PROCESS FOR ANNUAL REVIEW OF CEO AND ANNUAL COMPENSATION INCREASE

Link to Board Policy 4.5: CEO Compensation and Benefits

The board shall negotiate a written employment understanding with the CEO that will stipulate compensation and benefits for the CEO.

1. CEO remuneration will be decided during the first quarter of the calendar year after a review of monitoring reports received in the last year.
2. The annual appraisal shall be conducted and remuneration will be established.

Principles:

1. CEO's performance is synonymous with the organization's performance, because the CEO is accountable for all of it.
2. CEO evaluation is always and only evaluating against criteria specified in the executive limitations and Ends policies.
3. Compensation decisions will take into account performance, market conditions, and any anticipated change in the "size" of the job in the future the board may foresee.

Process:

1. The board will appoint the Board Chair and 2-3 other board members to serve on this task group.
2. The task group will meet at least one time with the CEO to hear her self-assessment toward meeting Ends, compliance with executive limitations, and monitoring reports (this may be with the board as a whole).
3. The task group will conduct the review and report back to the board.

Charges:

1. Prepare a written annual performance assessment for board discussion/approval of Ends and executive limitations, indicating whether the CEO's performance has been satisfactory or unsatisfactory per the process and guidelines outlined below.

2. Recommend annual salary increase (including bonus, if applicable) to the Board Chair (or should this be to the board as a whole) with documentation that it is reasonable (including market, inflation, key personnel increases and any other factors other than performance that are relevant to compensation).

3. Report information to the CEO – specifically, a signed (by Board Chair) copy of the written performance assessment and salary increase. (The task group can choose to delegate follow-up to the Board Chair.)

Process:

1. Prepare and review a summary of the board's recorded assessments of monitoring reports that have been submitted throughout the year. Review the summary looking for trends in performance.

   A. Based on a review of the board's assessment of Ends monitoring reports (internal, external, direct inspection) as recorded in the minutes, over the past year, which Ends has the CEO:

      1) Achieved a reasonable interpretation of Ends?
      2) Not achieved a reasonable interpretation of Ends?
      3) Exceeded a reasonable interpretation of Ends?

      Cite the evidence that supports this assessment (specific internal monitoring reports, external monitoring reports, or direct board inspections).

   B. Based on a review of the board's assessment of executive limitations monitoring reports (internal, external, and direct inspection) as recorded in the minutes, over the past year, has the CEO:

      1) Consistently operated within the constraints posed by a reasonable interpretation of the executive limitations?
      2) Occasionally contravened the limitations, but reported the contravention promptly, provided acceptable rationale, and a commitment for future compliance, which was met?
      3) Occasionally contravened the limitations, but without reporting the contravention, or without acceptable rationale?
      4) Frequently contravened the limitation?

      Cite the evidence that supports this assessment (specific internal monitoring reports, external monitoring reports, or direct board inspection).

   C. Based on the above data only, has the CEO's performance been satisfactory or unsatisfactory? (Do not add "extra" criteria for evaluation. Only criteria that has been previously stated in policies is relevant.)

   D. Based on the review, recommend whether there are any policies for which the board should supplement the internal report by an external report or direct board inspection.

2. Prepare a recommendation for CEO's annual compensation increase. This should include referencing Girl Scouts of the USA's CEO compensation report, market comps for salary range/increases, and budgeted increases for senior executive leadership of Girl Scouts of Western Ohio.

Suggested Process for Annual CEO Performance Appraisal

Policy Governance® principles do not require a board to do an "annual" performance appraisal, because the CEO's performance is being appraised on an on-going basis every time the board assesses a monitoring report. However, many boards choose to do an annual summary, often in conjunction with their decision about compensation. These steps are provided to assist you if you choose to do an annual appraisal.

1. Decide if the board as a whole will do the preparatory work for the annual performance appraisal, or whether a board committee will be assigned the task. If you choose a committee, the steps with an asterisk below can be done by the committee.

2. Determine if such a committee is also to provide the board with options regarding CEO compensation. *Remember that appraisal and compensation decisions are two distinct issues.*

* 3. Prepare a summary of the board's recorded assessments of monitoring reports that have been submitted throughout the year. (This may be kept up to date following each meeting by the board recording secretary, board chair or other designated person.) [Refer to "**TRACKING TOOL FOR RECORDED BOARD DECISIONS RE: MONITORING REPORTS**" for an example of how to do this.]

* 4. Review the summary, looking for overall trends in performance. You may choose to use the "Question Guide for Annual CEO Evaluation" following to assist you. Remember that if a monitoring report was previously "accepted" by the board, it is still acceptable – this is not a re-deciding about acceptance of any given monitoring report, but simply a cumulation of board decisions already made in order to identify the trend in performance.

* 5. Based on your review, identify if there are any policies for which the board should supplement the internal report by an external report or by direct board inspection.

6. If item 5 was done by a committee, obtain board authorization for the additional monitoring.

* 7. If necessary, arrange for the external report(s) and/or direct inspection(s) to be done, but remember that the assessment is to be made against the CEO's interpretation of the policy. If you do not already have that interpretation in writing from the CEO, obtain it before proceeding.

* 8. If you are combining the assessment with a decision on compensation, obtain necessary information regarding market, inflation, and any factors other than performance that are relevant to compensation.

* 9. If a committee was used, they provide to the board a summary of their findings, and options for board consideration.

10. Board determines what will be communicated to the CEO regarding (a) overall performance trend, and (b) compensation (if this has been included).

11. Board conveys the information to the CEO, or delegates the task to the committee.

NOTE: if the board chooses not to specify a process, then the process to be used is up to the discretion of the board Chair, providing it is any reasonable interpretation of the existing board policy on evaluation of the CEO.

Question Guide for Annual CEO Evaluation Consistent with Policy Governance®

1) Based on a review of the board's assessment of *Ends* monitoring reports (internal, as well as external, and direct inspection, if any) as recorded in the minutes, over the time period being evaluated, which *Ends* has the CEO:

    a) Achieved a reasonable interpretation of Ends?

    b) Not achieved a reasonable interpretation of Ends?

    c) Exceeded a reasonable interpretation of Ends?

2) On what evidence is the above judgment made? Cite dates of specific internal monitoring reports, external monitoring reports, or direct board inspections. (This information may have already been accumulated using a chart to summarize the board's decisions on an on-going basis.)

3) Based on a review of the board's assessment of *Executive Limitations* monitoring reports (internal, as well as external, and direct inspection) as recorded in the minutes, over the time period being evaluated, has the CEO:

    a) Consistently operated within the constraints posed by a reasonable interpretation of the Executive Limitations?

    b) Occasionally contravened the limitations, but reported the contravention promptly, provided acceptable rationale, and a commitment for future compliance, which was met?

    c) Occasionally contravened the limitations, but without reporting the contravention, or without acceptable rationale?

    d) Frequently contravened the limitations?

4) On what evidence is the above judgment made? Cite dates of specific internal monitoring reports, external monitoring reports, or direct board inspections. (This information may have already been accumulated using a chart to summarize the board's decisions on an on-going basis.)

5) Based on the above data **only**, has the CEO's performance been satisfactory or unsatisfactory? (Do not add "extra" criteria for evaluation. ONLY the criteria that have been previously stated in your policies are relevant.)

NOTE: Evidence of CEO performance is a factor to be considered in determining CEO compensation, but is not necessarily the only factor in that determination. Assessing performance is distinct from determining compensation.

members individually complete a survey form *based on the CEO's reasonable interpretation of your policy content.* This would require a two-stage process, first obtaining the CEO's interpretation and assessing its reasonableness, then examining the evidence of compliance. The results could be tabulated, and the response of the *majority of the board* would then be taken to be the decision of the board. Note that just because one or two people would have liked more information about some issue does not mean that the CEO was non-compliant.

What should the report include if there is non-compliance?
The only time that the future should appear in a monitoring report is if the CEO is reporting non-compliance with a policy. The report should then include a commitment as to when in the future the board can expect compliance. This may, but does not need to, include a brief plan to assure the board that the CEO has a process in place to achieve compliance. It does *not* mean that the board should "approve" the plan. Further, as soon as the CEO becomes aware that he or she may not be able to achieve compliance, the board should be notified so that it is aware of the situation. Notification should not wait until the scheduled monitoring report. For example, if the CEO is aware in August that there will be a deficit at year-end, the board should be notified in August, not in December.

How should we follow-up on non-compliance?
It the board has identified a report as unacceptable, it should specify the date at which it expects an acceptable report to be provided.

The board may choose to accept a report that identifies an area of non-compliance, along with a commitment for compliance by a specific date. In doing so, the board is saying that it is prepared to live with the condition of non-compliance for the time period until the CEO says there will be compliance in the future. The board should schedule a follow-up monitoring report for the item(s) or policy in question at the date on which compliance has been promised.

"Annual" appraisal of CEO Performance

Our CEO's annual performance appraisal is coming up. How do we do this now that we are using Policy Governance? In addition to the monitoring reports on Executive Limitations and Ends policies, what other avenues should we use? Do we contact staff for their input, talk to key stakeholders?

Every time you assess a monitoring report you are doing a *part* of the CEO's performance appraisal.

> IF YOU CHOOSE TO DO AN "ANNUAL" CEO PERFORMANCE APPRAISAL, IT IS SIMPLY THE COMPILATION OF ALL OF THE MONITORING EVIDENCE YOU HAVE RECEIVED IN THE PAST YEAR.

This includes evidence from internal monitoring reports provided by the CEO, from any external monitoring you have requested, and from any direct inspection that the board has done. In all cases, these assessments must be ONLY against criteria that the board has previously specified in its policies. That is why using a prefabricated "form" found in a book, forms used by other boards, or provided by a management consultant are not appropriate.

Go back through the minutes for the time period being evaluated, and make a summary of what the board's decision was when they received a monitoring report for each Executive Limitation and Ends policy. If the board monitored any of the policies by Direct Inspection, also note what the board's decision was for those policies. Finally, note the board's decision as to compliance for any policies that were monitored by External Report, such as the fiscal audit.

For the future, the easiest way to compile the results is to keep a running record of the board's assessment of each monitoring report as it is recorded in the minutes. (A sample is provided in the "tools" section of this booklet.) Then the board simply examines this record for overall trends, and determines whether the CEO performance has been satisfactory, unsatisfactory, or exceeded the board's expectations. The board may authorize a committee to do this cumulating on their behalf, bringing the results back to the full board for final decision. This action is distinct and separate from any decisins about compensation. While a decision about compensation will likely be linked to this appraisal, the first step is to summarize the board's assessment of the performance itself. Compensation decisions normally take into account both performance and market conditions, as well as any change in the "size" of the job in the future that the board may foresee.

CEO annual performance appraisal does **not** mean that the board checks on whether the CEO has accomplished his or her personal objectives. Those personal objectives are the CEO's means to achieving compliance with the board's policies. Checking off a list of "achieved objectives" is not a substitute for, or a guarantee of compliance with the board's policies.

DON'T ask staff to evaluate the CEO! If the board accepted the monitoring report for its Executive Limitation policy on treatment of staff, then the board has already said it was satisfied. That report might have included evidence such as specific results from internal staff surveys. Or the board may have commissioned an external report to obtain an independent assessment of compliance with limitations in that policy. Such a report is quite different from asking the staff what they think of the CEO. The board may even have chosen to "directly inspect" for compliance with specific criteria from the Treatment of Staff policy by, for example, asking specific policy-based questions of a random sample of staff. Even the latter is not asking the staff for their "input" about the CEO, but rather asking them questions that would answer the question, "Was this policy criterion violated – by the CEO or *anyone else in the organization*?" However, while direct inspection is theoretically consistent with Policy Governance principles, it's generally not wise in the matter of staff, because unless board members are very clear about their roles, it opens the door for potential meddling in internal matters.

DON'T ask stakeholders, such as customers or the public, to evaluate the CEO. If the board has an Executive Limitations policy on public image, for example, it might choose to do direct inspection by asking outside stakeholders questions to obtain evidence of whether the criteria in that policy have been met. But such questions should not be about the CEO individually, but rather about the *organization's* overall compliance with the policy.

Both for external reports and direct inspection, the board first needs to have the CEO's interpretation of the policy. *The interpretation is not the prerogative of the stakeholders, or the staff, or the board officer or committee delegated to do a direct inspection, but of the CEO.*

The overall principle is that the CEO's performance is synonymous with the organization's performance, because the CEO is accountable for all of it. *CEO evaluation is always and only evaluating against criteria specified in the Executive Limitations and Ends policies.*

We implemented Policy Governance partway through the year, but our CEO's performance appraisal is due now, and we do not yet have a full set of monitoring reports to refer to. What do we do?

The best solution is to evaluate only that portion of the year for which the model has been in effect and for which you have received monitoring reports. This will, admittedly, be incomplete, but better than reverting to old evaluation methods. (For example, if all you have are Executive Limitations reports, then base your evaluation on them this one time.) If you have just begun using the model, and the CEO's annual appraisal is due when the model has been in place for less than half of the year, you may not have a sufficient history of monitoring reports to form a reasonably complete picture. In that case, you may need to use an "old" method of completing the annual CEO performance appraisal for this one time. Recognize that if you choose to do this, you are not following Policy Governance principles, and for this activity you will have one foot in the past. Whatever method you choose, you should base the evaluation solely on *expectations that the CEO previously knew about and the board's assessment of whether those expectations were achieved.* Don't use something that sets up the expectations after the fact and then assumes that the CEO "should have known." This may mean that the evaluation for the past year may be less than perfect, but rather than spending a lot of effort on looking backwards, spend your efforts moving forward. Avoid using "canned" tools: they are usually based predominantly on assessment of leadership "style" and generally do little to help you assess whether the objectives of the organization were achieved. Then, move on so that next year's appraisal will be properly based on Policy Governance principles