

CEO Evaluation, Retention & Compensation



Presented by: Carolyn Warden, CCUE

224-656-6081 home office, 720-841-1413 mobile

Carolyn.Warden@live.com, www.CarolynWarden.com

Ponder:

*“An effective CEO will not resolve
all uncertainties...*

... but an ineffective CEO might.”

Retaining Your CEO

- When you find a good one how do you keep him or her?
- How do you know when you find one?

Communicate Expectations & Evaluate

Tip: These steps help an ineffective CEO improve or move on to a better fit.

Evaluating the CEO



Board often works with *very, very, very* incomplete information.

- Meeting time often poorly weighted to financial performance and losses.
- How many things went right-the-first-time, that you never heard about?

Boards should focus on accomplishment of defined goals.

Factors to Consider

1. **Organizational Success**
 - Financial
 - Operational
 - Risk Management & Mitigation
2. **Quality of Communications & Professional Relationship between Board & CEO**
3. **Achievement of Assigned Objectives**
4. **Trends and Direction of Organization**
5. **Vision, and Ability to implant Vision in others**

Communicating Expectations

- Policies
- Monthly Board Meeting Discussions
- Job Description
- Authority Matrix
- Annual Goals
 - Strategic
 - Operational
 - Personal Development



What Belongs in a Job Description?

REPORTING RELATIONSHIPS

POSITION REPORTS TO: Board of Directors

POSITIONS SUPERVISED: CFO, VP Operations, HR Manager, Marketing Manager

INTERNAL AND EXTERNAL CONTACTS

INTERNAL: All Credit Union staff, Board of Directors

EXTERNAL: Members, Regulatory and Community Organizations, Trade Groups, Vendors, Other Financial Institutions

POSITION PURPOSE

Responsible for establishing and executing major goals and objectives for the Credit Union. Interprets and implements policies established by the Board of Directors. Provides leadership, direction, and guidance of Credit Union activities.

What Belongs in a Job Description?

ESSENTIAL FUNCTIONS AND BASIC DUTIES

1. Assumes responsibility for the development and implementation of effective strategic plans.

MAJOR CHALLENGES

1. Formulating (in conjunction with the Board of Directors) appropriate and effective long and short-term strategic plans.
2. Establishing and maintaining optimal Credit Union organizational structures, policies, and procedures.

PERFORMANCE MEASUREMENTS

QUALIFICATIONS

INTENT AND FUNCTION OF JOB DESCRIPTIONS

www.carolynwarden.com (Freebies)

What is an Authority Matrix?

Board of Directors

- Policy and Procedures
 - Authority to approve policy
 - Authority to monitor compliance with policy and regulations



Chief Executive

- Policy and Procedures
 - Reviews and approves policy recommendations prior to Board consideration
 - Assigns compliance responsibilities



HR Authority Matrix:

Board of Directors

- Hires, evaluates and compensates CEO
- Sets CEO performance evaluation criteria
- Approves the annual credit union salary and benefit budget
- Elects board officers
- Approves volunteer committee assignments
- Authority to monitor director performance
- Approves annual director travel/conference/training opportunities

Chief Executive

- Determines organizational structure consistent with long range strategy of credit union.
- Authority to hire, coach, develop and evaluate executive staff
- Develops and recommends executive compensation plans
- Authority to take corrective action within credit union's guidelines.
- Authority to evaluate employee satisfaction, pay and benefits and recommend changes.

Spending Authority Matrix

Budget Authorization

- Capital Budget: \$1,001 - \$10,000
 - Department Executive & CEO signature required
- Over \$10,001
 - Board review and approval required

Non-recurring expenses:

- \$501-\$10,000
 - Department Executive & CEO signature required
- Over \$10,001+
 - If not budgeted Board review & approval required

Contracts:

- Greater than 3 yrs/more than \$6,001 per year
 - Department Executive & CEO signature required



Goals: Measurable & Objective

● **Financial Management**

- CAMEL ratios and Metrics of efficiency & effectiveness

● **Strategic Plan Progress**

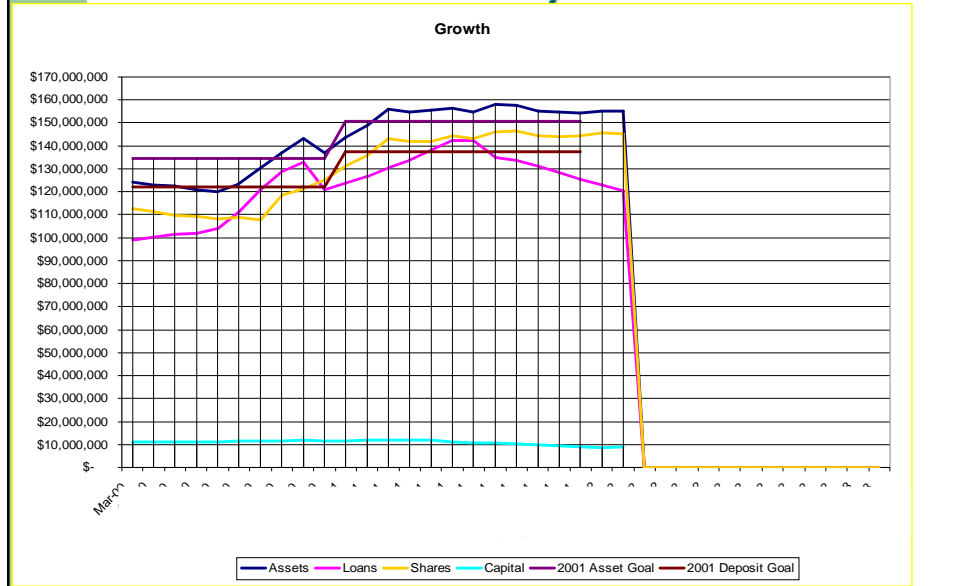
- Are we heading the direction we wanted to be going?

● **“Sharpening the Saw” Requirement**

● **Goals and Objectives**

- Were they reached?
- If not, why not?
- If exceeded, how & why?

Goals Measurable & Objective Criteria



Goals: Measurable & Objective

- Services per Member/Household
- Asset or Share Growth
- Loan Growth, Portfolio Mix - ceilings & floors
 - Delinquency & Charge off %
- Capital: within Comfort Range
- Profitability Target
- FTE per 1000 members & \$1million in assets
- and many others that fit your Vision & Values

Goals: Measurable & Objective

- Survey Results
 - Staff: 360' Evaluations
 - Member Satisfaction
 - Market Awareness of Your CU
- Needed: Baseline Results



Un-measurable – Subjective Goals

- Morale, enthusiasm of staff
- Supervision and Cultivation of staff
- Ability to Work with the Board effectively
- Transparent Information Resource
- Productive Relationships with Regulators & Auditors
- “We all like her: she’s interested in our lives”
- Phones are answered promptly

Un-measurable: Subjective Goals

- **DANGERS**
 - Squeaky Wheels
 - Strong or Quiet Personalities
 - Individual Agendas
 - Biased View of Speaker
 - Assumptions on the unknown
- Think like CSI investigators or House MDs

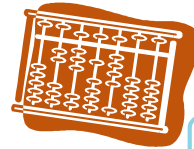
Strategic Plan Progress

Perfect Credit Union
 Strategic Planning Update
 April 30, 200X

PROJECT TITLE	PRIORITY	RESPONSIBLE	DEADLINE	STATUS
		PARTY	DATE	
TECHNOLOGY Roll out CU website by June 30, 200X	A	John	6/30/0X	In operation since March 31
Provide on-line banking	A	John	12/31/0X	Reviewing several proposals. Cost appears high
Install cash dispensing machine	B	Sally	9/30/0X	Have selected model. Install in August
Upgrade current teller PCs	D	Erica	12/31/0X	Only 2 stations remain to be upgraded
Complete development of Intranet	A	John	3/31/0X	Intranet developed and documents to be loaded on are 40% complete

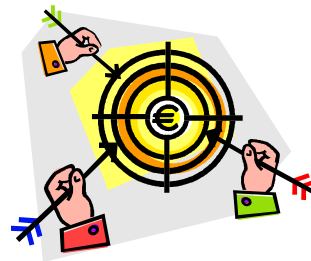
“Sharpening the Saw”

- Keeping CEO’s skills ahead need to meet increasing demands imposed upon him
 - Managing a more Complex Organization
 - Economic Conditions
 - Competitive Pressures
- Technology Used Efficiently
- Continuing Education of many types
- Rest & Recharge: Time Away from CU



The “Vision Thing”

- Having one for 3, 5, 20+ years in the future
- Engaging others in working towards same



Sample Evaluation Form

I. Strategic and Business Plan Achievement

A. Financial Objectives

Have the financial objectives established at the annual planning session, the approved annual budget and updated at periodic meetings been met for this period?

Following are areas discussed in the 2003-2004 planning session to consider:

- 1.Credit Union growth controlled
- 2.Operating expenses being decreased as a percentage of assets
- 3.Interest margin being maintained around 4%
- 4.Loan losses have been controlled and recoveries increased

Comments:

B. Marketing Objectives

- 1.Are the number of members, loan portfolio, share and deposit portfolio, and average balance of accounts being properly controlled?
- 2.Have loans been properly promoted and loan products properly offered to achieve improved lending performance?
- 3.Are dealer relations being maintained at an acceptable level?
- 4.Are new members being cultivated (direct and indirect)?

Comments:

C. Operational and Delivery Platform Objectives

Are the operational objectives and priorities being carried out to the satisfaction of the Board?

Comments:

E. Effective Planning

- 1.Are plans realistic?
- 2.Are plans properly implemented?
- 3.Are plans effectively monitored?

II. Member Service

1 to 5

A. Member Satisfaction

- 1.Is there continued growth of membership?
- 2.Is a high quality credit union image maintained?
- 3.Are member surveys showing improved member satisfaction?

Comments:

Overall score

B. Member Service

- 1.Is staff consistently trained and focused on member service?
- 2.Is staff consistently encouraged to work toward improving the member's financial health?

Comments:

Overall score

III. Leadership of Staff and Credit Union

1 to 5

A. Communication with staff and management

- 1.Are oral and written communications clear, concise, comprehensive and timely?
- 2.Does the CEO strive to communicate the credit union objectives to all levels of staff?
- 3.Does staff feel encouraged to communicate freely and openly with the CEO?

Comments:

Overall score

B. Innovation

- 1.Are new ideas presented to the Board and effectively implemented?
- 2.Is the speed of innovation appropriate for the credit union's resources and circumstances?

Comments:

IV. Teamwork		1 to 5
A. Board Relations 1. Is the Board kept well informed? 2. Is the information useful? 3. Is information adequate on which to base decisions? 4. Is the Board provided with sufficient alternatives and 'pros and cons' to alternatives? 5. Are deadlines met? 6. Are special requests addressed promptly? 7. Is communication open and honest? 8. Are CEO's business ethics and personal integrity considered unassailable?	_____ _____ _____ _____ _____ _____ _____	
Comments:		Overall score
B Management and Staff Relations 1. Is teamwork apparent among the senior management? 2. Does the CEO participate in the development of all levels of management? 3. Does CEO create a feeling of a team approach where all team members feel they are contributing to a worthwhile goal? 4. Does CEO facilitate strong morale and spirit?	_____ _____ _____ _____	
Comments:		Overall score

V. Regulatory and Policy Compliance		1 to 5
A. Regulatory and Policy Compliance and the Audit Processes 1. Does the CEO work within the parameters of the policies set by the Board? 2. As evidenced by examinations and audits (external and internal), is the credit union in compliance with all State & Federal laws and regulations? 3. Do the CEO and management cooperate with examiners and auditors? 4. Does the CEO see examinations and audits as opportunities for improvement? 5. Do the CEO and management respond to examination and audit comments promptly, completely and with a positive attitude?	_____ _____ _____ _____ _____	
Comments:		Overall score
B. Effective Internal Controls 1. As evidenced by examinations and audits (external and internal), are internal controls adequate? 2. Is the internal audit process viewed as a helpful internal control mechanism? 3. Are losses due to fraud or error kept to a minimum?	_____ _____ _____	
Comments:		Overall score
VI. Professional Development		1 to 5
A. Education/Training 1. Does the CEO maintain a desire for continuous learning and is knowledge used in operations?	_____ _____	
Comments:		Overall score
B. Networking 1. Are networking opportunities used to improve operations? 2. Does the CEO maintain good relationships with chief sponsor officials and chief contacts at major SEGs? 3. Does the CEO maintain good public relations with Community as a whole	_____ Do not score Do not score	

Evaluating the CEO

1. Ask the CEO to complete Evaluation of self
2. Review specified goals & results, then draft responses on evaluation form & scores
3. Meet with the CEO and Listen to him/her
4. Edit evaluation draft, adjust scores
5. Present to CEO

What are some things you evaluate?

Board/CEO Relationship

- Must be one of mutual trust
- Both must understand their role
- Board must avoid micromanaging
- CEO must keep the Board “in the loop”



What Compels a CEO to Stay?

***It's Not Exactly
What You'd Expect!***

What Compels a CEO to Stay?

Supervisors' Perspective

1. Good wages
2. Job security
3. Growth Opportunities
4. Good working conditions
5. Interesting work
6. Loyalty to workers
7. Tactful disciplining
8. Appreciation for work done
9. Sympathetic to personal problems
10. Feeling "in" on things

Employees' Perspective

1. Appreciation for work done
2. Feeling "in" on things
3. Sympathetic to personal problems
4. Job security
5. Good wages
6. Interesting work
7. Growth Opportunities
8. Loyalty to workers
9. Good working conditions
10. Tactful disciplining

Compensation Package

- Know What Drives Your CEO
- Fixed Compensation, salary & bonus
- Incentive Pay
 - Based on organization's performance
 - Based on individual performance
- Other Benefits valued by CEO
- Locality: What's fair in your area?
- Complexity of CU's Operation Comparison

Know What Drives Your CEO?

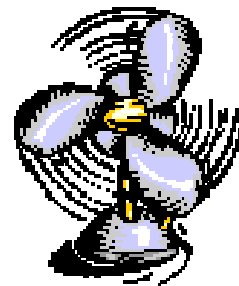


- **Ask** CEO what he/she would like
- **Ask** CEO what drives him/her
- **Consider answers and be prepared to:**
 - Negotiate
 - Satisfy
 - Disappoint

Compensation

Typical compensation systems:

- Reward marginal performers by paying same as top performers
- Discourages top performers



A Better Way



Develop system of accountability

- Reward high performance
- Non-performers need to go where they fit
- Reward competencies, not job titles
- Allow input from employee, peers/teams

Compensation



- Who do you compete with for best staff?
- Does CU's compensation compare well w/ theirs?
- What is your goal with compensation?

"We pay them, they should do the work"

"We pretend to pay them, they pretend to work."

Soviet Economist

Compensation as an Incentive

*“What gets measured gets done.
What gets paid more gets done more.
What gets paid a lot for gets done a lot more*

- Tom Peters



Compensation

Cash:

- Base & Bonus
- Performance

Benefits:

- Health, Life and Disability
- Key Person Insurance

Retirement/ Golden Handcuffs:

- Defined Benefit
- Defined Contribution
 - 401 (k)
 - 457 (b) & 457 (f)

Compensation

Fringe Benefits

- Car
- Corporate Credit Card w/ bonus points
- Additional Time Off
- Events & Sports tickets
- Travel for spouse and/or family to CU conferences
- Discounted rates on loans or no fee checking
- Tuition Reimbursement for advanced degree or certification.
- Nepotism: jobs for teens to save for their college

What are some Compensation items you feel have been useful and/or meaningful?



What are some Compensation items you feel have NOT been appreciated?





Dangers of Incentive Compensation

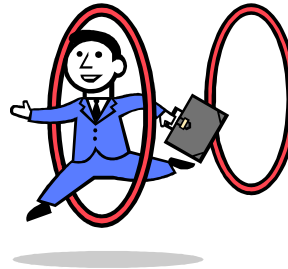
- **Be careful of what you ask for!**
 - Bonus Based on:
 - Share Growth & not COF
 - Loan Growth & not asset quality
 - Reducing Operating Costs & not being prepared for future challenges
 - Profit/ROA & not service quality
 - **Incentives must balance risk & reward**
 - Win-Win-Win-Win-Win opportunity

Incenting the CEO

Membership Growth

Share Growth

Loan Growth



Balanced Scorecard Approach

CEO BONUS WORKSHEET		December 31, 2004												Score
Value	ROA HIGH	Net Op EXP Med	CAPITAL/ ASSETS HIGH	ASSET GROWTH LOW	SHARE/ MEMBER LOW	EMP T-OVER LOW	DEL MED						100	
ACTUAL	20	15	20	10	10	10	15							
	0.79%	2.72	7.03	4.19	7416	17%	0.65%							
	1.25% 20 -	2.00% 15 -	8.25% 20 -	4.00% 6 -	\$ 8,400 10 -	10% 10 -	0.55% 15 -						6	
	1.15% 15 -	2.25% 12 -	8.00% 15 -	3.00% 8 -	\$ 8,200 7 -	13% 8 -	0.60% 12 -						-	
	1.05% 10 -	2.50% 9 -	7.50% 10 -	2.00% 10 -	\$ 8,000 4 -	15% 6 -	0.65% 9 -						9	
	0.95% 5 -	2.75% 5 -	7.25% 5 -	1.00% 8 -	\$ 7,500 2 -	17% 4 -	0.70% 5 -						11	
	0.85% 3 -	3.00% 2 -	7.00% 3 -	0.00% 6 -	\$ 7,000 -	20% 2 -	0.75% 2 -						3	
	0.75% (2) -	3.25% (2) -	6.75% (2) -	-	\$ 6,500 (1) -	23% (1) -	0.80% (2) -						(2)	
	0.65% (5) -	3.50% (4) -	6.50% (5) -	-	\$ 6,000 (2) -	25% (3) -	0.85% (4) -						-	
	0.55% (8) -	3.75% (7) -	6.25% (8) -	-	\$ 5,500 (3) -	27% (5) -	0.90% (7) -						-	
	0.45% (12) -	4.00% (10) -	6.25% (12) -	-	\$ 5,000 (4) -	30% (7) -	0.95% (10) -						-	
Peer	0.89%	2.77	10.97	6.97	\$ 6,671	20%	0.79						27 %	
MAXIMUM BONUS = 5% OF NET PROFIT														
Profit	\$ 1,113,721													
5.0%	\$ 55,686													
BONUS	15,035													

Balanced Scorecard Approach

Incentive plans must be “balanced” so that several Complementary areas grow together, with sound risk management practices.



Continually Reevaluate Your Package

- Review the Salary, Benefits & Perks offered
- The Good CEOs won't leave capriciously, though *they will be presented with other opportunities.*

**Goal is to keep
The Good Ones satisfied
with their situation &
from being attracted.**

The Good Ones are:

- *Hard to Find*
- *Not Easy to Develop*
- *Worth Keeping*



Ponder:

“An effective CEO will not resolve all uncertainties...

... but an ineffective CEO might.”