

CEO Self-Evaluation: To Thine Own Self (Assessment) Be True

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“Report cards” may bring to mind evaluating middle school students, not CEOs of multi-billion dollar companies. But over the last decade, some companies have adopted a CEO “self-assessment” for evaluating the performance of CEOs. This approach can take a myriad of forms, ranging from an informal discussion with the CEO to having the CEO prepare a formal report addressing performance issues.

Consider the following: An Intelligize search completed in May 2022 for publicly filed proxy statements that contain “self-assessment” or “self-evaluation” within three words of “CEO” returns 623 results. While admittedly imprecise and anecdotal, this survey of proxy disclosures suggests that some public companies now incorporate CEO self-assessment as part of their review of CEO performance.

The proxy disclosure of the CEO self-assessment process varies, depending on the issuer. For example, consider the following disclosures from the 2022 proxy statements for International Business Machines Corporation (“IBM”), McKesson Corporation (“McKesson”) and Akamai Technologies, Inc. (“Akamai”):

- **IBM:** “The Chair of the Compensation Committee works directly with the Committee’s compensation consultant to provide a decision-making framework for use by the Committee in determining annual incentive payouts [to the] Chairman and CEO. This framework considers the Chairman and CEO’s self-assessment of performance against commitments in the year, both qualitative and quantitative, and also considers progress against strategic objectives, an analysis of IBM’s total performance over the year and the overall Company incentive score. The Committee considers all of this information in developing its recommendations, which are then presented to the independent members of the IBM Board of Directors for further review, discussion, and final approval.”
- **McKesson:** As part of the assessment of year-end results, the “CEO presents an assessment of his individual performance results to the Board and discusses his goals for the new fiscal year.”

- **Akamai:** “With respect to his own compensation, the CEO conducts a self-assessment of prior year performance. The Board (without the participation of the CEO) then discusses and evaluates the Chief Executive Officer’s performance. The TL&C [Talent, Leadership & Compensation] Committee is the ultimate decision-maker with respect to the compensation of our Chief Executive Officer and other NEOs.”

The actual components of the CEO self-assessment vary from company to company.

- Some companies may follow a “free form” approach, which allows the CEO to set forth the key metrics or goals he or she views as relevant and the extent of his or her achievement. Others provide a set of financial and non-financial goals (such as leadership milestones) that need to be addressed.
- As to time frame, some focus on the most recently completed fiscal year; others focus on goals that stretch over a longer period (such as a three- or five-year budget period), and may include progress on succession matters if the CEO is approaching retirement.
- In line with the current focus on ESG goals, the CEO may be expected to address progress on environmental and social issues.
- There may be a “catch-all” category, where the CEO is expected to address “misses” or areas for improvement.

How is the self-assessment used? Frequently for compensation purposes, often in connection with assessing CEO achievement of non-financial metrics underlying the annual incentive plan (“AIP”) and related payouts under the AIP (such as strategic and operational goals separate from earnings per share (“EPS”) growth, total shareholder return (“TSR”) and other financial metrics). Second, at a more general level, as a “reality check”—the fact is that the tone, candor and “feel” of a self-evaluation, in many cases reading “between the lines,” can provide the Board with a helpful overview of the CEO’s view of his or her performance and whether there is any “disconnect” between that view and the current operations and future prospects of the company. The audience for the CEO self-assessment is generally the Compensation Committee (but could include other Directors serving on committees that touch on CEO performance, a committee of independent Directors, or even the full Board). Issues relating to privilege also have to be considered when using CEO self-assessments, so counsel should be consulted as part of the implementation of a self-assessment protocol.

We close with some observations from Mark Nadler, a friend of the Firm and the founder of Nadler Advisory Services; Mark (along with his late brother David Nadler) has been a pioneer in advising CEOs and Boards. Mark warns against focusing only on the CEO's achievement of financial metrics, particularly when the company has had a good year. In Mark's view, financial metrics are "lagging indicators," so regardless of how well the company has performed in any given year, it is important to focus on the future, and see how the CEO is contributing to the next year's performance and the overall future of the company. As part of that non-financial "future oriented" emphasis, Mark recommends that the self-assessment take into account strategy, talent development, company culture and leadership—all factors that remain important for the long game.

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