

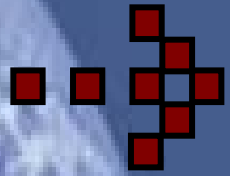
International Institute of Management



Executive Seminar Series

Med Yones

IIM Open Courseware Project



Здравствуйते

こんにちは

سلام

Howdy

你好

नमस्ते

Ciao

Hola

您好



여보세요

Hallo

Guten Tag

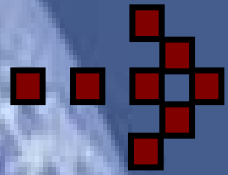
مرحباً

וּלְהַ!

Salut

Obrigado

Xin chào



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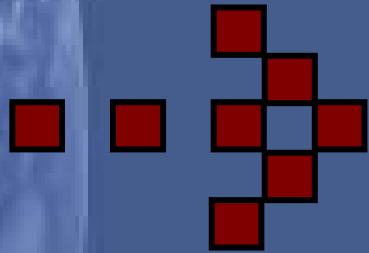
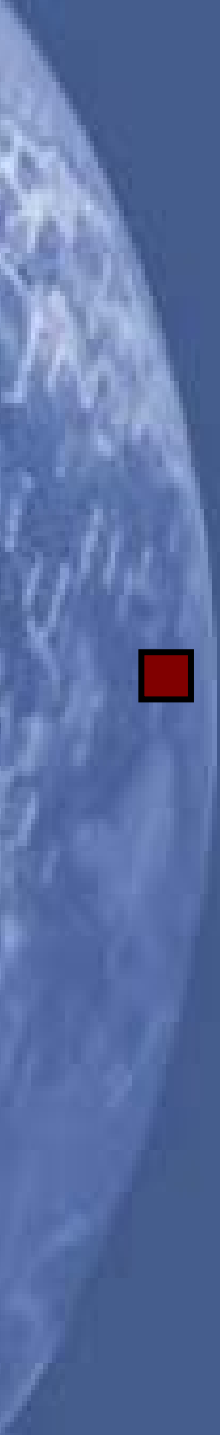
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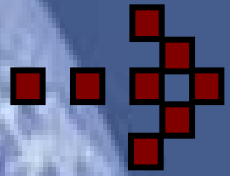
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International Institute of Management
10161 Park Run Dr. #100
Las Vegas, NV 89145
USA

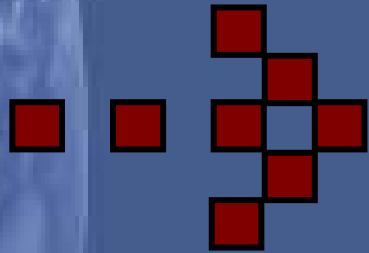
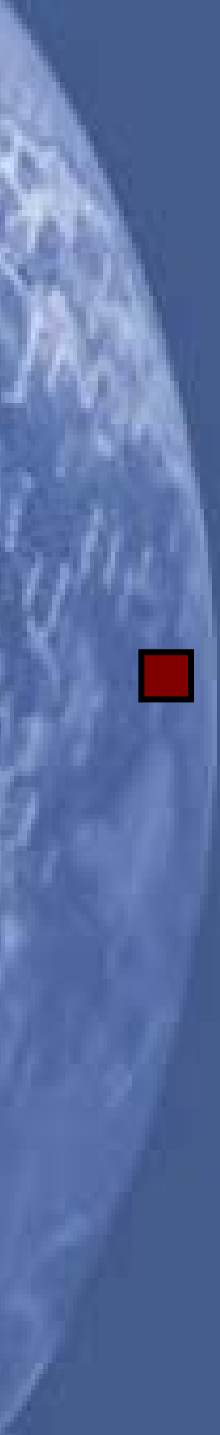
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Governance



Board of Directors (BOD) & the Chief Executive Officer (CEO)



How to Evaluate CEOs?



CEO Compensation - IIM Best Practices

- Majority of CEO/CXO remuneration should be performance-based
- Tied to a comprehensive set of business performance metrics rather than a limited set of metrics such as stock price or profit
- Benchmarked based on weighted criteria relative to company development stage (resources vs. results), competitive position and past/current performance delta
- Balanced between short-term and long-term goals/gains
- Fair to the CEO and the company
 - No over-pay or under-pay due to factors beyond CEO's control



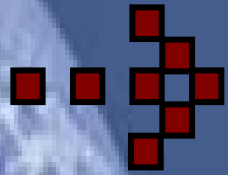
CEO / CXO Sample Performance Metrics

- Financial performance metrics
 - Financial performance targets
 - Profitability. Growth. P/E...
- Operational (Non-financial) metrics
 - Competitive position (market share change)
 - Employees & Customers loyalty Indices (CLI, ELI...)
 - Growth Engine
 - Innovations (e.g. new Products/Services)
 - New Markets
 - Efficiency
 - Productivity (e.g. Revenues per employees)
 - Risk Management
 - E.g. BC/DR



Harvard Balanced Scorecard (BSC)

- A method of implementing a business strategy by translating it into a set of performance measures derived from strategic goals that allocate rewards to executives and managers based on their success at meeting or exceeding the performance measures. -(Source: Kaplan & Norton, 1996)
- BSC Dimensions
 1. Financial: How do we look to our shareholders?
 2. Customer: How do our customers see us?
 3. Internal Business Process: What should we do that is excellent?
 4. Employee Innovation and Learning: Can we continue to improve and add value?



Harvard Balanced Scorecard

Customer

Market share, new customer acquisition, customer satisfaction index, customer profitability, customer retention...

Financial

Revenue, growth%, gross margins, operating income, net margin, EPS, cash flow, ROI,

Learning & Growth

Employee: training, retention, employee satisfaction index, IS knowledgebase utility, IS collaborative activity

Sample Metrics

Internal Business Process

Innovation: % of sales from new products.

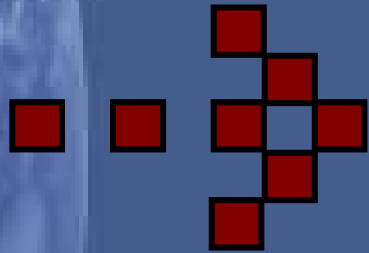
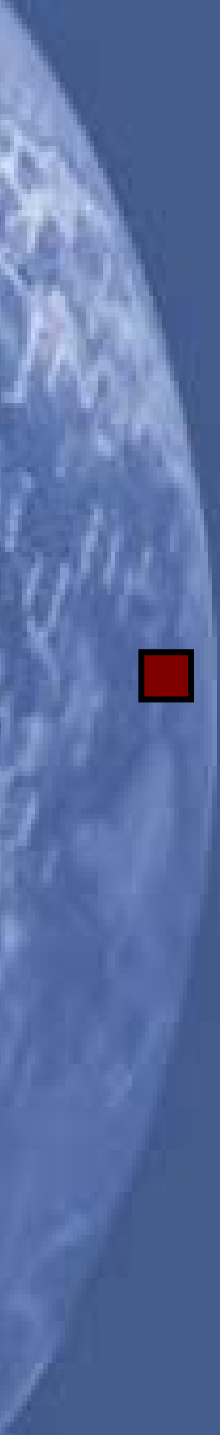
Operations: order processing time, delivery time, number of errors. product returns, SLAs.

CEO Compensation with BSC - Example

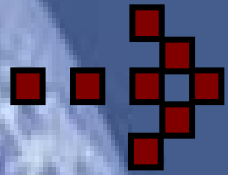
CEO performance bonus is designed as a percentage of base salary.

CEO paid bonus percentage is tied to percentage of meeting/exceeding performance targets

Category	Measure	Weighting
Financial (60%)	EVA	25%
	Unit Profit	20%
	Market Growth	15%
Customer (20%)	Customer satisfaction survey	10%
	Dealer satisfaction survey	10%
Internal (10%) Process	Above average rank on industry quality survey.....	5%
	Decrease in dealer delivery cycle time.....	5%
Innovation (10%) and Learning	Suggestions/employee	5%
	Emp. satisfaction survey	5%

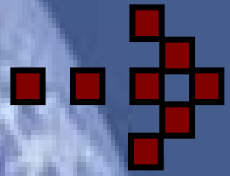


CEO & BOD Questions



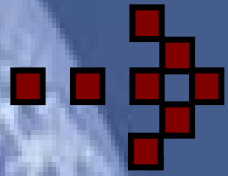
The CEO's Top 3 Challenges

1. Change & rate of change
 - Rapidly changing external and internal environments make most strategies obsolete (resources, competition, technology, regulations...)
2. Complexity: Interaction of internal and external forces making strategy difficult to execute and control
 - Information analysis & decision making process
 - Coordination
 - Monitoring & control
3. Balancing stakeholders interests (investors, supplier, partners, employees and clients)
 - Balancing and resolving conflicting demands and priorities
 - Power and politics



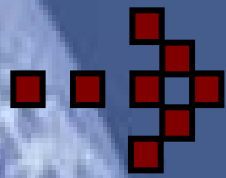
CEO Performance - Evaluation Criteria

- The level of financial and non-financial business performance is based on three internal factors
 - Strategy
 - Leadership
 - Execution
- The next questionnaires can help the CEOs, BODs and management consultants in assessing and identifying performance gaps



Evaluating “CEO Strategy”

- Does the CEO have a good understanding of the business environment/industry?
- Does the CEO have an adequate knowledge of company’s business model/operations and allocation of its resources?
- Did the CEO accurately assess the company’s SWOT?
- Did the CEO identify alternate competitive strategies & choose best fit?
- Are enterprise performance targets compatible with organization’s resources and structure?



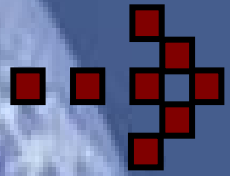
Evaluating “CEO Leadership”

- Does he/she have enough power?
- Is the leadership style suitable for the organization?
- Does the CEO’s outlook/personality/attitude/ethics win trust, support and action from others?
- How is the CEO’s EQ, people, political, communication and crisis management skills?
- How is the corporate culture, employee motivation and pride?

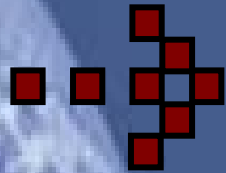


Evaluating “CEO Execution”

- Did the CEO identify, communicate and develop key success factors (CSFs) within the organization?
- Does the company have adequate performance monitoring and control systems to track the progress of work and take corrective action when required?
- Does everyone in the organization understand the game plan and their role within agenda?
- Are enterprise-wide initiative, programs, projects properly aligned and integrated?
- Is the organization operating at optimized state (efficiency and effectiveness metrics)?



Questions?



Спасибо

Gracias

Grazie

متشكراً

ありがとう
ございます

धन्यवाद

Merci

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Danke

谢谢

너를 감사하십시오

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Howdy

Thank you

謝謝
شكراً

אנא בדוק האם המלה

Cảm ơn