

Assuring an Effective Chief Executive: Selection, Evaluation and Compensation

With the growing number of retirements in the ranks of New England public power general managers, the responsibilities of selecting and evaluating new chief executives have taken on increased importance for municipal light boards. To assist in carrying out these responsibilities, the American Public Power Association has prepared the following information and suggestions for boards which may be hiring or evaluating their chief executives.

Board and Management Relations

The success of a public power utility depends on the effectiveness of the board, chief executive, and staff; each knowing their respective responsibilities and carrying them out. The utility board is responsible for hiring and evaluating the chief executive officer (CEO) and setting the policies that guide the executive in finance, human resources, operations, and other matters. The CEO is then responsible for the organization: management of the staff and day-to-day operations.

For the utility board or city council, the first step is selecting the general manager or chief executive. The board/council must then set goals and policies that guide the executive's efforts and a system for evaluating the CEO's performance on those goals. As part of this process the board/council must reach consensus on future priorities, which then become the focal points for CEO efforts and the basis upon which CEO performance will be judged.

Selecting a Chief Executive Officer

One of the most important tasks a utility board faces is selecting a CEO. The task can be made easier when the board has ample notice and can conduct the process in an orderly fashion, allowing adequate time for the search, interviews, reference checks, and negotiations. The task may be simplified when an obvious internal successor is available.

Unless there exists a very strong internal candidate, turning quickly and exclusively to internal candidates is a temptation the board may want to think twice about. Today's CEO must exhibit the management skills, marketing savvy, and technical knowledge necessary to navigate the rocky road of industry restructuring. Whether available as a result of corporate downsizing or intrigued by the new opportunities this industry represents, many executives with strong utility, power marketing, or other high tech industry track records will be attracted by the right offer from a public power utility.

A common practice in selecting a utility executive is to set up a board search committee. Consultants and executive search firms can also help find key managerial personnel, but final selection is the board's responsibility.

Finally, the board must recognize that a candidate should embrace the goals of the community and the philosophy needed to run a publicly owned enterprise. Some boards begin the recruitment process by identifying the goals of the organization and the leadership skills needed to achieve those goals. Then, they look for a candidate whose skills and background suggest the highest likelihood of achieving those goals.

Establishing Areas of Responsibility

For the governing board and chief executive to work well together, there needs to be a clear and agreed-upon delineation of areas of responsibility. For example, it's common practice to require board approval in these areas:

- Setting electric rates
- Approving the utility budget
- Setting the salary of the chief executive
- Issuing long-term bonds
- Making utility financial investments
- Approving power purchase contracts

Furthermore, the board may want to develop governance statements or policies in these areas:

- The board's long-range vision of the utility and a strategic plan for achieving it.
- Business practices concerning financial operations, investments, and relationship with customers, staff, vendors, and others.
- How the board will interact with, direct, and evaluate the chief executive.
- How the board itself will conduct its business, including meeting protocol, use of committees, voting procedures, and evaluation of the board's own effectiveness and performance.

CEO Evaluation

The board should establish criteria for evaluating the utility's chief executive and conduct a formal performance review at least annually. Areas the evaluation should address include:

- *Leadership.* The chief executive's overall leadership skills: identifying and setting strategy and accomplishing long-term goals.
- *Activities/Processes.* How well the executive directs staff, communicates with the community, and works with the board.
- *Results/Productivity.* The extent to which the chief executive accomplishes written objectives and meets budget and other goals.
- *Competitive Position.* The extent to which the chief executive advances and enhances the organization's position in the marketplace.

The following are suggested steps for moving through the chief executive evaluation process:

1. Agree with the chief executive on his/her job responsibilities or job description.
2. Identify the board's and the executive's goals.
3. Agree on the process and criteria of the evaluation, jointly among the board/council members and then with the executive.
4. Encourage the executive to conduct a self-assessment on his/her attainment of previous goals and overall performance.
5. Assure board/council members reach consensus on the executive's evaluation.
6. Meet with the executive to deliver the evaluation.
7. Identify needed follow-up information or corrective actions.
8. Agree with the chief executive on goals for future performance (priorities, goals, timetable).

Board/Management Dynamics

A certain level of give and take between members of the utility board and the chief executive is normal and can increase productivity. Tension may develop around the desire to meet each other's expectations for performance and fulfillment of duties. It may also result from the fact that the board has, at times, a paradoxical role. While the board must support and direct the activities of the CEO, it must also redirect and terminate the CEO, if necessary, when performance is unsatisfactory. Hopefully, both the board and the CEO are sensitive to each other's needs and this dynamic tension does not descend into personal animosity or distrust.

When problems arise in board/management relations, they may reflect the following difficulties:

From Manager's Point of View

- The board is inactive and disinterested in the operation of the utility.
- The board is too involved in tasks that should be left to the manager.
- Members of the board are focused on serving special interests or individual agendas to the detriment of the utility.
- The board ignores information prepared for it by the staff.
- The board is divided and does not present a unified front when setting policy.
- The board abdicates to the manager its oversight and policymaking responsibilities.
- The board is too slow to respond to new developments or problems.

From Board's Point of View

- The CEO is unresponsive to board concerns.

- The CEO is unresponsive to citizens/customer concerns.
- The CEO attempts to steer the board in pre-determined directions.
- The CEO lacks ability to be innovative and flexible.
- The CEO's work habits are inefficient or ineffective.
- The CEO fails to follow policies established by the board.
- The CEO asks the board to make decisions in short periods of time.

Compensation and Benefits

A basic policy decision for board members concerns the competitiveness of its compensation and benefits structure. Recruiting for a chief executive position may require competing on a national level for quality talent. Utilities may be able to recruit engineers, financial officers, sales/marketing executives, and other professionals from local metropolitan areas or the surrounding region. Clerical and support staff may most likely be found in the community. Setting compensation levels appropriate to the required market is crucial. Although there may be pressure to pay the utility CEO a salary in line with other local officials (for example, the mayor, police chief or public works director), the national market for utility CEOs may suggest otherwise. Board members need to take a leadership role to ensure competitive salaries are paid and the most accomplished individuals are hired.