

## **A Vital Ingredient in Building & Sustaining a Trustful Board/CEO Partnership**

The uncertainty and complexity of today's rapidly transforming health care environment requires dynamic CEO leadership more than ever. A sound and steady relationship between the board and CEO helps support the CEO during this turbulent time and, in turn, a close and productive partnership between the board and CEO helps ensure the board's vision and strategic direction are carried out.

The board's evaluation of CEO performance is the foundation of this important partnership. A purposeful and productive CEO evaluation should do more than simply substantiate board decisions about the CEO's performance. More importantly, it sets clear expectations, ensures a consistent focus on the board's most urgent and critical priorities, strengthens CEO leadership, and contributes to success in achieving the mission and vision.

The CEO evaluation process ensures opportunities for productive, two-way board and CEO communication that work to eliminate unwelcome surprises. The evaluation should confirm the board's goals and the CEO's essential functions and leadership responsibilities. Further, it should identify the personal attributes necessary for CEO success and draw attention to specific areas requiring increased focus by the CEO. In addition, it should ensure the board is successful in carrying out its legal responsibilities, strengthen and solidify the board/CEO partnership, and advance the CEO's leadership skills and effectiveness. Finally, the evaluation process should ensure that the CEO is appropriately rewarded for his or her performance in meeting the board's expectations.

### *The CEO Self-Evaluation: A Key Factor in Evaluation Success*

The CEO's personal evaluation of his or her performance is a vital part of a successful evaluation process. Steve Wheeler, board chair of Phoenix, Arizona's Honor Health, begins his board's evaluation by asking the CEO how well he believes he has met both the organization's board-approved goals (which are developed with CEO input) and the jointly determined personal CEO goals, and where the CEO believes he can best improve his performance moving forward. Wheeler believes the true value of the evaluation is to enable and empower the CEO to be as effective as possible. This requires the CEO to do some "soul-searching" in his self-assessment responses, and Wheeler then offers helpful comments and corrective actions for areas of improvement.

At Asheville, North Carolina's Mission Health, president and CEO Dr. Ron Paulus develops an annual letter to the board that compares events of the past year with projections he had made for the year. The letter is organized around Mission Health's five strategic plan segments, which tie directly to the CEO's incentive goals. While he highlights Mission Health's successes in the letter, Paulus also takes care to acknowledge where performance fell short or deviated from projections. Taylor Foss, Mission Health's senior vice president, credits Paulus' candor and transparency for the high degree of trust he's built with the board and others throughout the organization.

James Votruba, board chair of northern Kentucky's Saint Elizabeth Healthcare, believes that the CEO self-evaluation provides important and powerful insights that are highly useful for the board. He shares Foss' perspective on building trust and partnership with the board, noting that "One of the reasons the board trusts the CEO 100 percent is because he brings not only good news to the board, but bad or difficult news as well, including decisions that didn't quite work out as planned. The board trusts that nothing's ever held back."

## *Defining Meaningful Evaluation Criteria*

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The structure and formality of CEO evaluations vary from organization to organization, ranging from the use of comprehensive and targeted criteria to more informal and flexible assessments. For boards choosing to evaluate the CEO using a defined set of criteria, it is important to ensure the criteria clearly express the board's expectations of the CEO and the leadership direction it seeks for the organization. The criteria should ideally define: 1) essential CEO functions; and 2) the personal leadership attributes and behaviors the board expects the CEO to demonstrate.

The criteria included in the evaluation should be clear and concise, and enable a fair and objective assessment of executive performance. For organizations like Honor Health, a recently conducted CEO search assisted the board in developing a CEO "profile" that identified the qualities and characteristics the newly hired CEO should demonstrate.

The Saint Elizabeth Healthcare board has identified six areas of CEO performance it believes are vital to the organization's success:

1. Visionary leadership and mission fulfillment, which includes strategic planning;
2. Customer focus, patient-centered care and improving community health;
3. Value-driven health care and continuous quality improvement;
4. People-centered leadership, the CEO's relationship with the board and associates throughout the organization, and executive talent management;

5. Physician-hospital alignment, bridging the two silos (hospitals and physicians) to bring them together in one system; and
6. Growth and financial strength.

Saint Elizabeth's customer and value-driven focus plays a big part in its CEO evaluation, as Votruba explained: "We're ultimately trying to create a healthy community. We use evaluation metrics that look at evidence of both the quality of patient care and the patient experience." This is particularly important to St. Elizabeth as it shifts from thinking of "treating patients as supplicants to viewing them as informed consumers who will be much more aggressive in choosing their health care provider based on both quality of care and quality of experience," says Votruba. The board holds the CEO accountable for meeting quality and patient experience metrics (among others) and makes them a central component in its CEO evaluation process.

At Mission Health, in addition to using criteria in its eight performance areas, board members rate the CEO's performance in response to several questions:

1. Leadership: How well does the CEO motivate and energize the organization?
2. Strategy: Is strategy being effectively implemented? Is the health care system aligned behind it?
3. People Management: Is the CEO putting the right people in the right jobs and establishing a succession pipeline?
4. Operating Metrics: Are key metrics around quality, patient satisfaction, financial performance, etc. heading in the right direction?
5. External Relationships: How well does the CEO engage and build relationships with key stakeholders in the community?
6. Positive Reputation: How well does the CEO strive to make the organization fulfill its critical role within the community and maintain a positive image and perception of Mission Health?
7. Board Relationships: How well does the CEO work with the board to keep it fully informed on all important aspects of the organization and operations?
8. Board Structure: How well does the CEO facilitate the board's governance and committee structure?

As health care continues to shift its focus from building volume to enhancing value, hospital and health system boards should examine the operating metrics they use to measure CEO performance. For example, increases in inpatient admissions may no longer be the best measure of growth. New metrics might include increasing the number of telehealth visits,

e-visits or home health admissions. When setting measurable goals for the CEO evaluation, the board must consider: “What must the CEO do in the next 12 months to be successful?”

## *Formal and Informal, Annual & Ongoing*

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While performance reviews for compensation purposes should be conducted annually, quarterly performance review meetings between the CEO and the board chair (or designated committee) provide valuable opportunities to focus on progress toward achieving objectives and targets, and preventing year-end surprises. A well-designed CEO evaluation with continuous performance feedback strengthens the board/CEO relationship, which ultimately benefits the entire organization. The section titled, “CEO Evaluation: Process and Components,” beginning on page 5, provides more details.

Votruba believes a sound board/CEO relationship begins with the assumption that no system leader can succeed without a strong board partnership. This assumption provides the backdrop for the board’s evaluation of St. Elizabeth’s president and CEO, Garren Colvin. The foundation for the board’s relationship with Colvin is built on a set of guiding principles. According to Votruba, “communication, communication, and more communication” is the “beating heart” of those principles. He and Colvin talk frequently to ensure that he and the board are continually “on the same page,” with “no surprises coming from either direction.” Votruba and Colvin take great care to ensure that each understands, respects and honors their individual leadership roles. The board does not tread into management territory, and the president respects the board’s unique role and governance authority. The sidebar [on page 8](#) titled, “Sound Advice for Evaluation Success,” discusses other key factors that support effective CEO evaluation.

Wheeler also emphasizes the need for intentionality in conducting frequent reviews and progress checks. In addition to an annual formal review process, Wheeler leads executive sessions at the conclusion of the board’s and executive committee’s quarterly meetings. The executive sessions provide the board with an opportunity to explore how their first-year CEO is doing and what support it can offer. Wheeler believes these frequent feedback loops help build toward and ensure the most productive annual CEO evaluation possible.

## *Who Conducts the Evaluation?*

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The board chair should be responsible for ensuring a timely and successful implementation of the evaluation process. Many boards use a Compensation Committee to both evaluate performance and make recommendations on CEO compensation. Saint Elizabeth Healthcare and Mission Healthcare each use a board Compensation Committee to conduct the CEO evaluation. The Mission Healthcare committee solicits formal feedback from board members

on the CEO's performance every other year and informally in "off" years, while the Saint Elizabeth Healthcare's Compensation Committee conducts a formal evaluation annually.

Honor Health's contract with its CEO requires a formal, annual evaluation conducted by the board chair at the close of each fiscal year. The contract further stipulates that the evaluation be done in consultation with the board's Executive Committee, as well as the full board.

Whether the chair, full board or committee conducts the evaluation, the board's ultimate responsibility is to ensure a thoughtful, fair and balanced process that contributes to building mutual trust and confidence, and optimal CEO performance in carrying out his or her board-approved responsibilities. Wheeler identifies two factors most important to building trust and a positive board/CEO relationship: "First, intentional clarity about the board's thinking on certain things; and second, having individual board members care enough about their responsibilities as board members to want to reach out and understand, not just the business, but also the people in the various leadership positions."

### **CEO Evaluation: Process & Components**

It's important for the board to have in place a defined process for evaluating the CEO, and ensure that the CEO's performance is measured using criteria that are most relevant to leadership success, and to the success of the organization. Seven recommended steps to take in developing the evaluation, ideas for rating CEO performance, and several areas boards may consider including in an evaluation are outlined below.

## *Designing a CEO Evaluation*

A successful CEO evaluation should use pre-determined criteria and goals specified in the CEO compensation policy established by the board, and agreed to by the CEO. A typical process includes:

1. **Assign Responsibility:** Determine whether the CEO evaluation will be conducted by the full board or by an assigned committee or task force of the board.
2. **Develop the Form:** Develop the CEO appraisal form using criteria already agreed upon by the board and CEO (the criteria should never be a surprise to the CEO).
3. **CEO Self-Assessment:** Request the CEO to complete a self-assessment using the approved criteria.
4. **Board Assessment:** Incorporate the CEO's self-assessment results into the appraisal form, and distribute the form with the CEO's self-rating to the full board (or assigned committee or task force).

5. **Summary Report:** Compile the results of board ratings into a comprehensive report for board discussion (or discussion by the assigned committee or task force).
6. **Board or Committee Review:** Board members (or the assigned committee or task force) meet to decide what to emphasize in their feedback to the CEO and discuss the final report.
7. **CEO Feedback:** The board chair (and other identified board members) finalize the CEO appraisal report and meet personally with the CEO to discuss the results. This in-person meeting should focus on performance improvement feedback to the CEO, and engage in a productive two-way dialogue with the CEO.

### ***Evaluation Criteria***

A meaningful CEO appraisal typically includes ratings of the CEO's performance in both quantitative and qualitative areas. For each area, the board should rate the CEO's performance using numerical ratings such as:

- 5: exceeds expectations;
- 4: meets all expectations;
- 3: meets most expectations;
- 2: meets some expectations; and
- 1: does not meet expectations.

While every CEO's evaluation criteria will be unique to their organization's preferences and requirements, the list below provides ideas for potential areas in which to rate CEO performance. In each area the organization should provide bullet points to give board members a general idea of what the board should consider when rating the CEO's performance in that area.

For example, under the responsibility of ensuring high quality and patient safety, the evaluation may describe the following CEO responsibilities for the board to consider before rating the CEO's performance:

- Ensures that quality and patient safety are a top priority at every level in the organization
- Establishes and nurtures a culture built on quality, service and continuous improvement
- Ensures appropriate resources are allocated throughout the organization to deliver high quality, patient-centered care

- Uses quality outcomes and data to drive actionable decision-making
- Ensures that patients receive the right care, at the right place and at the right time

Below are several areas boards may consider including in a CEO evaluation:

### ***Assessment of Essential CEO Accountabilities***

- Quality and patient safety
- Financial management
- Physician relations
- Community health and partnerships
- Strategic planning
- Board relations
- Leadership and culture
- Leadership team relations and development
- Advocacy and fundraising

### ***Assessment of CEO Personal Attributes & Leadership Qualities***

- Serves as a change agent
- Risk-taking and problem solving
- Commitment to continuous leadership improvement
- Systems thinking
- Partnership focus
- Emphasis on communication
- Ethics

### ***CEO Goals & Objectives***

- The CEO's performance should be assessed against the goals and objectives approved by the board in the previous year.

## Sound Advice for Evaluation Success

- “The purpose of the appraisal is to make the CEO as effective and successful as possible, not to pronounce judgment. It’s to make sure we have the highest performing institution we can and determine how we can help our CEO be even better.” *Steve Wheeler, Honor Health*
- “Evaluations only work when the board engages with the CEO. They don’t do it to the CEO, they do it with the CEO. Our CEO is a full partner in that process. He works for the board, but the relationship is one in which he’s a full participant.” *Jim Votruba, Saint Elizabeth Healthcare*
- “Anything that creates an enhanced dialogue between the CEO and the board, where there’s a transparent, honest communication about issues and opportunities is a good thing.” *Dr. Ron Paulus, Mission Health.*
- “Frequent feedback should be used to enable the macro-review by identifying necessary short-term corrections.” *Steve Wheeler, Honor Health*
- “Get started. If you just start doing something instead of worrying about it, it’s not as hard as anybody thinks. Keep it simple. You don’t have to over-complicate it.” *Dr. Ron Paulus and Taylor Foss, Mission Health*
- “It’s beneficial every five years or so for the board to conduct a deeper, more comprehensive 360-degree CEO assessment with the help of an outside consultant.” *Jim Votruba, St. Elizabeth Healthcare*
- “Having board members who care enough about their responsibilities to reach out and understand not just the business, but also the people in the various leadership positions has contributed the most to the board/CEO relationship. Our current CEO is very purposeful about developing strong board relationships.” *Steve Wheeler, Honor Health*
- “It’s very important that when things are really going well to not get lazy about the CEO evaluation and succession planning process. It’s also the time to put in place both the CEO evaluation and a program for succession planning.” *Jim Votruba, Saint Elizabeth Healthcare*

*Note: The American Hospital Association offers a Sample Chief Executive Officer Performance Appraisal Process and Assessment Form. The form may be accessed at <http://trustees.aha.org/execperformance/AHA-Sample-CEO-Performance-Appraisal.pdf>.*

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