

Trustee Insights

EXECUTIVE PERFORMANCE AND COMPENSATION



Commonsense Tools for Board-CEO Relationships

Effective evaluation and assessment support goal alignment

BY TODD C. LINDEN

It just makes common sense: The better the professional relationship between the health care board and the chief executive officer, the better the health care organization will perform.

Horace Greeley, a newspaper editor and politician in the late 1800s, once remarked that “common sense is very uncommon.”

Greeley also reportedly told his friend Josiah Bushnell Grinnell to “Go West, young man.” Grinnell did just that and founded the town of Grinnell in Iowa, where I spent more than two decades as CEO of the hospital in that community. With service on more than two dozen boards, including health care boards like the American Hospital Association and higher education boards like Grinnell College, I’ve seen firsthand how important board and CEO relationships are to the success of the organization.

Those experiences taught me

commonsense tools to navigate crucial CEO and board relationships.

Too often, boards put more effort into the CEO selection process than they do for evaluation and assessment activities. High-quality board and CEO relationships are built on trust, respect, active communication and a comprehensive understanding of the respective roles for each. To ensure optimal relationships, boards have a duty to spend equal efforts on the four pillars of CEO performance: selection, guidance, support and evaluation. Each of these activities builds on the other and, if done well, inevitably leads to high-quality relationships and higher organizational performance.

Steps to a Successful Board-CEO Relationship

To achieve an exceptional job performance evaluation, it’s important to start with a selection process that clearly states what the board desires in its chief executive. It’s best when this includes a comprehensive CEO profile and job description and a well-defined set of goals and objectives. With clear expectations, the board is empowered to effectively guide the CEO.

Successful boards review CEO goals and objectives on a routine basis throughout the year, often using straightforward dashboards. Many organizations provide an informal or midyear evaluation to enhance the performance appraisal process,

especially for CEOs early in their tenure with an organization. The interim evaluation generates no surprises at the annual formal evaluation. Guidance, simply put, is keeping the CEO fully informed on what the organizational priorities are for the year.

Good guidance also comes with adequate support. In 1993, business guru Peter Drucker proclaimed, "Health care organizations are the most complex form of human organizations we have ever attempted to manage." One could argue that today's hospitals and health systems are far more complex than in 1993. COVID-19 has certainly intensified this complexity.

The job of a health care organization's CEO is one of the most difficult in American industry, and it requires unwavering board support. When difficult decisions are made by the CEO or by a board needing CEO enforcement, the leader must know the board has their back. Without it, excessive turnover and a lack of courage to make difficult decisions are the outcome.

Evaluation Process

When the board appropriately selects, guides and supports the CEO, it sets the table for an effective evaluation process. A key step in the process is to establish board policy on expectations for the CEO and the performance appraisal. (See [governWell Chief Executive Officer Performance Assessment](#).)

This policy provides a comprehensive road map for the evaluation



Questions for Board Members' Consideration

- Does the board have a clear CEO evaluation process in place?
- Does the board have clearly defined CEO goals and expectations that are tied to the organization's mission and vision? Are they linked to the CEO's compensation?
- Does the CEO know those goals in advance and measure progress throughout the year?
- When it is time for the CEO's annual review, is the board or CEO surprised by the outcome?
- When the board thinks about its overall evaluation and compensation process, does it use the process as an opportunity to strengthen the relationship between the board and CEO and help improve the CEO's performance?

process to ensure the board and CEO are on the same page on how the CEO will be evaluated. In most board-CEO relationships, there is a lack of significant direct observation when it comes to evaluating performance. That's one challenge that must be acknowledged from the beginning. In most evaluation situations, the leader has direct surveillance of their team members. This is simply not the case with a board and their CEO. Knowing that, on what basis does a board member adequately assess CEO

performance when it comes to medical staff relationships or interactions with middle management of the hospital or health system?

This challenge can be mitigated by some form of survey activity; however, like all parts of a CEO evaluation, this must be done well, or unintended consequences could negatively impact the board-CEO relationship.

When a 360-degree Evaluation Is Appropriate

Many organizations use some form of a 360-degree evaluation process for supporting CEO evaluation activities. Deciding who completes the survey is important. Typical respondents include:

- The CEO's direct reports (C-suite executives)
- Medical staff leaders and/or a random group of medical staff members
- A sampling of middle managers
- Community leaders

Organizations also survey front-line staff or use annual employee satisfaction or pride surveys (or all) for insights into the organization's overall culture. The survey instruments should be tailored to each of these stakeholders, avoiding questions that would be difficult or impossible to answer depending on the stakeholder. A confidential process must be established to ensure candid and honest feedback is provided, which makes sample size critical. One school of thought suggests a 360-degree evaluation is better suited for growth and

leadership development opportunities and not as a part of the performance assessment.

Most high-performing boards use an evaluation instrument — focusing on job responsibilities — and require each board member to complete it. The completed instrument is provided to either the board executive committee or the board evaluation committee or both (in some cases, to the compensation committee) for review and tabulation. (See *CEO evaluation example*.) The results of the tabulated board survey are provided to the full board and, of course, the CEO.

Another decision point for boards is to determine who provides the direct feedback to the CEO and reviews the results of the board evaluation or 360-degree results or both, where appropriate. This could include the board chair, the executive committee, the compensation committee or the full board. The goal is to share evaluation results with the CEO to ensure optimal communication.

CEO Self-Evaluation

Many boards include a CEO self-evaluation as part of the appraisal process. This provides an opportunity for the CEO to share major accomplishments for the year as well as perspective on their own performance. A self-evaluation also provides the CEO with the opportunity to share with the board an accounting of all continuing education and leadership development activities over the past 12 months. Some CEOs include an updated resume and bio, which provides the board with information regarding other professional activities, including service on local, state and national boards or volunteering for civic activities.

Goals and Objectives

A comprehensive evaluation process also includes a review of the performance with CEO-established goals and objectives for the evaluation period. Some organizations ask

Elements of CEO Evaluation Process:

- Stakeholder surveys
- Board member evaluation tool
- CEO self-assessment
- Review of CEO and organizational goals

the CEO to provide a draft set of goals that correspond to the organizational strategic plan. The goals are presented to the board either through committees or to the full board directly. Many organizations tie overall organizational goals and CEO goals to incentive compensation.

Although the focus of this article is not on [executive compensation](#), it is important to note the complex nature of setting appropriate organizational and CEO goals with incentive compensation. It takes a very engaged, knowledgeable and savvy board to effectively manage a successful incentive compensation system. Because of this, many organizations use outside consulting firms to provide guidance on setting incentive compensation activities.

Fostering Mutual Respect and Trust

When CEO evaluations are a high priority for the board and are organized well, the process instills confidence in CEOs that their time and efforts are appreciated. Mutual respect and trust are further developed. Relationships are fostered. And all of this yields higher executive performance, better organizational performance, a reduction in

Featured Resources

- **American Hospital Association:** Chief Executive Officer Performance Appraisal Process and Assessment Form [<https://trustees.aha.org/sample-chief-executive-officer-performance-appraisal-process-and-assessment-form>]
- **BoardBrief:** The Board's Role in CEO Compensation and Performance Evaluation [<https://trustees.aha.org/system/files/media/file/2021/02/BoardBRIEF-Boards-Role-in-CEO-Compensation-and-Evaluation.pdf>]
- **governWell:** Chief Executive Officer Performance Assessment [https://trustees.aha.org/system/files/media/file/2021/02/Sample%20CEO%20Evaluation_governWell.pdf]
- **Linden Consulting:** CEO Evaluation [<https://trustees.aha.org/system/files/media/file/2021/02/Sample%20CEO%20Evaluation.pdf>]

CEO turnover and even higher job satisfaction.

As a child, I enjoyed watching “Mister Rogers’ Neighborhood.” The beloved show’s cardigan-clad host taught viewers, young and old alike, a great deal about leadership. One of Rogers’ greatest gifts was his willingness to have tough conversations. He never shied away from a challenging topic. He also believed

that people grow into the best versions of themselves and that we all have important roles to play in the lives of others.

Like Mister Rogers, boards play an important role in helping their CEOs be the best versions of themselves. When fully committed to strong governance and crucial CEO relationships, the hospitals they are entrusted to govern will thrive.

And that’s, well, common sense.

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