

BEST PRACTICES IN CEO PERFORMANCE APPRAISALS

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Overview



- Why evaluate?
- Myths and debunking
- Governing board responsibilities
- Downfalls of current method
- Guiding principles
- Process
- Criteria
- Developing a performance appraisal system

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Executive appraisal paradox

The higher you go in an organization, the less likely you are to have quality feedback.

~ Longnecker & Gioia



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Why evaluate CEO performance?

- Clarify expectations between the board and the chief executive
- Foster growth and development of the CEO and the organization
- Provide insight into the board's perception of the executives strengths, limitations and performance

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Why evaluate CEO performance? *(continued)*

- Secondary purposes
 - Justify pay increase or decrease
 - JCAHO requirement
 - Justify firing CEO (or at least getting even!)

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Executive appraisal myths

- Executives neither need nor want formal performance reviews
- A formal review is beneath the dignity of the executive
- A lack of feedback fosters autonomy and creativity in executives
- Results are the only basis for assessing executive performance

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Executive appraisal myths

(continued)

- Comprehensive evaluation of executive performance cannot be captured by a formal performance appraisal



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Debunking the myths

Doing effective executive appraisals

- Conduct a structured, systematic executive appraisal process
- Incorporate development, which is essential at the executive level, into the executive review
- Make performance review and appraisal an ongoing process
- Focus on process, as well as outcomes during the executive review
- Be as specific and thorough as possible

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5 responsibilities of a governing board

1. The board has the ultimate responsibility for envisioning and formulating the organization's *mission*, vision, and goals and strategy.
2. To select, encourage, advise, evaluate, and if need be, replace CEO. A board must assume ultimate responsibility for ensuring high levels of executive management performance by focusing its attention on the CEO.

Source: Practical Governance Group

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5 responsibilities of a governing board *(continued)*

3. A board must assume ultimate responsibility for ensuring the quality of the service of the organization and operating efficiency.
4. A board must assume ultimate responsibility for ensuring the organization's financial health.
5. A board must assume responsibility for itself.

Source: Practical Governance Group

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Executive appraisals

1982

- 83% hospital CEOs evaluated annually
- 46% had pre-established written criteria

2006

- 95% hospital CEOs evaluated annually
- 79% had pre-established written criteria

Source: ACHE Executive Employment Contracts and Performance Evaluations, CEO Circle white paper 2007

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Executive appraisals *(continued)*

Compensation (2006)

- 40% of respondents had salary and bonus tied to evaluation
- 27% salary only
- 19% bonus only
- 14% not tied
 - More often case in freestanding hospitals

Source: ACHE Executive Employment Contracts and Performance Evaluations, CEO Circle white paper 2007

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Executive appraisals *(continued)*

Fairness

- 77% of hospital CEOs agreed process fair
- 86% in freestanding hospitals
- 10% disagreed
- 13% neutral

Source: *ACHE Executive Employment Contracts and Performance Evaluations, CEO Circle white paper 2007*

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Executive appraisals *(continued)*

Multisource evaluation

- CEOs think they should be evaluated by
 - Management team
 - 49% approved (43% freestanding vs. 56% system)
 - 27% disapproved (33% freestanding vs. 17% system)
 - 17% neutral
 - Medical staff
 - 45% approved (42% freestanding vs. 49% system)
 - 30% disapproved (35% freestanding vs. 24% system)

Source: *ACHE Executive Employment Contracts and Performance Evaluations, CEO Circle white paper 2007*

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Executive appraisals *(continued)*

Multisource evaluation

- CEOs think they should be evaluated by
 - Community leaders
 - 25% approved
 - 47% disapproved

Source: *ACHE Executive Employment Contracts and Performance Evaluations, CEO Circle white paper 2007*

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Executive appraisals *(continued)*

Board chairs' most important criteria in CEO evaluations

- Top criteria in 2014
 - Financial performance
 - Patient satisfaction
 - Vision or other leadership qualities
 - Clinical quality of care/outcomes
- Little difference in 2014 when compared to 2011
- Should be contract-driven, if one exists

Source: AHA's 2014 National Health Care Governance Survey Report

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Executive appraisals *(continued)*

Figure 7.1 – Weight Given to Criteria in the Most Recent CEO Evaluation

	2011		2014	
	CEO	Board Chair	CEO	Board Chair
Financial performance	4.3	4.4	4.3	4.4
Patient satisfaction	4.0	4.2	3.9	4.3
Vision or other leadership qualities	3.8	4.3	3.9	4.3
Physician relations	3.9	4.2	3.8	4.1
Cost reduction/efficiency			3.8	4.1
Strategic plan fulfillment	3.9	4.1	3.8	4.1
Clinical quality of care/outcomes	3.8	4.1	3.8	4.2
Employee Satisfaction	3.6	3.9	3.6	3.9
Legal and regulatory compliance	3.5	4.1	3.5	4.0
System/network performance	3.1	3.6	3.3	3.8
Risk management			3.1	3.7
Community health improvement	2.5	3.3	2.7	3.3

* Respondents indicated how much weight the criteria had in the most recent CEO evaluation, on a scale from 1 (no weight) to five (absolutely critical).

Source: AHA's 2014 National Health Care Governance Survey Report

Downfalls of current method

- Feedback given during appraisal interview tends to get lost or overshadowed
- Effective performance appraisal requires skills and knowledge about events that board members might not possess



Deming's critique of performance appraisal

- CEOs may be held responsible and accountable for performances over which they have no control
- Over emphasis in results-based systems tied to performance leads to compromise in quality

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Deming's critique of performance appraisal *(continued)*

- Many systems lead to average rankings and unfair evaluations
- Consequences of the above have a negative impact on the individual taking pride in their work

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Guiding principles

- Create joint accountability for the process
- Set balanced performance goals
- Clarify roles up front
- Assure appropriate rigor and objectivity
- The performance review is not an isolated event it's a process.

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Guiding principles *(continued)*

- Assure the evaluation meets the test of clarity, fairness, and objectivity
- Beware of the short-term, financial metrics trap
- Incorporate development plan as an essential component

Sources: Ketterer, R. 2013, March 14.
"A Blueprint for a Better CEO Evaluation Process."
NACD Directorship. nacdonline.org/Magazine/Article.cfm?ItemNumber=9588

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The process

- Annual objectives for coming year established at performance review
- Assure objectives are clear and measurable
- Clarify roles in the process



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The process *(continued)*

- Formal communications at least semi-annually
- Solicit board input to the process
- Document the process in detail



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General criteria for performance appraisal system

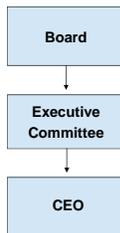
- Observability
- Measurability
- Job relatedness
- Importance to job success
- Controllability
- Practicality
- Eliminate ambiguity
- Simplicity

Source: "Hospital CEO Performance Evaluation," J. Larry Tyler

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Performance appraisal system development

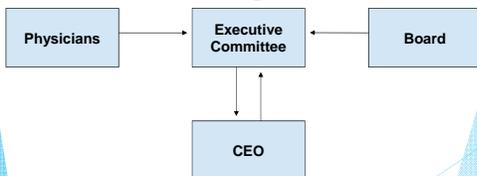
Stage 1



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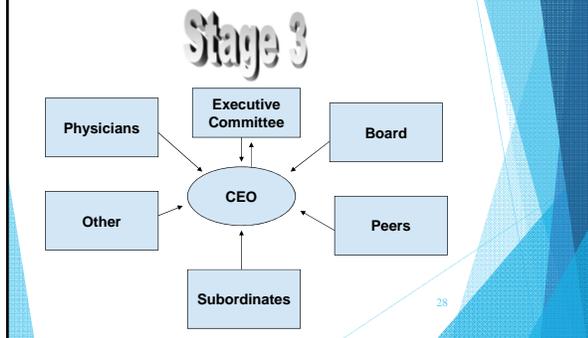
Performance appraisal system development (continued)

Stage 2



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Performance appraisal system development *(continued)*



How the appraisal process should work

At the beginning of the year, decide or determine:

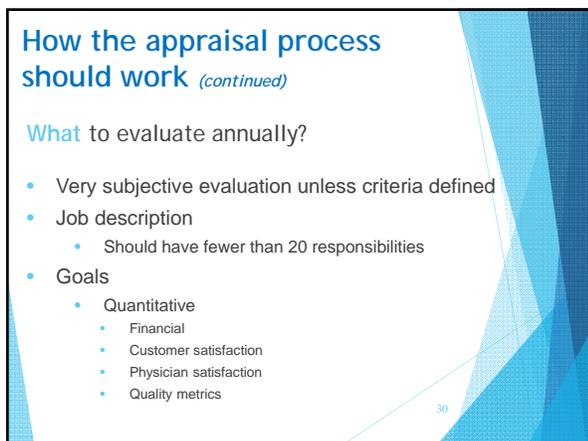
- **Who** will drive process
- **What** to evaluate
 - Job description, goals, behaviors, etc.
- **Who** will have input
 - COB, subordinates, etc.
- **Which** instrument to use (and be in agreement)



How the appraisal process should work *(continued)*

What to evaluate annually?

- Very subjective evaluation unless criteria defined
- Job description
 - Should have fewer than 20 responsibilities
- Goals
 - Quantitative
 - Financial
 - Customer satisfaction
 - Physician satisfaction
 - Quality metrics



How the appraisal process should work *(continued)*

What to evaluate annually? *(continued)*



- Goals
 - Qualitative
 - Behavioral competencies *(see handout)*

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Behavioral competencies

Magnificent seven competencies

- Charting the course
- Developing work relationships
- Using broad influence
- Structuring the work environment
- Inspiring commitment
- Communicating
- Self-management

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Behavioral competencies *(continued)*

Magnificent seven competencies

- Charting the course
 - Strategic vision
 - Innovativeness
 - Systems-thinking
 - Flexibility / adaptability



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Behavioral competencies *(continued)*

Magnificent seven competencies

- Charting the course
 - Strategic vision
 - Demonstrates a solid feel for the organization's purpose
 - Keeps track of important changes in the external environment as they may affect the organization
 - Effectively visualizes the organization's future based on organization and environmental knowledge
 - Creates a clear, appealing vision that all can subscribe to
 - Successfully aligns employees with that vision

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How the appraisal process should work *(continued)*

What to evaluate annually? *(continued)*

- Mission
 - Sample questions
 - The CEO understands the mission of our hospital.
 - The CEO uses the mission as a point of reference when making a decision.
 - The CEO refers to our mission frequently.
- Community health status
 - The community health assessment is routinely updated.
 - The community health execution plan is proceeding on target.

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How the appraisal process should work *(continued)*



What's right for your organization?

Who should give input?

- COB
- Board committee
- Entire board
- Chief of staff
- Members of the Medical Executive Committee
- Other physicians
- Management team members
- Employees
- Customers
- Regional or corporate VP
- Community

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Instrument design

"A crude measure of the right thing beats a precise measure of the wrong thing."

- John Carver



- Success not so much dependent on specific tool used
- Correlated with how well tool measures strategic and operational leadership factors important to your organization
- Choose a 360-degree template that comes close to meeting your needs, then tailor it

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How the appraisal process should work *(continued)*

In the middle of the year,

- Meet informally with the process driver and/or the board chairman to discuss job descriptions and progress on goals.
- This meeting gives CEO a "heads up" on any issue that might arise.



January Annual process December

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How the appraisal process should work *(continued)*

Toward the end of the year,

1. Train all who will give input on how to score the instrument
2. CEO provides information to board on progress toward goals and incorporates self-assessment

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January Annual process December

How the appraisal process should work *(continued)*

Final steps (year end)

1. Execute instrument and schedule time for feedback session
2. Allow CEO to respond orally and in writing
3. Incorporate action plan in goals for next year
4. Get ready to start process all over again

January Annual process December

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How the appraisal process should work *(continued)*

BASED ON RESULTS, final step of the process is to

1. Create a performance improvement plan



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How the appraisal process should work *(continued)*

2. Create a professional development plan



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Board debrief example (positive)

- Annual evaluation fully executed
- Multi-rater system
- Feedback from appropriate groups
- Good selection of topics for evaluation

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Board debrief example (improvements)

- Have outsider process data
- Have CEO evaluate himself/herself
- Expand scale to five points
- Have an evaluation meeting with the CEO to provide feedback
- Provide written evaluation and allow written response
- Require action plan based on feedback

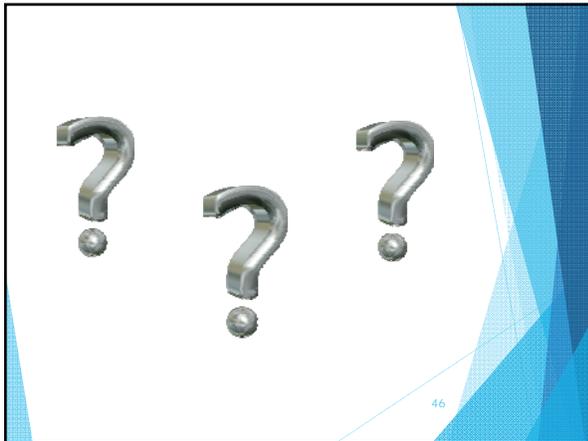
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Connecting the dots

Do you link CEO performance appraisal to salary increases?

- Determinants of CEO compensation
 - Overall performance of the organization
 - Competition with other institutions
 - Equity within organization
 - Inflation
 - Length of time in position
 - Risk or volatility of position
 - Political or community consideration
 - IRS guidelines

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Charles R. Evans is President of the International Health Services Group (IHSG), Senior Advisor at Jackson Healthcare and Associate at Practical Governance Group. IHSG is a social enterprise he founded in 2007 to support health services development in underserved areas of the world. Jackson Healthcare is a consortium of companies that provide physician and clinician staffing, anesthesia management and healthcare information technology solutions to hospitals, health systems and physician groups throughout the United States. And Practical Governance Group consists of a team of consultants passionate about advancing healthcare boards.

Charlie's other professional experience includes Hospital Corporation of America (HCA), where he managed company divisions including North Carolina, MidAmerica, and Southeast. He was named President of HCA's Eastern Group in 2004, and was responsible for operations in the Eastern half of the company. Prior to joining HCA, Charlie served in executive positions at Memorial Medical Center in Jacksonville, Fla., and Community Hospitals in Indianapolis, Ind.

Charlie has served in various governance and advisory roles for organizations including the American College of Healthcare Executives, Jackson Healthcare, CareSpot Express Healthcare, MedAssets, MedShare International, MedicalMissions.org and International Hospital Federation.

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