CEO Evaluations During Industry Disruption

Industry changes require updates to CEO evaluation processes.

The pace of healthcare disruption often seems to exceed our ability to remain current in our governance processes. A case in point is in CEO performance evaluations. Too often, such processes are stuck in hospital-centric approaches that worked well five years ago but no longer adequately reflect all aspects of CEO performance—among them, the leadership qualities needed to transform the organization for long-term viability.

One of the most important responsibilities of boards is to regularly assess the performance of the CEO using a formal, objective process. After all, the CEO is charged with implementing the board's policies and serving as its leadership partner. An effective performance evaluation process nurtures the professional growth and development of both the chief executive and the organization, and strengthens the relationship between the board and the CEO.

CEO performance evaluations should, among other aims, be built on the organization's mission, vision and values; clarify the board's expectations of the CEO; prioritize goals to work toward; and, if desired, use select objective measures on which to base the CEO's compensation.

In addition to benefiting the board and the organization overall, an effective CEO performance evaluation supports the CEO by providing him or her with candid feedback, thereby avoiding subjective judgments of performance; giving the CEO an opportunity to engage in self-assessment, which helps the CEO develop competencies and experiences; and importantly, eliminating the element of surprise—the well-known performance evaluation pattern of "good job, good job, good job … gone!"

For organizations that are members of health systems, we note that often the hospital CEO has a dual reporting relationship to the local board and to a senior executive from the health system. If this is the case, the board needs to understand its role in the CEO evaluation process, if any, and adjust its processes accordingly.

Is a New Approach Needed?

With healthcare undergoing acute and unrelenting turmoil, boards may turn their focus away from a robust performance evaluation process for their CEO. Or they may simply default to using last year's evaluation form, albeit with updated targets or performance metrics.

Instead, the board should reassess its approach to ensure it incorporates such key aspects of transformational leadership as the ability to lead the organization through industry disruptions; the effectiveness of relationships the CEO has established with a broad range of constituencies; whether the organization is moving in a positive direction on health status indicators and priorities from the community health needs assessment; whether the CEO sees himself or herself as having a bigger, broader purpose and manifests this purpose in the workplace; how the CEO anticipates disruptions; how influential the CEO can be; and whether he or she is a systems thinker.

Many Basics Still Apply

As in past eras, the performance evaluation process should begin with a systematic review of senior leadership fundamentals, which include adherence to the organization's mission and vision; performance on six to 10 tangible and objective destination metrics, by which the board will measure how well the organization has achieved its vision five years from now; progress made on annual goals and objectives that dovetail with the vision, mission and destination metrics; and achievement of the CEO's job description requirements.

Ideally, in the first quarter of the fiscal year, the board and CEO agree on both the process and the CEO's written performance goals. A board committee should oversee the evaluation process but, if applicable, bring any significant modifications or changes in the process to the full board.

Criteria developed by the committee for rating the CEO's performance should describe the core leadership responsibilities, activities and behaviors that reflect how the CEO measures up to board expectations. Performance criteria should be based on the most important priorities of the board, be consistent with the CEO's job description and incorporate new elements related to navigating the organization in an industry undergoing major transformation.

These criteria should include both quantitative and qualitative measures. Examples of quantitative measures are financial performance of the hospital or health system enterprise, physician enterprise or health plan; physician engagement scores; preventive health measures in primary care practices; or value-of-care measures across the continuum. Qualitative measures assess the CEO's leadership and managerial excellence and include ethical awareness, honesty and fairness or the relationship between the CEO and the board.

One of the most important issues to remember about the evaluation of a CEO is that the process should be ongoing. Each quarter, the CEO should brief the board or committee on how he or she is working toward goals specified in the formal evaluation process as well as results achieved. This process helps the CEO stay focused on the board's priorities and the board stay focused on those management activities and outcomes that are often "invisible," such as anticipating and averting a potential problem that could affect performance or effectively building the infrastructure or organizational buy-in needed to achieve an expected outcome.

When the assessment tool is finalized and the year-end board assessment questionnaire has been completed by members, the CEO also should complete a self-assessment. While these responses are not included in the summary of board opinions, comparison of the self-assessment with the board's assessment highlights areas for discussion with the CEO. Large discrepancies may indicate communication problems or misunderstandings about roles and board expectations.

Finally, when the report of the results is complete, the board committee chair and other appropriate committee members should meet with the CEO to review the report and discuss the results before they are shared with the full board.

What to Avoid

CEO evaluation should never be conducted as a popularity contest. Staff, the public or physicians should not be asked what they think of the CEO's performance without the framework of an objective multirater performance evaluation method (see the link at the end of this column for resources). In the same vein, boards should never commission a group of community members to evaluate the CEO. Outside constituencies may not have the same goals for or interpretation of performance as the board has. Because the CEO works for the board, performance evaluation should be based on criteria that are specified by board members, stated in writing ahead of the assessment time frame and meaningful to both the board and the CEO.

Be careful not to rely on a prefabricated evaluation from a book, workshop or magazine. While existing tools may help the board avoid starting from scratch, evaluations must be tailored to the specific needs of your organization and its CEO. In developing your criteria, make sure to include all the important expectations, even those that are difficult to measure. Your CEO evaluation should closely align with what you want the organization to accomplish.

Finally, remember that the evaluation is only one piece of your CEO's compensation determination. While the performance review typically is tied to discussions about compensation, evaluations conducted exclusively to adjust salary or determine incentive compensation can turn the review process into an exercise that is too narrowly defined. This defeats the evaluation's purpose of encouraging growth and development of the CEO in alignment with the growth and development of the whole organization. ▲


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Editor's note: For more information, including guides and board evaluation templates, visit The Governance Institute's website at www.governanceinstitute.com. In particular, see The Governance Institute's *CEO Performance Evaluation in the New Healthcare Industry*, Third Edition, Elements of Governance Series, for CEO performance evaluation guidance.