CEO Evaluations

CEO evaluations require clear goal setting and clear communication and are critical to the success of an organization. The Alabama Council of Hospital Trustees, in conjunction with the AlaHA Board of Trustees, has developed the following guidelines to assist hospital boards in conducting effective CEO evaluations. We hope the information is helpful.

Preparing for the evaluation

Boards should appoint a small committee to conduct the evaluation. This should include the current chairman and perhaps the past chairman and another officer. This committee should meet in advance of the evaluation to discuss the board's goals for the CEO for the upcoming year and any thoughts as to changes needed in the evaluation process.

The CEO should be advised to develop his/her own list of personal and hospital goals for the upcoming year.

Evaluation tools

There are two key tools board should use to evaluate the CEO. One is a subjective tool designed to measure the CEO's skillset. The other is a quantitative tool that measures the CEO's success as compared to the goals set jointly by the CEO and board.

We have provided a sample tool for the subjective portion of the evaluation, but each hospital will have to develop its own tool for the measurement of objectives met, as well as the weighting of each objective. These weights may change from year to year, and fairness dictates that board members disclose to the CEO their weighting *before* the review period rather than *after* the review period.

Compensation

To be fair, the CEO should be paid a competitive wage with competitive benefits. To know what a competitive wage and benefit package is the board will need competitive salary survey information. The Alabama Hospital Association may be able to supply the names of companies that sell this type of data and that assist boards with their CEO evaluation process. For information contact Lacy Gibson at lgibson@alaha.org or (800) 489-2542.

In highly volatile circumstances, CEO pay may need to be above the norm to reflect that high professional risk the CEO accepts in taking the job. However, if you think you might need to pay more than market value, you should seek advice from an independent source to avoid audit repercussions, particularly if you are a not-for-profit organization. In more stable circumstances, the average market salary may be more appropriate. Bargain hunting for CEOs who will accept less-than-average pay is not recommended.

Using Performance to Guide Compensation

There are a couple of ways to provide compensation based on performance.

Pure incentive payment – Rather than providing a flat percentage salary increase, you could base any compensation above the base salary on objective criteria (goals that are met).

At-risk payment – To encourage performance above the norm, many organizations are utilizing at-risk compensation. This is when you could make a portion of the salary, along with some percent for the salary increase, at risk based on performance. For example, if the salary was normally $200,000, you could place 10 percent of the base compensation at risk and allow for a 10 percent increase. In other words, if no objectives were met, the CEO would receive $180,000. If all objectives were met, the CEO would receive $220,000.

Risk is an integral component of a health care CEO's job. A degree of protection from some risk is provided by the separation terms of the CEO contract. Boards want their CEO to be creative, but the degree of creativity and the board's tolerance for creativity varies from board to board and even from year to year for the same board. The board and CEO may be more comfortable with multiple-year strategic risk rather than short-term tactical risk or vice versa.

The board might consider starting the at-risk compensation at a smaller amount and as time goes by, the board and CEO may agree to increase or decrease the risk component. It is important to remember that the risk component does not operate independently of a competitive base salary, so salary survey comparables need to be updated annually by the board, again with good data from reliable sources.

Setting the objective criteria – The goals to be achieved should follow the hospital's strategic plan and should be realistic and should be measurable. Both the CEO and the board should be comfortable with the goals and have a clear understanding of the desired outcomes. The goals must then be weighted so that the achievements can be scored to calculate the percentage increase (see example in CEO evaluation tool).