

## Washington State Hospital Association



INTEGRATED HEALTHCARE  
STRATEGIES™

[www.IHStrategies.com](http://www.IHStrategies.com)

### **Top 5 Do's and Taboos for CEO Performance Appraisals: How to Avoid it Feeling Like a Trip to the Dentist** November 19, 2010

Jim Rice, Executive Vice President



**THE BOARD-CEO PARTNERSHIP**  
CEO PERFORMANCE AND APPRAISAL



## INTEGRATED HEALTHCARE STRATEGIES™

*Exclusive to Healthcare. Dedicated to People.™*

Your Trusted Advisor for Expert Results

As hospital organizations journey to strengthen their organizational performance in an era of reforms, and calls for transparency and accountability over executive pay,

a modern approach to CEO performance planning becomes ever more essential.

Participants will be introduced to effective strategies to enhance their approach to CEO performance planning and appraisals, and

the pros and cons of linking the review to incentive pay.

Resource materials provided to all participants, with advance White Papers.



**Jim Rice**



**The Board CEO Connection**

Email: [jim.rice@ihstrategies.com](mailto:jim.rice@ihstrategies.com)

Cell: 612 703 4687



# Digital Library for CEO Performance Planning & Review

**INTEGRATED HEALTHCARE STRATEGIES™**  
*Enhance. Refine. Deliver. People.™*

**The Board's Role in Human Capital & Talent Management**  
 Fresh Thinking for Boards to Improve Effectiveness and Efficiency in People Development for Organizational Performance Enhancement

**INTEGRATED HEALTHCARE STRATEGIES™**

**CEO PERFORMANCE PLANNING & APPRAISALS**

**OPPORTUNITY FOR ENHANCED PARTNERSHIP BETWEEN HOSPITAL BOARDS AND THEIR CEOs**

**GOVERNANCE & LEADERSHIP SERVICES™**

*Enhance to Refine. Dedicated to People.*

**INTEGRATED HEALTHCARE STRATEGIES™**

**CEO PERFORMANCE APPRAISAL CRITERIA**

*Enhance to Refine. Dedicated to People.*

**THE BOARD-CEO PARTNERSHIP**  
**CEO PERFORMANCE AND APPRAISAL**

**A Two Part White Paper from The Governance and Leadership Practice Integrated Healthcare Strategies**

Part A: *Using a CEO Performance Planning and Appraisal System to Strengthen Board-CEO Relations*

Part B: *Designing and Implementing a Superior CEO Performance Planning and Appraisal System*

**GOVERNANCE & LEADERSHIP SERVICES™**

**INTEGRATED HEALTHCARE STRATEGIES™**

**CEO Performance Review:**  
 A sample to Catalyze Healthy Conversations about Annual CEO Performance Expectations and Appraisals. Try to stretch the conversations beyond the annual to the 3-5 horizon.

**THE BOARD-CEO PARTNERSHIP**  
**CEO PERFORMANCE AND APPRAISAL**

**James Rice, Ph.D., FACHE**  
 Executive Vice President  
[jhr\\_rice@ihstrategies.com](http://jhr_rice@ihstrategies.com)  
 612 703 4987

**CEO and Board Frustrations**  
 Even if you've got great relationships now, perhaps you can find an idea that will help enhance how you structure your organization's future ability!

**Tap to Break Frustrations of CEOs with Boards:**

1. First meeting attendance and prepared for the discussion on the agenda
2. Willing to engage in difficult and controversial discussion in meeting after their own first meeting session focused
3. Testing the board's intent "for the other other" board and focusing on achieving the best board results rather than personal and status
4. Being clear on a realistic calculation of what is possible, even after the board's vote on a complex plan, and respecting the CEO rather than the board or committee decisions in the longer term when the relationship plan and process
5. Board members responsible for their own role, not trying to do the CEO's job and other roles in the organization, even if they are not the CEO's job
6. Board members responsible for their own role, not trying to do the CEO's job and other roles in the organization, even if they are not the CEO's job
7. Board members responsible for their own role, not trying to do the CEO's job and other roles in the organization, even if they are not the CEO's job
8. Board members responsible for their own role, not trying to do the CEO's job and other roles in the organization, even if they are not the CEO's job
9. Board members responsible for their own role, not trying to do the CEO's job and other roles in the organization, even if they are not the CEO's job
10. Board members responsible for their own role, not trying to do the CEO's job and other roles in the organization, even if they are not the CEO's job

**Tap to Break Frustrations with Management:**

1. Increase of board meeting size, change that might prevent the CEO from getting into the room
2. Change long agendas in board meetings, being late, time left in quality discussion for the board is important, better relationships
3. Overloading the board with management detail, not enough time to understand information in greater or greater time
4. Treating board members as spectators, when they should be treated as valuable and engaged with those which to contribute on strategic discussion or consensus building
5. Willing to work through conflict and the process has reached crisis stage
6. When "meeting" at all with the CEO, the CEO's performance without being able to understand the CEO's performance without being able to understand the CEO's performance
7. Board members and not enough meeting information about the completion of issues and goals to the board and CEO
8. Lack of clear expectations of what the board is to do in the next meeting, and awareness of how the board members is being spent the relation

© 2014 Integrated Healthcare Strategies, Inc. | [www.ihstrategies.com](http://www.ihstrategies.com) | 3

**Connections:**  
 Getting from Good to Great in Our Board-CEO Relations

**Our presumption:**  
 Great hospital performance is a function of great governance (that of course not exclusively). Great governance is related to great Board-CEO relations; relations that build on a modern set of connections between the CEO and Board around the CEO performance planning and appraisal process.

Although there are few panaceas, one essential prerequisite reported by boards and CEOs from across the US is to build and nurture great Board-CEO relationships. While great Board-CEO connections and relations do not guarantee great Board-CEO connections and relations, if you don't have it, it is almost impossible to achieve it. More is needed for great Board-CEO connections.

At recent Leadership Conferences of The Governance Institute, board, physician and CEO were invited to identify practice strategies that would have the potential to establish and enhance great Board-CEO connections. This memo provides a summary of these advice-how would you refine these ideas for your unique local situation?

The overall relationship needs to be built on 1) Trust, Transparency and Accountability.

An essential ingredient for the analysis of these top 3 facts is great communications. Communications that address C's and F's features of the relationship:

Community, Cash, Conflicts (governance fact of Board-CEO communications)  
 Formal, Informal, Frequent (style of Board-CEO communications)  
 Ideas, Issues, Initiatives (outputs of Board-CEO communications)

Specific ideas that are shared from the field discussions include these items (random order):

1. Board-CEO communications should be focused on the strategic issues facing the enterprise, such as long range services, to share market needs, insights and opportunities, competitive issues or other responses in physician groups, regulatory developments, new technologies that drive our vision, needs, etc.
2. Board-CEO relations should result around clear expectations of the others role and contributions to the hospital/health system.
3. Develop great board education programs around strategy, financial and opportunities.
4. The board should convene agendas for meetings to be on time, well, and have a number of meetings for the year so we have what is happening often, and face to face should be preferred.
5. Find time to interact socially, as well as professional or business settings to foster collegiality and personal rapport.

**Getting from Good to Great in CEO-Board Connections & Relations** | 1 of 4



## Six Myths:

- Myth 1. Executives neither need nor want a formal PA,**
- Myth 2. A formal review is beneath the dignity of the executive;**
- Myth 3. Top-level executives are too busy to conduct or participate in appraisals;**
- Myth 4. Results are the only basis for assessing executive performance;**
- Myth 5. Comprehensive evaluation of executive performance cannot be captured by a formal PA, and**
- Myth 6. A lack of feedback fosters autonomy and creativity in executives.**

Joseph Zager, Journal of Healthcare Management, 2001





# Overview of Session

## **CEO Performance: Key to Organizational Performance.**

1. Overview of Components
2. The Context
3. The Benefits
4. The Process
5. Five Do's and Taboo's

Questions & Comments

Digital Library





INTEGRATED HEALTHCARE  
STRATEGIES™

[www.IHStrategies.com](http://www.IHStrategies.com)

## 1. Overview of Components:



**Connections:  
Engagement  
Energy  
Empowerment  
Enterprise Enhanced.**



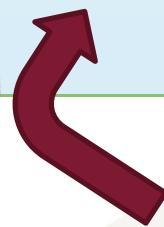
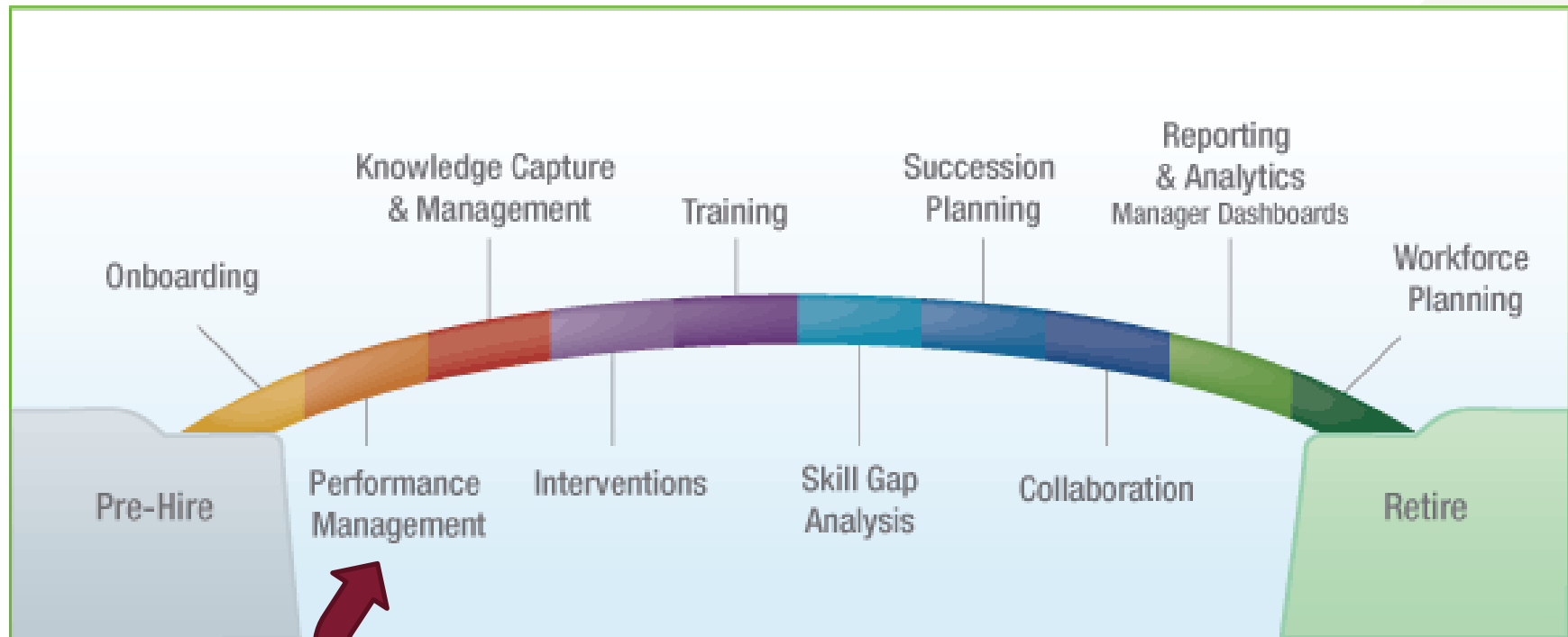
# Purposes of CEO Performance Appraisals

- Review prior years' performance
  - Core accountabilities of the job
  - Business plan performance
  - Individual goals
- Give feedback and guidance
- Define goals and expectations
  - Two way opportunity to clarify expectations: Board and CEO
  - Accountabilities targeted for improvement
  - Next year's individual goals
  - Explore 3-5 year horizon
  - Explore investments for professional and personal growth
- Sets tone for the rest of organization: from boardroom to bedside





# CEO Appraisal One Part of Talent Management

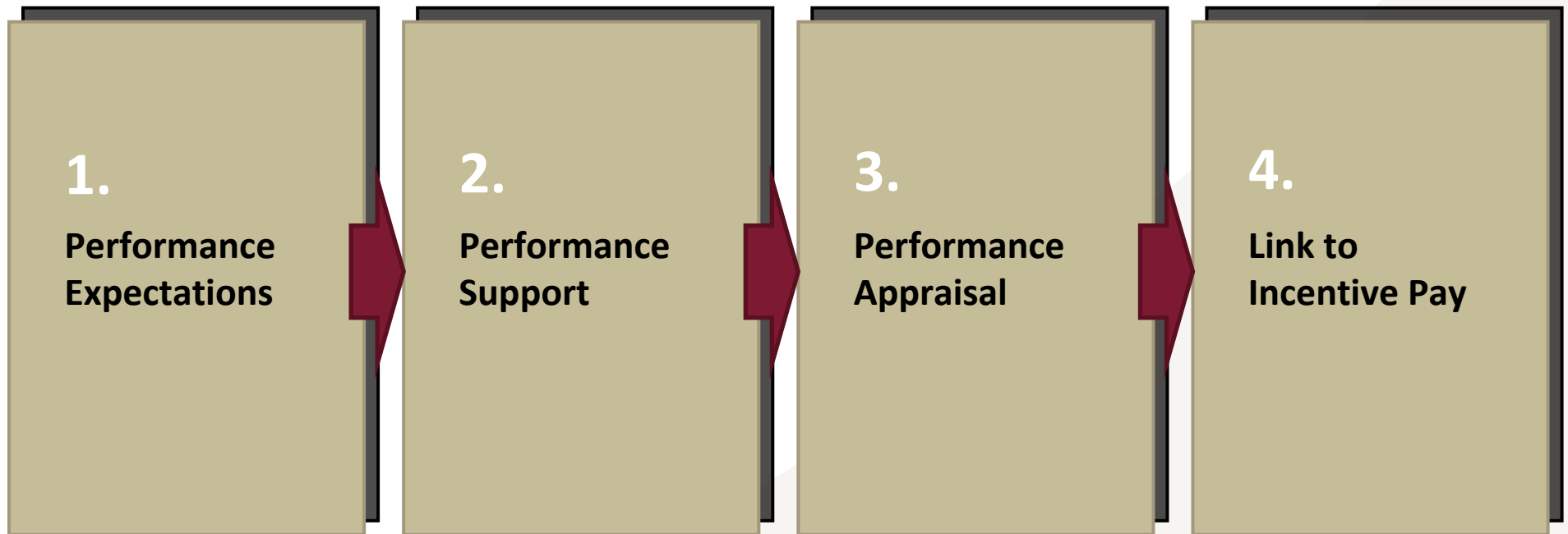


CEO Performance sets tone for the organization





# Components





INTEGRATED HEALTHCARE  
STRATEGIES™

[www.IHStrategies.com](http://www.IHStrategies.com)

## 2. The Context



**Connections:  
Engagement  
Energy  
Empowerment  
Enterprise Enhanced.**



# Many pressures to get it right:





# The Context: Partnership. Connections. Trust.

I.D. Factors in each sphere that could **Frustrate** success or best practice, then define practical actions that should remove, reduce or work-around the factors.  
This will be about 80% of your successful "Enhancement Plan"

I.D. Factors in each sphere that will **Facilitate** success, then define actions to increase chances that the factors will occur.  
This will be an essential 20% of successful "Enhancement Plan"





INTEGRATED HEALTHCARE  
STRATEGIES™

[www.IHStrategies.com](http://www.IHStrategies.com)

### 3. The Benefits:



**Connections:  
Engagement  
Energy  
Empowerment  
Enterprise Enhanced.**



## Benefits:

**You should expect an *effective* evaluation to accomplish at least the following:**

- **It clarifies the board's expectations of the CEO.**
- **It provides clear goals to help the CEO identify and prioritize work to be accomplished.**
- **It educates the board about the nature of the CEO's responsibilities, roles, and duties.**
- **It focuses the CEO on things that really matter to the board and to the strategic direction of the organization.**
- **Sets tone from the top for C-Suite to Care-Givers, from Boardroom to Bedside**





## Benefits:

**An *effective* evaluation also benefits the CEO:**

- **It helps the CEO develop and upgrade his/her competencies and experiences.**
- **It gives the CEO an opportunity to engage in self-assessment of personal performance.**
- **It provides the CEO with honest feedback, direction, and reaffirmation regarding performance.**
- **It encourages professional growth for organizational innovation and peak performance**
- **It eliminates surprise—the “well-known board-to-CEO evaluation pattern known as ‘good job, good job, good job—gone!’”[1]**

[1] Ewell, Charles. “CEOs, remember who hired you.” *Modern Healthcare*,





INTEGRATED HEALTHCARE  
STRATEGIES™

[www.IHStrategies.com](http://www.IHStrategies.com)

## 4. The Process Matters:

1. **Best Practices**
2. **Baker's Dozen: 13 Key steps**
3. **Metrics Matter:**
  - Qualitative
  - Quantitative
4. **Stakeholder Engagement**
5. **Web Based Tools Help**



## 4.1 Better Practices in CEO Performance Appraisals:

1. Process is deliberate, thoughtful, direct, and regular. Calendar and tickle file helps
2. Criteria are more balanced between person, organization and community results
3. Full Board is given the opportunity to participate
4. Process is managed by a Board Committee (Executive, Compensation or Governance)
5. Process is well-defined, in writing, reviewed annually, and include the CEO's participation
6. The appraisal results are documented thoroughly and communicated to appropriate parties
7. The managing Board Committee prepares the appraisal summary and the 4-5 key points it wants to communicate to the CEO
8. Feedback and guidance are given face-to-face, usually by Board Chair, and perhaps 1-2 Committee members
9. Opportunity is given for CEO to respond, question
10. Coaching and planning for next year is important guidance, but add longer term horizon for real growth.





# Assessment Criteria:



INTEGRATED HEALTHCARE  
STRATEGIES™

## CEO PERFORMANCE APPRAISAL CRITERIA



*Exclusive to Healthcare. Dedicated to People.*

1. Strategic Direction, Vision, Innovation
2. Decision making
3. Financial Stewardship
4. Board Relation and Governance
5. Quality and Patient Experience
6. Human Capital and Talent Management
7. Advocacy Community Relations
8. Team Building and Communications
9. Market Position
10. Operational Results
11. Leadership
12. Philanthropy
13. Continuous Improvement
14. Community Health Improvement
15. Culture: Patient Centered, Performance Driven, Values Based





## 4.2 Baker's Dozen: 13 Steps in Process:

1. Have a job description for the CEO, and make sure it is up to date;
2. Have written organizational expectations;
3. Have the process guided by a special committee of the board (e.g., executive committee), but approved by the full board;
4. Give the committee and the CEO the responsibility of developing the criteria for CEO evaluation;
5. Identify performance criteria that matter the most to the organization , the board, and CEO then evaluate the CEO on only those criteria explicitly set forth;
6. Make the board's expectations of the CEO realistic;
7. Make sure the CEO agrees that what he/she will be judged on is clear and unambiguous (with the right to reasonable interpretation);
8. Identify specific measures that will contribute to CEO compensation increases and bonuses (use at a later date as part of overall compensation consideration);
9. Decide on the design and content of the questionnaire;
10. Distribute, collect, tabulate and analyze results, and compare results with CEO's responses to the questionnaire (his/her "self-assessment");
11. Present findings in committee to the CEO, get his/her feedback, and determine CEO's performance plan for the upcoming year;
12. Present summary of findings and results of meeting with the CEO to the full board; and
13. Expect a report on progress quarterly.

[1] Adapted from the Governance Institute's White Paper #34, *CEO Performance Evaluation*.





## 4.3 Metrics Matter: Quantitative:

***Lead overall organizational performance through drive toward achieving a series of quantitative measures such as:***

- Financial performance against the budget;
- Current financial ratios;
- Operating service volume indicators such as length of stay, average daily census, ambulatory visits etc.;
- Bond rating;
- Physician satisfaction through physician leader confidence ratings;
- Employee satisfaction from survey scores; and
- Progress toward accomplishing short- and long-term organizational goals as set forth by the board in strategic and financial plan.





## 4.3 Metrics Matter: Balance Qualitative with Quantitative

### ***Leadership and managerial excellence through a series of qualitative performance measures such as:***

- The extent to which the CEO contributes to the organization's vision being fulfilled, its key goals being accomplished, and its core strategies being effectively pursued;
- The extent to which his/her leadership style fits the organization's needs (e.g., strong management, management functioning as a team, replacing weak managers in a timely fashion, etc.);
- The effect of the CEO's leadership on setting the culture and tone for the organization by showing consistent values of high ethical awareness, honesty, fairness, etc. (Is his/her conduct "becoming to the office of the CEO?");
- The CEO's contribution to institutional success through his/her guidance in planning, human resources management, quality, fiscal management, compliance with regulations, advocacy, promotion of the hospital, and his/her leadership ability; and
- The extent to which the relationship between the CEO and the board indicates his/her respect for the board's independence.
- Compliance with board policy or provisions of the employment contract that specify what the CEO must and must not do:
  - Examples of activities the CEO must undertake:
    - The CEO will keep the board informed on all important matters affecting strategies and operational performance, and deal with the board employing a doctrine of "no surprises."
    - The CEO will behave in both personal and professional dealings in a manner that would not embarrass the hospital.
    - The CEO will be involved in the community that constitutes the primary service area of the hospital.
  - Examples of activities prohibited by the board:
    - The CEO will not engage in or knowingly allow employees to engage in any act that would be judged by a reasonable person to be unethical or illegal, or that violates board policy.
    - The CEO will not accept any gifts or other gratuities that have a value exceeding XXX, whether products or services, from individuals or organizations doing or seeking to do business with the hospital.





## 4.4 Stakeholder Engagement

1. **Full Board**
2. **C-Suite Colleagues?**
3. **Physician Leaders?**
4. **Philanthropy Players?**
5. **Community Leaders?**
6. **Auditors?**
7. **Bond Rating Agencies?**

**Sometimes the 360 desired**





# 4.5 Web Tools Becoming More Common

## CEO Performance Appraisal Section One



### Strategic Direction

A printable explanation of the ratings scale can be obtained here:  
[\[Click to open Performance Ratings in a new window\]](#)

Please indicate to what extent the Chief Executive Officer met your expectations:

	Unsatisfactory	Below Expectations	Meets Expectations	Exceeds Expectations	Outstanding	N/A
Develops strategies and plans that set clear goals, timetables, and priorities for the organization as a whole.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ensures timely and steady progress toward strategic objectives.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Obtains and allocates resources consistent with strategic priorities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Determines where the organization is headed in context of anticipated opportunities and vulnerabilities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Clearly articulates strategies and goals; consistently communicates updates or changes as they occur.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Assess the organization's capabilities and resources required to successfully carry out strategy.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### Comments:

Please note that all comments will be reflected in the summary report as they are written here.





INTEGRATED HEALTHCARE  
STRATEGIES™

www.IHStrategies.com

## The Five Do's and Taboos



**Connections:  
Engagement  
Energy  
Empowerment  
Enterprise Enhanced.**



## Five Do's

- 1. Spend more time on planning expectations than appraisal;**
- 2. Broaden Horizon from One Year to 2-3 Years;**
- 3. Balance Soft and Hard Performance Metrics;**
- 4. Engage Full Board in Appraisal;**
- 5. Foster a Celebration Culture.**





## Five Taboos

- 1. Treat CEO performance as an afterthought;**
- 2. Ignore CEO as part of overall Organizational Talent Management;**
- 3. Rush the performance expectation & planning component;**
- 4. Assume leadership is only about quantitative metrics;**
- 5. Assume that incentive pay erases value of “Thank You”**





# Digital Library for CEO Performance Planning & Review

**INTEGRATED HEALTHCARE STRATEGIES™**  
*Endurance to Realize. Dedication to People.™*

**The Board's Role in Human Capital & Talent Management**  
 Fresh Thinking for Boards to Improve Effectiveness and Efficiency in People Development for Organizational Performance Enhancement

**INTEGRATED HEALTHCARE STRATEGIES™**

**CEO PERFORMANCE PLANNING & APPRAISALS**

**OPPORTUNITY FOR ENHANCED PARTNERSHIP BETWEEN HOSPITAL BOARDS AND THEIR CEOs**

**GOVERNANCE & LEADERSHIP SERVICES™**

*Endurance to Realize. Dedication to People.™*

**INTEGRATED HEALTHCARE STRATEGIES™**

**CEO PERFORMANCE APPRAISAL CRITERIA**

**GOVERNANCE & LEADERSHIP SERVICES™**

*Endurance to Realize. Dedication to People.™*

**THE BOARD-CEO PARTNERSHIP**  
**CEO PERFORMANCE AND APPRAISAL**

**A Two Part White Paper from The Governance and Leadership Practice Integrated Healthcare Strategies**

Part A: *Using a CEO Performance Planning and Appraisal System to Strengthen Board-CEO Relations*

Part B: *Designing and Implementing a Superior CEO Performance Planning and Appraisal System*

**GOVERNANCE & LEADERSHIP SERVICES™**

**INTEGRATED HEALTHCARE STRATEGIES™**

**CEO Performance Review:**  
 A sample to Catalyze Healthy Conversations about Annual CEO Performance Expectations and Appraisals. Try to stretch the conversations beyond the annual to the 3-5 horizon.

**THE BOARD-CEO PARTNERSHIP**  
**CEO PERFORMANCE AND APPRAISAL**

**James Rice, Ph.D., FACHE**  
 Executive Vice President  
[jhr\\_rice@ihstrategies.com](http://jhr_rice@ihstrategies.com)  
 602 612 703 4087

**CEO and Board Frustrations**  
 Even if you've got great relationships now, perhaps you can find an idea that will help enhance how you structure your organization's future ability!

**Tap to Break Frustrations of CEOs with Boards:**

1. First meeting should be an agenda and prepared for the discussion on the agenda.
2. Meetings are subject to public and confidential disclosure in meeting after they are not under strict confidentiality.
3. Trusting the Board's intent "but the CEO often doesn't" and focusing on achieving the best board results rather than just the CEO's intent.
4. Being clear on what is a public or confidential opportunity, even after the board's vote on a resolution, and respecting the CEO's intent when the board is not a committee (because in this regard the CEO is not a committee member).

**Tap to Break Frustrations with Management:**

1. Importance of board meetings: do, or do not, impact your life as if it's either going into the trash or being kept in a safe place for the future. Being able to do so is a quality decision for the board to implement, when indicated.
2. Over-involvement of the board with management detail, not enough time to make high-level decisions in public or private form.
3. Trusting board members as "spies" who they should be treated as "colleagues" and respect each other which is only earned on through disclosure or consistency of information.
4. Working to work more closely with the CEO's intent to be a "colleague" rather than a "spies" who they should be treated as "colleagues" and respect each other which is only earned on through disclosure or consistency of information.
5. Working to work more closely with the CEO's intent to be a "colleague" rather than a "spies" who they should be treated as "colleagues" and respect each other which is only earned on through disclosure or consistency of information.
6. Promoting the board to work with the CEO's intent to be a "colleague" rather than a "spies" who they should be treated as "colleagues" and respect each other which is only earned on through disclosure or consistency of information.
7. Board's role: do not do it until it is possible for the board to do it. The board should be a "colleague" rather than a "spies" who they should be treated as "colleagues" and respect each other which is only earned on through disclosure or consistency of information.
8. Lack of clear expectations of what the board is to do in the next meeting, and awareness of how the board members are being treated by the CEO.

© 2014 Integrated Healthcare Strategies, Inc. | [www.ihstrategies.com](http://www.ihstrategies.com) | 3

**Connections:**  
 Getting from Good to Great in Our Board-CEO Relations

**Our presumption:**  
 Great hospital performance is a function of great governance (that of course not exclusively). Great governance is related to great Board-CEO relations; relations that build on a modern set of connections between the CEO and Board around the CEO performance planning and appraisal process.

Although there are few panaceas, one essential prerequisite reported by boards and CEOs from across the US is to build and nurture great Board-CEO relationships. While great Board-CEO connections and relations do not guarantee great Board-CEO connections and relations, if you don't have it, it is almost impossible to achieve it. More is needed for great Board-CEO connections.

At recent Leadership Conferences of The Governance Institute, board, physician and CEO's were invited to identify practice strategies that would have the potential to establish and enhance great Board-CEO connections. This memo provides a summary of these advice-how would you refine these ideas for your unique local situation?

The overall relationship needs to be built on 1) Trust, Transparency and Realities.

An essential ingredient for the success of these top 3 items is great communications. Communications that address 1) Trust and 2) Realities of the relationship:

Community, Cash, Conflicts (governance) of Board-CEO communications)  
 Formal, Informal, Frequent (style of Board-CEO communications)  
 Ideas, Issues, Initiatives (outputs of Board-CEO communications)

Specific ideas that are shared from the field discussions include these items (random order):

1. Board-CEO communications should be focused on the strategic issues facing the enterprise, such as long range services, to share market needs, insights and opportunities, competitive issues or other important in practice groups, regulatory developments, new technologies that drive our vision, needs, etc.
2. Board-CEO relations should involve around clear expectations of the others role and contributions to the hospital/health system.
3. Develop great board education programs around strategy, financial and opportunities.
4. The board should convene regularly for meetings to set the work, and have a number of meetings for the year so we have what is happening often, and face to face should be preferred.
5. Find time to interact socially, as well as professional or business settings to foster collegiality and personal rapport.

Getting from Good to Great in CEO-Board Connections & Relations | 1 of 4



## Questions and Discussion

Please refer to and apply the insights within the appended reference White Papers.

**Thank you for all you do to enhance the performance of our nation's health system!**





INTEGRATED HEALTHCARE  
STRATEGIES™

[www.IHStrategies.com](http://www.IHStrategies.com)

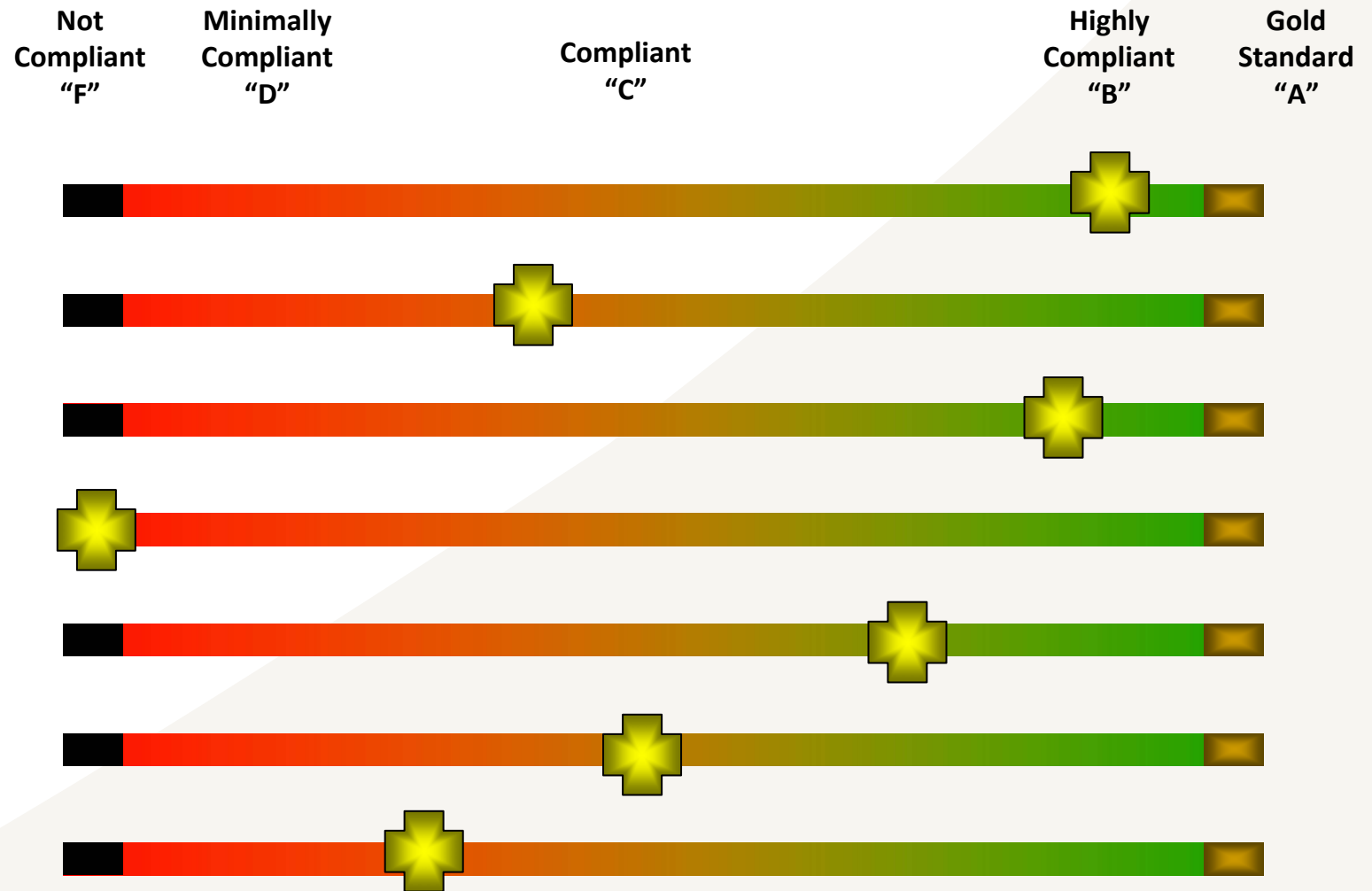
## Appendices: Link to Pay



**Connections:  
Engagement  
Energy  
Empowerment  
Enterprise Enhanced.**



# CEO Compensation Governance Grade Card





# IHStrategies Recommended Best Practices

	Chief Executive	Committee	Board
<b>Charter</b>		<b>Recommends and follows</b>	<b>Adopts</b>
<b>Compensation Philosophy</b>	<b>Follows</b>	<b>Recommends and follows</b>	<b>Adopts</b>
<b>Salary Administration Guidelines</b>	<b>Proposes and follows</b>	<b>Approves</b>	
<b>Incentive Plan Administration</b>	<b>Proposes goals and participants</b>	<b>Approves goals and participants. Administers plan</b>	<b>Approves any new plan. Delegates administration to committee</b>
<b>Executive Benefits</b>	<b>Proposes participants</b>	<b>Recommends any new program, and approves participants</b>	<b>Approves any new plan Delegates administration to committee</b>
<b>Chief Executive Total Compensation</b>		<b>Determines or recommends to board</b>	<b>May receive report</b>
<b>Chief Executive Performance Appraisal</b>	<b>Does self-appraisal</b>	<b>Conducts appraisal and communicates to CEO</b>	<b>Participates May receive report</b>
<b>Other Disqualified Individuals</b>	<b>Recommends salary increases and incentive awards</b>	<b>Approves salary increases and incentive awards</b>	<b>May receive report</b>

sample



# IHStrategies Recommended Best Practices

## TOTAL VALUE ANALYSIS TALLY SHEET

PREPARED FOR

JOE M. SMITH

PRESIDENT & CEO

THE ABC HEALTH ORGANIZATION

### CURRENT AND POTENTIAL TOTAL COMPENSATION

Current Compensation	Target Potential	Maximum Potential
Salary (a)	\$550,000	\$550,000
Annual incentive payout (b)	\$142,399	\$247,500
Benefits	\$201,788	\$211,100
Perquisite Allowance	\$20,000	\$20,000
<b>Total Compensation</b>	<b>\$914,187</b>	<b>\$1,028,600</b>

### RETIREMENT INCOME AND SEVERANCE BENEFIT

Retirement Income at Age 65	Lump Sum	Annual Value	As % of FAS
<b>Qualified Plans</b>			
Cash Balance Pension Plan	\$553,945	\$50,981	7.6%
401(k) Match	\$358,648	\$33,007	4.9%
Social Security	N/A	\$15,048	2.2%
<b>Non-Qualified Plans</b>			
Cash Balance Restoration Plan	\$235,560	\$21,679	3.2%
Net SERP (after offsets)	\$3,287,406	\$302,548	45%
Capital Accumulation Account (m)	\$324,785	\$29,891	4.4%
<b>Total Value of Retirement</b>	<b>\$4,760,344</b>	<b>\$453,154</b>	<b>67.3%</b>

Lump Sum Severance Benefit (for termination without cause)	Now	In 2010
2x Salary (n)	\$1,100,000	\$1,338,000
2x Continuing Benefits (o)	\$30,302	\$36,832
<b>Total Value of Severance</b>	<b>\$1,130,302</b>	<b>\$1,374,832</b>

*\*This is an illustration meant to estimate the value of Mr. Smith's total compensation. Please see inside for more details.*

ABC HEALTH

CL

ple





# IHStrategies Recommended Best Practices

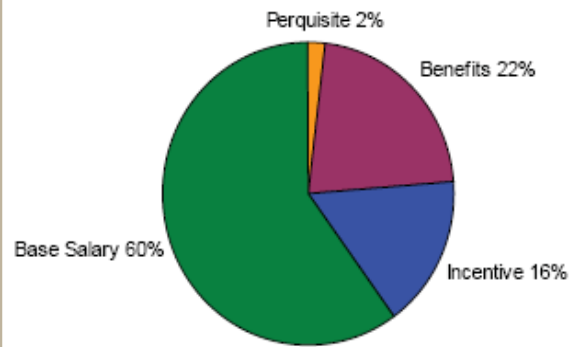
## BREAKDOWN OF CURRENT AND POTENTIAL TOTAL COMPENSATION

Current Compensation	Target Potential	Maximum Potential
Salary (a)	\$550,000	\$550,000
Annual Incentive Payout (b)	\$142,399	\$247,500
<b>Benefits Total</b>	<b>\$201,788</b>	<b>\$207,355</b>
<b>Health &amp; Welfare Benefits Total, Includes: \$82,883</b>		
Medical and Dental Insurance (c)	\$11,425	\$16,208
Medicare and Social Security (d)	\$14,430	
Group Long-Term Disability (e)	\$950	
Group Term Life and AD&D (f)	\$1,440	
Supplemental Survivor Life Insurance (g)	\$12,710	
Flexible Benefit Allowance (h)	\$22,018	
<b>Retirement Benefits Total, Includes: \$138,805</b>		
401(k) Employer Match (i)	\$9,300	\$15,514
Capital Accumulation	\$21,982	
Cash Balance Pension Plan (j)	\$6,798	
Restoration Plan (k)	\$12,125	
SERP (l)	\$88,000	
Perquisite Allowance <i>Mr. Smith receives a membership to the Pacific Club, which he uses for business purposes.</i>	\$20,000	\$20,000
<b>Total Compensation:</b>	<b>\$914,187</b>	<b>\$1,028,800</b>

## BREAKDOWN OF RETIREMENT INCOME AND SEVERANCE BENEFIT

Retirement Income at Age 65			
Benefit	Lump Sum	Annual Value	As % of FAS
<b>Qualified Pension Plans</b>			
Cash balance pension plan (\$50,961 annual benefit), 401(k) match (\$33,007 annual benefit).	\$912,593	\$83,988	12.5%
<b>Social Security</b>			
Employer-paid portion (50%)	N/A	\$15,048	2.2%
<b>Non-Qualified Plans</b>			
Capital Accumulation Account (m); Account balance \$50,371 (3/31/05), (\$29,891 annual benefit). Cash balance restoration plan (\$21,679 annual benefit).	\$560,345	\$51,570	7.5%
<b>SERP</b>			
SERP 60% of 3 yr FAS with 20 YOS. (Gross annual SERP \$423,263). Annual offsets of \$120,715.	\$3,287,406	\$302,548	45%
<b>Total Value of Retirement:</b>	<b>\$4,780,344</b>	<b>\$463,164</b>	<b>87.3%</b>
<b>Lump Sum Severance Benefit (for termination without cause)</b>			
	<b>Now</b>	<b>In 2010</b>	
2x Salary (n)	\$1,100,000	\$1,338,000	
2x Continuing Benefits (o)	\$30,302	\$36,832	
<b>Total Value of Severance:</b>	<b>\$1,130,302</b>	<b>\$1,374,832</b>	

ABC TOTAL COMPENSATION VALUE



### ABC Health Organization's Overall Compensation Philosophy

Cash Compensation (base salary)	65th percentile
Incentive, at target (30% of base)	65th percentile
Total Cash Compensation	65th percentile
Benefits, moderate (37% of base)	50th percentile
Perquisites, conservative	25th percentile
<b>Total Compensation</b>	<b>60th percentile</b>

Peer Group: National group of hospital systems of similar size and complexity

## PROJECTION OF FUTURE SITUATIONS

Situation One: Resign from ABC Health Organization today

Situation Two: Leave ABC Health Organization due to death

Situation Three: Retire at 60

Situation Four: Retire at 70

sample



# IRS Form 990

## Redesigned 990, first since 1979

- Three guiding principles
  - Enhancing transparency to provide the IRS and the public with a realistic picture of the organization, along with the basis for comparison to other organizations.
  - Promoting compliance by accurately reflecting the organization's operations so the IRS may efficiently assess the risk of noncompliance
  - Minimizing burden on filing organizations
  
- “Most organizations will not experience a material change in burden, while those with complicated compensation arrangements, related entity structures, and activities that raise compliance concerns, may see an increase in the effort required to provide information.” (*emphasis added*)





# IHStrategies Recommended Best Practices

- Comprehensive executive compensation media plan
  - Compensation Committee information
  - Compensation philosophy and peer group
  - Key market economic data
  - 990 Information
  - 990 Competitor information
- Board Chair/Compensation Chair training
  - 990
  - Common questions
  - Media training
- Transparency strategies
  - Board
  - Physicians
  - Others
- Consultant retention to serve as a resource

