

## AGENDA

### EXECUTIVE COMPENSATION COMMITTEE OF THE EL CAMINO HOSPITAL BOARD OF DIRECTORS

**Wednesday, January 31, 2017 – 4:00pm**

El Camino Hospital | Conference Room A (ground floor)  
2500 Grant Road Mountain View, CA 94040

Julia Miller will be participating via teleconference from Apartamento 7-B Cangrejo 507 Oceanica, Panamá, República de Panamá.

**PURPOSE:** To assist the El Camino Hospital (ECH) Board of Directors (“Board”) in its responsibilities related to the Hospital’s executive compensation philosophy and policies. The Executive Compensation Committee shall advise the Board to meet all applicable legal and regulatory requirements as it relates to executive compensation.

| AGENDA ITEM  | PRESENTED BY  |                       | ESTIMATED TIMES                        |
|--|---|-----------------------|--|
| <b>1. CALL TO ORDER/ROLL CALL</b>  | Bob Miller, Chair   |                       | <b>4:00-4:02pm</b>                     |
| <b>2. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>   | Bob Miller, Chair   |                       | <b>4:02 – 4:03</b>                     |
| <b>3. PUBLIC COMMUNICATION</b><br>a. Oral Comments<br><i>This opportunity is provided for persons in the audience to make a brief statement, not to exceed three (3) minutes on issues or concerns not covered by the agenda.</i><br>b. Written Correspondence   | Bob Miller, Chair   |                       | <b>information<br/>4:03 – 4:06</b>     |
| <b>4. CONSENT CALENDAR</b><br><i>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</i><br><br><b>Approval</b><br>a. <a href="#">Minutes of the Open Session of the Executive Compensation Committee Meeting (November 9, 2017)</a><br><br><b>Information</b><br>b. <a href="#">Progress Against FY18 Committee Goals</a><br>c. <a href="#">Article of Interest</a> | Bob Miller, Chair   | <i>public comment</i> | <b>motion required<br/>4:06 – 4:07</b> |
| <b>5. REPORT ON BOARD ACTIONS</b><br><a href="#">ATTACHMENT 5</a>  | Cindy Murphy, Director of Governance Services;<br>Bob Miller, Chair |                       | <b>information<br/>4:07 – 4:10</b>     |
| <b>6. REVIEW OF ECH EXECUTIVE COMPENSATION AND BENEFITS PROGRAM AND POLICIES</b><br>a. Compensation Philosophy<br>b. Base Salary Administration: Total Cash Positioning and Total Remuneration<br>c. Incentive (Bonus) Plan Design Changes<br><a href="#">ATTACHMENT 6</a>   | Bob Miller, Chair;<br>Stephen Pollack and Lisa Stella, Mercer       | <i>public comment</i> | <b>possible motion<br/>4:10 – 5:00</b> |
| <b>7. ADJOURN TO CLOSED SESSION</b>  | Bob Miller, Chair   |                       | <b>motion required<br/>5:00 – 5:01</b> |
| <b>8. POTENTIAL CONFLICT OF INTEREST DISCLOSURES</b>   | Bob Miller, Chair   |                       | <b>5:01 – 5:02</b>                     |

| AGENDA ITEM  | PRESENTED BY                                  |                       | ESTIMATED TIMES                                |
|--|---|-----------------------|--|
| <b>9. CONSENT CALENDAR</b><br><i>Any Committee Member or member of the public may remove an item for discussion before a motion is made.</i><br><br><b>Approval</b><br><i>Gov't Code Section 54957.2:</i><br>a. Minutes of the Closed Session of the Executive Compensation Committee Meeting (November 9, 2017) | Bob Miller, Chair                             |                       | <b>motion required</b><br><b>5:02 – 5:03</b>   |
| <b>10.</b> <i>Gov't Code Sections 54956.9(d)(2) – conference with legal counsel – pending or threatened litigation:</i><br>- Consider Delegation of Authority to Executive Compensation Committee  | Bob Miller, Chair;<br>Mitch Olejko, Buchalter |                       | <b>discussion</b><br><b>5:03 – 5:33</b>        |
| <b>11.</b> <i>Gov't Code Sections 54957 and 54957.6 for report and discussion on personnel matters:</i><br>- FY18 Base Salary: CIO   | Dan Woods, CEO                                |                       | <b>discussion</b><br><b>5:33 – 5:43</b>        |
| <b>12. ADJOURN TO OPEN SESSION</b>   | Bob Miller, Chair                             |                       | <b>motion required</b><br><b>5:43 – 5:44</b>   |
| <b>13. RECONVENE OPEN SESSION/ REPORT OUT</b>  | Bob Miller, Chair                             |                       | <b>5:44 – 5:45</b>                             |
| To report any required disclosures regarding permissible actions taken during Closed Session.  |   |                       |  |
| <b>14. CONSIDER DELEGATION OF AUTHORITY TO EXECUTIVE COMPENSATION COMMITTEE</b>  | Bob Miller, Chair;<br>Mitch Olejko, Buchalter | <i>public comment</i> | <b>possible motion</b><br><b>5:45 – 5:47</b>   |
| <b>15. FY18 BASE SALARY: CIO</b>   | Bob Miller, Chair                             |                       | <b>possible motion</b><br><b>5:47 – 5:49</b>   |
| <b>16. FY18 COMMITTEE PACING PLAN</b><br><a href="#"><u>ATTACHMENT 16</u></a>  | Bob Miller, Chair                             |                       | <b>discussion</b><br><b>5:49 – 5:52</b>        |
| <b>17. CLOSING COMMENTS</b>  | Bob Miller, Chair                             |                       | <b>discussion</b><br><b>5:52 – 5:54</b>        |
| <b>18. ADJOURNMENT</b>   | Bob Miller, Chair                             |                       | <b>motion required</b><br><b>5:54 – 5:55pm</b> |

**Upcoming Meetings**

- March 22, 2018
- May 24, 2018

**Board/Committee Educational Gatherings**

- April 25, 2018



**Minutes of the Open Session of the  
Executive Compensation Committee**

**Thursday, November 9, 2017**

**El Camino Hospital | 2500 Grant Road, Mountain View, CA 94040**

**Conference Room A (administration)**

**Members Present**

**Teri Eyre**  
**Neysa Fligor**  
**Jaison Layney**  
**Bob Miller, Chair**  
**Julia Miller**  
**Pat Wadors**

**Members Absent**

| <b>Agenda Item</b>   | <b>Comments/Discussion</b>   | <b>Approvals/<br/>Action</b>                    |
|--|--|---|
| <b>1. CALL TO ORDER/<br/>ROLL CALL</b>                           | The open session meeting of the Executive Compensation Committee of El Camino Hospital (the "Committee") was called to order at 4:01pm by Chair B. Miller. Ms. J. Miller arrived at 4:04pm during Agenda Item 4: Consent Calendar. All Committee members were present.   |   |
| <b>2. POTENTIAL<br/>CONFLICT OF<br/>INTEREST<br/>DISCLOSURES</b> | Chair Miller asked if any Committee members may have a conflict of interest with any of the items on the agenda. No conflicts were noted.  |   |
| <b>3. PUBLIC<br/>COMMUNICATION</b>                               | None.  |   |
| <b>4. CONSENT<br/>CALENDAR</b>                                   | <p>Chair B. Miller asked if any member of the Committee or the public wished to remove an item from the consent calendar. Ms. Fligor requested that Item 4b: Progress Against FY18 Committee Goals be pulled for discussion.</p> <p>Ms. Fligor asked whether the Committee should add additional goals, as it appeared everything except one item was already completed for FY18. Chair B. Miller recommended that this discussion be deferred until later in the meeting when the pacing plan and the scope of the Committee's work would be discussed.</p> <p>The Committee commented that the metric related to goal-setting and plan design needed clarification and suggested that revisions may be appropriate, as the goal was set before the strategic plan was approved. Chair B. Miller suggested a clarification that the Committee would oversee implementation of any changes <i>resulting from</i> the strategic plan. Staff noted that goal revisions need to be approved by the Governance Committee and the Hospital Board.</p> <p><b>Motion:</b> To approve the consent calendar: Minutes of the Open Session of the Executive Compensation Committee Meeting (September 21, 2017).</p> <p><b>Movant:</b> Eyre<br/><b>Second:</b> Layney<br/><b>Ayes:</b> Eyre, Fligor, Layney, B. Miller, J. Miller, Wadors<br/><b>Noes:</b> None<br/><b>Abstentions:</b> None<br/><b>Absent:</b> None<br/><b>Recused:</b> None</p> | <b><i>Consent<br/>calendar<br/>approved</i></b> |
| <b>5. REPORT ON<br/>BOARD ACTIONS</b>                            | Chair B. Miller referred to the recent Board actions as further detailed in the packet. Kathryn Fisk, CHRO, reported that the Board approved the Committee Self-Assessment Tool that will be sent to Committee members to  |   |

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|  | complete in the next few months. She noted that the Committee self-assessment surveys are conducted every two years, and this year will include a deeper dive into the Committees now that the expanded structure has been in effect for five years.  |   |
| <b>6. LETTERS OF REASONABLENESS</b>  | <p>Stephen Pollack from Mercer provided background on the IRS requirements for the Letters of Reasonableness for tax-exempt status and three main criteria used for review: 1) independent Board oversight and approval of the process/compensation, 2) use of third-party market data, and 3) documentation. He explained that the level of detail in the letters matches best practice for documentation.</p> <p>In response to Ms. Eyre’s question, Mr. Pollack explained that a threshold for “unreasonableness” is not defined by the IRS; rather, compensation with documented rationale for the given facts and circumstances is deemed to be reasonable unless proven otherwise.</p> <p>In response to Ms. Miller’s question, Mr. Pollack noted that most of his clients approve compensation for other Designated Persons (<i>i.e.</i>, executives, direct reports to the CEO) at the Committee level and forward a recommendation for only CEO compensation to the full Board.</p> <p>In response to Mr. Layney’s question, Lisa Stella from Mercer clarified the application of the geographic differential in the calculations of total direct compensation (TDC) and total remuneration.</p> <p><b>Motion:</b> To accept the Letters of Reasonableness, present the letters to outside counsel for the Board, and request that he present a letter documenting Reasonableness of Executive Compensation under IRS Section 4958 to the Board for acceptance.</p> <p><b>Movant:</b> Layney<br/> <b>Second:</b> Wadors<br/> <b>Ayes:</b> Eyre, Fligor, Layney, B. Miller, J. Miller, Wadors<br/> <b>Noes:</b> None<br/> <b>Abstentions:</b> None<br/> <b>Absent:</b> None<br/> <b>Recused:</b> None</p> | <i>Letters of Reasonableness recommended for acceptance</i> |
| <b>7. REVIEW OF ECH EXECUTIVE COMPENSATION AND BENEFITS PROGRAM AND POLICIES</b> | <p>Chair B. Miller explained that the purpose of this agenda item is for staff to provide education on ECH’s current programs and policies and to solicit feedback from the Committee. Following this meeting, staff will work with Mercer to develop recommendations for discussion at the Committee’s next meeting.</p> <p>Ms. Fisk and Mr. Pollack outlined ECH’s current practices and alignment with market practice for the following areas, as further described in the packet:</p> <p><b><u>Base Salary Range Positioning:</u></b> Positioning includes benchmarking of executive roles and a geographic differential; salary range development is driven by the midpoint, which allows variability within the range while maintaining consistency. Mr. Pollack explained that +/- 20% from the midpoint on average is similar to the 25<sup>th</sup> to 75<sup>th</sup> percentile. The Committee discussed developing a guiding principle for aligning the geographic differential with the Bay Area market; currently, the only defined practice is that the data are reviewed every year.</p> <p><b><u>Base Salary Administration:</u></b> Range placement is based on a variety of considerations. The Committee commented that it is not necessary to define “fully experienced” as 6-8 years and that a policy targeting at +/- 10% of the</p>   |   |

range midpoint seemed too restrictive. Mr. Pollack explained that in the market there tends to be more flexibility around the midpoint than at ECH. The Committee discussed the Board's application of the policy (adhering to the market median, budgeting for executive performance and market adjustments) and opportunities for Board education to provide context for step increases.

Ms. Eyre noted that a missing piece in ECH's executive compensation program development has been the voice of the CEO; she suggested that any system should be supporting and enabling Mr. Woods' goals.

**Performance Management:** The process includes an annual performance review by supervisor (the Board reviews the CEO; the CEO reviews executives). Ms. Fisk explained that annual reviews are required by The Joint Commission and that the policy is the same for all employees, including executives. In response to Chair B. Miller's question, Ms. Fisk outlined the 5 weighted criteria used in executive performance appraisals.

Mr. Pollack described general market practice, where the CEO provides context for executive salary recommendations with a high level paragraph for each executive (highlighting accomplishments, criticality of role, etc.). Ms. Eyre suggested that there may be opportunities for consolidation or de-duplication, so executives are not evaluated against too many different criteria across all parts of the compensation program; the Committee encouraged distillation and summation of an executive's contribution to the organization at a high level and use of a policy that is specific to executives rather than for all employees.

Ms. J. Miller suggested that the Hospital Board should delegate more authority to the Committee and only approve compensation for the CEO.

**Total Cash Compensation:** The current policy does not address TCC positioning; the Committee noted the discrepancy between holding the executives to compensation at the 50<sup>th</sup> percentile while asking for organizational performance at the 75<sup>th</sup> or 90<sup>th</sup> percentile. The Committee suggested the flexibility in a policy to compensate more in a particular year (*i.e.*, up to the 75<sup>th</sup> percentile) based on strong performance (tied to clear, actionable goals).

Chair B. Miller also suggested framing the incentive plan as positive achievement, rather than as a takeaway.

Mr. Pollack reviewed the market positioning summary of ECH executives by quartile. Ms. Eyre also suggested including job criticality as well as tenure in the policy. The Committee suggested that staff review the 7% taxable benefits allowance that can currently be taken as cash or put into the 457(b) retirement plan and consider conversion to cash compensation.

**Plan Design:** Mr. Pollack reported that ECH's plan design is market competitive. The Committee discussed the difficulty for the CEO in effectively communicating meaningful messages with only a small amount of incentive pay tied to discretion. Ms. Fligor voiced her support of having some form of discretionary pay. The Committee and Mr. Pollack suggested that discretion could play a larger role by combining the individual and discretionary portions of the annual incentive (not as formulaic) or by allowing more discretion in the determination of base pay. Mr. Pollack cautioned that any changes should not over complicate the plan or be framed as a takeaway.

**Metrics & Weighting:** Ms. Fisk and Mr. Pollack reviewed the metrics and weighting as further detailed in the materials. There were no additional

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|   | <p>Committee comments.</p> <p><b>Long-Term Incentives:</b> ECH does not have an LTIP. Mr. Pollack explained that the larger an organization is (like a big system), the more likely it is that they have an LTIP. He recommended that an LTIP should not be used as a retention tool but instead to complement long-term strategic plans. The Committee members commented that an LTIP may make the overall compensation plan too complicated and that there may not be a need for one; discretion and shorter-term annual goals can be used to support the overall strategic plan.</p> <p><b>Retirement:</b> Several Committee members expressed concerns about the inequity of the SERP. Mr. Pollack noted that any plan changes would be contingent on any legislative changes.</p> <p><b>Sign-On Benefits:</b> Mr. Pollack that ECH's severance is below market levels. Ms. Fisk explained that the CEO makes all decisions related to sign on benefits as there is no policy document outlining available programs/tools. The Committee discussed the Board's considerations of recommendations related to severance, releases used with severance, and payment of severance through salary continuation and offsets when an executive finds a new job.</p> <p><b>PTO:</b> The PTO policy is the same for all employees, including executives. Ms. Fisk noted that PTO includes holidays, vacation, and minor illnesses and is accrued from an employee's start date. The Committee discussed whether or not there should be a separate policy for executives to allow flexibility for recruitment.</p> |  |
| <p><b>8. APPROVAL OF ADDITION OF POSITION (PRESIDENT, SVMD) TO EXECUTIVE COMPENSATION BENEFITS PLAN &amp; FY18 SALARY RANGE</b></p> | <p>Dan Woods, CEO, Mr. Pollack, and Ms. Stella described the differentiation between recruiting a physician versus a non-physician for the President, SVMD position. Mr. Woods clarified that Silicon Valley Medical Development, LLC (SVMD) is an affiliate of ECH and the position had been previously approved and budgeted.</p> <p>Ms. Eyre left the meeting at 6:12pm.</p> <p><b>Motion:</b> To recommend the Board add the President, SVMD position to the Executive Compensation Plan with a base salary range of: \$344,000-\$430,000-\$516,000 (non-physician) OR \$467,000-\$584,000-\$700,800 (physician).</p> <p>To recommend the Board approve the weighting of organizational, individual, and discretion be 50%, 40%, and 10% respectively consistent with other organizational Presidents.</p> <p>To recommend that the Executive Compensation Philosophy policy be amended to include the new position.</p> <p>To recommend that the Executive Performance Incentive Plan policy be amended to reflect the weighting of 50%, 40%, 10%.</p> <p><b>Movant:</b> Wadors<br/> <b>Second:</b> Miller<br/> <b>Ayes:</b> Fligor, Layney, B. Miller, J. Miller<br/> <b>Noes:</b> None<br/> <b>Abstentions:</b> None<br/> <b>Absent:</b> None<br/> <b>Recused:</b> None</p> <p>Ms. Wadors left the meeting at 6:13pm.</p>   | <p><i>President, SVMD position inclusion in the Exec Comp benefits plan and FY18 salary range recommended for approval</i></p> |
| <p><b>9. ADJOURN TO CLOSED SESSION</b></p>  | <p><b>Motion:</b> To adjourn to closed session at 6:13pm.</p>  | <p><i>Adjourned to closed session</i></p>  |

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|   | <b>Movant:</b> Miller<br><b>Second:</b> Fligor<br><b>Ayes:</b> Fligor, Layney, B. Miller, J. Miller<br><b>Noes:</b> None<br><b>Abstentions:</b> None<br><b>Absent:</b> Eyre, Wadors<br><b>Recused:</b> None   | <i>at 6:13pm</i>   |
| <b>10. AGENDA ITEM 13:<br/>RECONVENE OPEN<br/>SESSION/<br/>REPORT OUT</b> | <p>Open session was reconvened at 6:15pm. Agenda items 10-12 were addressed in closed session.</p> <p>During the closed session, the Committee approved the Minutes of the Closed Session of the Executive Compensation Committee Meeting of September 21, 2017 by a unanimous vote in favor of all members present (Fligor, Layney, B. Miller, J. Miller). Ms. Eyre and Ms. Wadors were absent.</p>  |  |
| <b>11. AGENDA ITEM 14:<br/>FY18 COMMITTEE<br/>PACING PLAN</b>             | <p>The Committee and staff discussed adding a Committee meeting in January to review staff's recommendations regarding changes to the executive compensation and benefits program and policies. The purpose of this earlier meeting (rather than waiting until the scheduled March meeting) would be for the Committee to make recommendations that, if approved by the Board, could be incorporated into the FY19 budget. Staff will poll the Committee for possible meeting dates and times.</p> <p>The Committee also requested an update on the progress against goals at the January meeting to assess whether or not the goals should be revised.</p> | <i>Staff to<br/>schedule a<br/>January 2018<br/>meeting</i><br><br><i>Goals review/<br/>discussion<br/>paced for<br/>January<br/>meeting</i> |
| <b>12. AGENDA ITEM 15:<br/>CLOSING<br/>COMMENTS</b>                       | There were no additional comments from the Committee.   |  |
| <b>13. AGENDA ITEM 16:<br/>ADJOURNMENT</b>                                | <b>Motion:</b> To adjourn at 6:23pm.<br><b>Movant:</b> Miller<br><b>Second:</b> Layney<br><b>Ayes:</b> Fligor, Layney, B. Miller, J. Miller<br><b>Noes:</b> None<br><b>Abstentions:</b> None<br><b>Absent:</b> Eyre, Wadors<br><b>Recused:</b> None   | <i>Meeting<br/>adjourned at<br/>6:23pm</i>   |

**Attest as to the approval of the foregoing minutes by the Executive Compensation Committee and the Board of Directors of El Camino Hospital.**

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Bob Miller  
Chair, Executive Compensation Committee

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Julia Miller  
Secretary, ECH Board of Directors

Prepared by: Sarah Rosenberg, Contracts & Board Services Coordinator

## FY18 COMMITTEE GOALS

### Executive Compensation Committee

#### PURPOSE

The purpose of the Executive Compensation Committee is to assist the El Camino Hospital (ECH) Board of Directors (“Board”) in its responsibilities related to the Hospital’s executive compensation philosophy and policies. The Committee shall advise the Board to meet all legal and regulatory requirements as it relates to executive compensation.

**STAFF:** **Kathryn Fisk**, Chief Human Resources Officer; **Julie Johnston**, Director, Total Rewards; **Cindy Murphy**, Board Liaison

*The CHRO shall serve as the primary staff to support the Committee and is responsible for drafting the Committee meeting agenda for the Committee Chair’s consideration. The CEO, and other staff members as appropriate, may serve as a non-voting liaison to the Committee and may participate at the discretion of the Committee Chair. These individuals shall be recused when the Committee is reviewing his/her compensation. The CEO is an ex-officio member of this Committee.*

| GOALS   | TIMELINE by Fiscal Year<br>(Timeframe applies to when the Board approves the recommended action from the Committee, if applicable) | METRICS   |
|---|--|---|
| 1. Advise the Board on performance incentive goal-setting and plan design, ensuring strategic alignment and proper oversight of compensation-related decisions. | <ul style="list-style-type: none"> <li>Q2 – Q4 FY18</li> </ul>   | <ul style="list-style-type: none"> <li>Recommend FY17 performance goal scores and payouts (Q2) <b>(Complete)</b></li> <li>Oversee the implementation of changes that impact the FY18 strategic planning, budgeting, and goal setting process <b>(Needs clarification)</b></li> <li>Recommend FY19 goals and measurements (Q4) <b>(Paced for Q4)</b></li> <li>Assess the value of long-term incentives to support the achievement of long-term strategies <b>(Complete: Discussed on 11/9)</b></li> </ul>  |
| 2. Support successful implementation of executive benefit changes   | <ul style="list-style-type: none"> <li>Q3 – Q4 FY18</li> </ul>   | <ul style="list-style-type: none"> <li>Review proposed changes to benefits plan policy (Q1) <b>(Complete: LTD revision approved in June 2017)</b></li> <li>Review consultant analysis of benefit change impact (Q3) <b>(Complete: Included in Reasonableness Opinion Letter)</b></li> </ul>   |
| 3. Advise the Board ensuring strategic alignment and proper oversight of compensation-related decisions.  | <ul style="list-style-type: none"> <li>Q2 – Q4 FY18</li> </ul>   | <ul style="list-style-type: none"> <li>Review base salary administration policy (Q2) <b>(on track – Ongoing discussion at 1/31 meeting)</b>, review market analysis, and make base salary recommendations to the Board (Q4) <b>(On track to do in Q4)</b></li> <li>Submit the letter of reasonableness for Board acceptance (Q3) <b>(Complete)</b></li> <li>Review compensation philosophy and performance incentive plan policies and make recommendation to Board to approve any changes (Q3) <b>(On track – ongoing discussion at 1/31 meeting)</b></li> </ul> |

#### SUBMITTED BY:

Lanhee Chen  
Kathryn Fisk

**Chair**, Executive Compensation Committee  
**Executive Sponsor**, Executive Compensation Committee

**Approved by the ECH Board of Directors on June 14, 2017**



# BUILDING A HIGH-PERFORMANCE HEALTHCARE CULTURE

WHY IS IT SO HARD?

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# BUILDING A HIGH-PERFORMANCE HEALTHCARE CULTURE

## WHY IS IT SO HARD?

Author: *Bryan Warren*

### INTRODUCTION

Every healthcare organization has a similar set of goals: Improve the coordination of care to enhance the patient experience and patient outcomes, while reducing costs. It's similar to any industry - make the best product possible. Provide better service than your competitors. Increase margins and revenue. Healthcare differs slightly, at least, in the non-profit sector, where maximizing profit is not a primary goal - but working to maintain a viable margin is important, and challenging.

What other industries learned, a long time ago, is that new processes only take you so far - success requires a high-performance culture. Healthcare organizations have bright, talented leaders. They've been looking at the strategies used by companies like Disney and Toyota for years. Why is it so hard to replicate their success?

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### *Success requires a high-performance culture*

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Some hospitals and systems are on the right path. They changed their structure, technology, and processes, implemented new care delivery models, innovative service line strategies, and new cost accounting systems. In theory, these strategies and tactics can be replicated by almost any organization. Leaders can go to a conference or read a book and understand, specifically, the physician leadership model at the Cleveland Clinic, how ThedaCare uses lean

methodology, or how the Mayo Foundation improves outcomes and reduces costs. There are no secrets. Healthcare is unique in that organizations readily share their strategies and keys to success. So why can't every organization replicate that success and why hasn't the entire healthcare system made more progress?

Is culture the barrier? This paper will briefly explore what we mean by culture, and why healthcare organizations struggle to create the culture they envision. We'll also provide practical advice from leaders working on the front lines of building a new, high performance healthcare culture from diverse points of view:

For a perspective from the C-Suite, we turn to:

**Mark Sevco** is the President of UPMC East, the newest hospital in the University of Pittsburgh Medical Center System. He also has a leading role in UPMC's international programming and previously served as COO of the 1,300 bed UPMC Presbyterian-Shadyside.

**John Sheehan** is the President of UW Health's newest hospital, UW Health at The American Center, and Senior Vice President of UW Health Hospitals and Clinics. He formerly served as EVP/COO and Regional VP of Clinics and Operations at Unity Point Health and has held leadership positions at ThedaCare and Geisinger.

To understand how talent strategies impact culture, we turn to **Lisa Reynolds Ph.D.**, Vice President of Talent Management for CHRISTUS Health, one of the nation's largest health systems. CHRISTUS has a unique and



pervasive culture. Lisa leads the overall vision, strategy, standards, and protocols for the Talent Management Center of Excellence at CHRISTUS which includes leadership development, workforce planning, performance management, career and succession management, and learning and capability development.

Finally, we want to get the perspective of physician leaders. **Michael Verdon** is a neurosurgeon and Chief Executive Officer at Dayton Neurological Associates and Lemurian Enterprise Technologies.

## WHAT IS CULTURE?

A commonly accepted definition is from Edgar H. Schein, the organizational development psychologist who wrote the 1992 book, Organizational Culture and Leadership. According to Schein, organizational culture is:

*“A pattern of shared basic assumptions that the group learned as it solved its problems. . .that have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.”*

Geert Hofstede, the influential Dutch researcher in the field of organizational culture, defined it more simply as:

*“The collective programming of the mind that distinguishes the members of one organization from others.”*

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***Culture is the way the organization thinks and feels about its purpose and its function***

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Culture is the way the organization thinks and feels about its purpose and its function, and how it goes about solving problems and fulfilling that function. If we are going to think about how culture influences our work, and ultimately how

it impacts our patients and drives outcomes, then we need to examine the behaviors that create that culture. How do we “operationalize” culture? How does the culture manifest itself? How do we link culture to behaviors and to outcomes? And perhaps, more importantly, how do we change culture?

## WHY DO WE CARE ABOUT CULTURE?

A decade ago, hospital leaders might have had a hard time answering this question. Mark Sevco responded to the question quite simply, “Because it has a direct impact on customer service and patient satisfaction.”

In the past, culture was ambiguous and not necessarily valued. If you had top physicians and nurses and the latest technology, the thought was, quality care would follow. When we finally got around to measuring outcomes we found that hospitals with the greatest reputations, weren’t always the top performers. Having the most credentialed staff and most sophisticated approach to clinical care is not enough. For example:

- We continue to see a correlation between employee engagement scores and patient satisfaction scores.
- A culture that tolerates poor communication and lateral violence spills over into patient safety outcomes.
- Implementing lean “programs” is not as effective as a pervasive lean “culture.” A culture of communication positively impacts patient safety.
- Reducing hospital-acquired infections through processes like hand washing requires a culture of accountability and attention to detail. We KNOW that hand washing makes patients safer but we spend millions to remind people to do it. In a hospital with a strong patient-safety culture, staff know why it’s important and enforce the policy, every time.



Culture means valuing and enforcing certain behaviors, and those behaviors have a measurable impact on the outcomes that matter.

## WHY IS CULTURE CHANGE SO HARD IN HEALTHCARE?

Changing culture is a particularly vexing problem in healthcare. Part of the problem is that what we call culture is often too theoretical – stuck at the “vision” stage. We’ve failed to define how the culture will manifest itself. How do we “operationalize” culture? What does it mean to actually **be** patient and family-focused or to be LEAN or consistently safety-oriented?

John Sheehan noted that the traditional organizational structure is another barrier. “It’s hard because of the many ‘tribes’ in healthcare. It’s evolved around specialization. Silos develop and are resistant to change. It’s difficult, at times, to leverage culture across the organization.” The facility and organizational structure of a manufacturing plant are built around the product reducing this “tribal” mentality. Hospitals are built around departments and medical specialties – not around patient-focused lines of service.

Lisa Reynolds noted the challenge of overcoming the traditional culture that arose from that structure. “Healthcare’s traditional culture – autocratic, academic, hierarchical, and paternalistic, is often hard to overcome. Building a collaborative culture is threatening to some.” Similarly, “Healthcare’s organizational complexity can make it difficult to get buy-in for any initiative, across diverse teams. Culture initiatives are often perceived as the flavor of the month. It takes time and effort and often those trying to change a culture simply give up.”

Mark Sevco points out some basic operational challenges to culture change initiatives, “These are complex organizations, providing services 24-7, 365 days a year. There is limited time and resources to dedicate to culture change.” That complexity also means you are trying to build

culture across diverse business units – the acute care hospital, outpatient settings, long term care, and physician offices.

All of this means that “Getting these projects underway is hard enough. Hardwiring values, culture, and behaviors is incredibly challenging,” says Sevco. He points out that “Healthcare is also unique in that you have a subset of the workforce that **MUST** be bought into these efforts. If physicians aren’t bought in, success is almost impossible.”

In order to get this critical physician buy-in, the administration needs to understand how physicians view these efforts. They will support anything that improves patient outcomes, but they need to see the data supporting the rationale. Then you need physician champions. Dr. Verdon points out a few challenges:

- The organization, and physicians, resist change to things they think have worked in the past. So, it’s important to demonstrate and get agreement on where there is opportunity for improvement, and the goals.
- The field of medicine places a lot of value on autonomy. Building a culture is an organization-based initiative. You need to find a balance where physicians feel they have an individual voice and can retain their role as champion of the individual patient, while still helping the organization to move forward.
- Culture efforts need to be tailored to healthcare. The work of caring for patients is unique and doesn’t always lend itself to “corporate-like” culture efforts.

## WHAT WORKS?

Organizations drive positive culture change only with planning diligence, persistence, and patience. No singular program changes your culture. Changing culture might be a five year plan with a dozen separate, but related





initiatives. The best organizations define, with specificity, the behaviors they expect from employees at every level of the organization. It doesn't help to state that you want nurses to be "patient-focused" if you don't define the specific behaviors you expect from them.

For instance, John Sheehan had the opportunity to build, from scratch, the culture at UW Health at the American Center. His advice:

- In terms of strategy - develop standards that go across the organization - standards that are communicated to everyone, consistently.
- These same standards need to be part of rigorous training.
- The same approach is applied to hiring and selection.
- Managers need to be working from a common management system with consistent behavioral standards and a common definition of leadership and teamwork. Don't tolerate silos.
- Don't underestimate the value of consistent, face-to-face communication with the leadership team - discussing the big picture and making sure that these communications are built around transparency.

Mark Sevco had a similar opportunity with UPMC East. What worked for him?

- Run a values campaign to get started.
- Everything starts with leadership. Build a team that is dedicated to culture.

- Stay focused and energized.
- Build everything around your values - hiring practices, new hire orientation, customer service training, performance management, and other talent management processes.
- Relationships and communication are the core - attend to them. Constantly.

In Lisa Reynold's experience, managers and front-line staff need to own the culture. It can't be a program imposed upon them. They need to understand the goal of any culture initiative. "Start with 'why' the change is essential and also being very intentional on what is not changing." Don't take leadership's buy-in for granted, either. "Ensure that top leaders understand the required behaviors of the expected culture and then live it before asking others to change."

Traditional hospital culture includes healthy skepticism. Staff, and even leadership, tends to resist change and get impatient with initiatives that don't show immediate results. Accordingly, persistence is key. Says Reynolds, "If you find tools and processes you believe will enhance the change - stick with them, even in the face of the inevitable pockets of resistance."

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### ***Culture drives organizational success and patient outcomes***

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Culture is how the organization thinks and the collective behaviors it values as it fulfills its mission. Changing culture in healthcare presents some unique challenges, but culture drives organizational success and patient outcomes. These challenges are not insurmountable and leading organizations have shown us the way.

## ECH BOARD COMMITTEE MEETING AGENDA ITEM COVER SHEET

|  |  |
|--|--|
| <b>Item:</b>   | Report on ECH and ECHD Board Actions<br>Executive Compensation Committee<br>January 31, 2018 |
| <b>Responsible party:</b>  | Cindy Murphy, Director of Governance Services  |
| <b>Action requested:</b>   | For Information  |
| <b>Background:</b><br><p>In FY16, we added this item to each Board Committee agenda to keep Committee members informed about Board actions via a verbal report by the Committee Chair. This written report is intended to supplement a verbal report by the Chair of the Committee and/or Board members who also serve on the Committee.</p> |  |
| <b>Other Board Advisory Committees that reviewed the issue and recommendation, if any:</b><br><p>None.</p>   |  |
| <b>Summary and session objectives:</b><br><p>To inform the Committee about recent Board actions.</p>   |  |
| <b>Suggested discussion questions:</b> None.   |  |
| <b>Proposed Committee motion, if any:</b> None. This is an informational item.   |  |
| <b>LIST OF ATTACHMENTS:</b><br><ol style="list-style-type: none"> <li>1. Report on ECH and ECHD Board Actions</li> </ol>   |  |

### **November 2017 and January 2018 ECH Board Actions\***

1. November 8, 2017
  - a. Approved the FY18 Board, Board Chair, and Committee Self-Assessment Tools. The Biennial Committee Assessment will launch in November or early December 2017 and we expect to have results in February. The Annual Board and Board Chair Assessment will launch in the Spring of 2018.
  - b. Approved the Annual Safety Report for the Environment of Care.
2. January 10, 2018
  - a. Recognized the Los Gatos Operations team for increasing personalized service to physicians and patients.
  - b. Approved the FY18 Period 3 and Period 4 Financials.
  - c. Approved the Letters of Rebuttable Presumption of Reasonableness (related to Executive Compensation)
  - d. Approved the FY18 Salary Range for the new President, SVMD position and its inclusion in the Executive Compensation and Benefits Plans (including a revision to the Executive Compensation Philosophy Policy adding this new position, and a revision to the Executive Performance Incentive Plan policy reflecting goals weighting consistent with the Presidents of ECH's other affiliate companies)
  - e. Approved physician contracts for Ophthalmology Call Coverage, Gastroenterology ED Call, and OB Hospitalist Coverage
  - f. Approved the Amended & Restated Limited Liability Company Operating Agreement of Silicon Valley Medical Development, LLC (SVMD)

### **October 2017 ECHD Board Actions\***

1. January 16, 2018
  - a. Elected Gary Kalbach and Julie Klinger, RN to the El Camino Hospital Board of Directors. Their terms are effective immediately. Mr. Kalbach's term expires on June 30, 2021 and Ms. Klinger's term expires on June 30, 2020.

\*This list is not meant to be exhaustive, but includes agenda items the Board voted on that are most likely to be of interest to or pertinent to the work of El Camino Hospital's Board Advisory Committees.

HEALTH WEALTH CAREER

# ALIGNING EXECUTIVE COMPENSATION AND ORGANIZATION STRATEGY

EL CAMINO HOSPITAL

JANUARY 31, 2018



# OVERVIEW

- As part of the annual review of the executive compensation philosophy, related policies, and market practices, the Executive Compensation Committee (“ECC”) undertook a deep dive and, as a result, recommended changes to strengthen the hospital’s executive compensation programs.
- ECC is proposing the following modifications to policy to better **attract** high-performing executives in a competitive labor market, **motivate** leaders to drive the organization toward its strategic objectives, and **retain** its most critical, best-performing executives:
  - **Expand the compensation philosophy to reflect total cash and total remuneration positioning**
  - **Enable greater differentiation in executive base salaries**
  - **Modify incentive metrics (add financial organizational goal, adapt CEO discretion)**

# COMPENSATION PHILOSOPHY RECOMMENDATIONS - OVERVIEW

- **Compensation Philosophy:** Expand the compensation philosophy to reflect total cash and total remuneration positioning
- **Driver of Change:**
  - Current policy is silent on positioning of other elements of compensation outside of base salary, which has led to multiple interpretations of the policy
- **What Stays the Same:**
  - Executive base salaries are targeted on average at the 50<sup>th</sup> percentile of market data
- **What Changes:**
  - Compensation philosophy will include language to address the desired positioning of total cash and total remuneration, as follows:
    - *Total Cash: Base Salary plus actual performance incentive payouts targeted on average at the 50<sup>th</sup> percentile and up to the 75<sup>th</sup> percentile of market data, dependent upon individual and organizational performance*
    - *Total Remuneration: Total Cash plus the value of benefits targeted on average between the 50<sup>th</sup> and 75<sup>th</sup> percentile of market data, dependent upon individual and organizational performance*

# BASE SALARY ADMINISTRATION RECOMMENDATIONS - OVERVIEW

- **Base Salary:** Enable greater differentiation in executive base salary
- **Driver of Change:**
  - Strict interpretation of base salary positioning at the 50<sup>th</sup> percentile has limited the CEO's ability to reward executives based on tenure, performance, talent scarcity, and criticality of the role to organizational success
- **What Stays the Same:**
  - Target midpoint of base salary ranges at 50<sup>th</sup> percentile of market
  - Tenure, experience, and performance remain factors for base salary decisions
- **What Changes:**
  - Salary administration guidelines will specifically address the role of executive talent scarcity and organization criticality as factors in determining appropriate placement in the salary range
  - Allow management to use the full salary range and consider gap to market in determining appropriate increases.

# BASE SALARY ADMINISTRATION

## PROPOSED LANGUAGE CHANGES

The guidelines for placement in the range are:

- a. **Pay at 80% to 90% of Midpoint** ~~is may be~~ appropriate for an individual with limited experience in a comparable position who needs developmental time. This may be a new hire or internal promotion, newly hired individual with limited experience in a comparable position, or for an individual who has recently been promoted and needs developmental time in the position. ~~An individual may be eligible for higher percentage increases, aligned with performance, when positioned at this level.~~
  - b. **Pay at 90% to 110% of Midpoint** is appropriate for a fully experienced ~~(6 to 8 years)~~ individual with a demonstrated record of consistently meeting performance expectations, at El Camino Hospital or elsewhere in a comparable role. The Hospital manages base salary increases so that upward movement in salary reflects individual performance and demonstrated proficiency.
  - c. **Pay at 110% to 120% of Midpoint** may be appropriate for a highly experienced individual with demonstrated record of consistently exceeding performance expectations, or in roles which are particularly critical for the achievement of strategic objectives, or in roles with a highly competitive labor market. ~~or with skills and expertise beyond those normally associated with the position.~~ The Hospital compares base salary levels above market with competitive market data to verify that individual base salary is reasonable.
  - d. The Hospital Board of Directors can approve salaries above the normal salary range for hard-to-recruit positions or positions deemed critical to the success of the organization. The Hospital compares salary levels above market with competitive market data to verify that the individual base salary and total compensation is reasonable.
- **80% - 90% of Midpoint:** limited experience in a comparable position who needs developmental time; new hire or internal promotion
  - **90% - 110% of Midpoint:** fully experienced, consistent performance record at El Camino or elsewhere
  - **110% - 120% of Midpoint:** highly experienced with record of performance above expectations, or incumbents in critical or especially hard-to-recruit roles

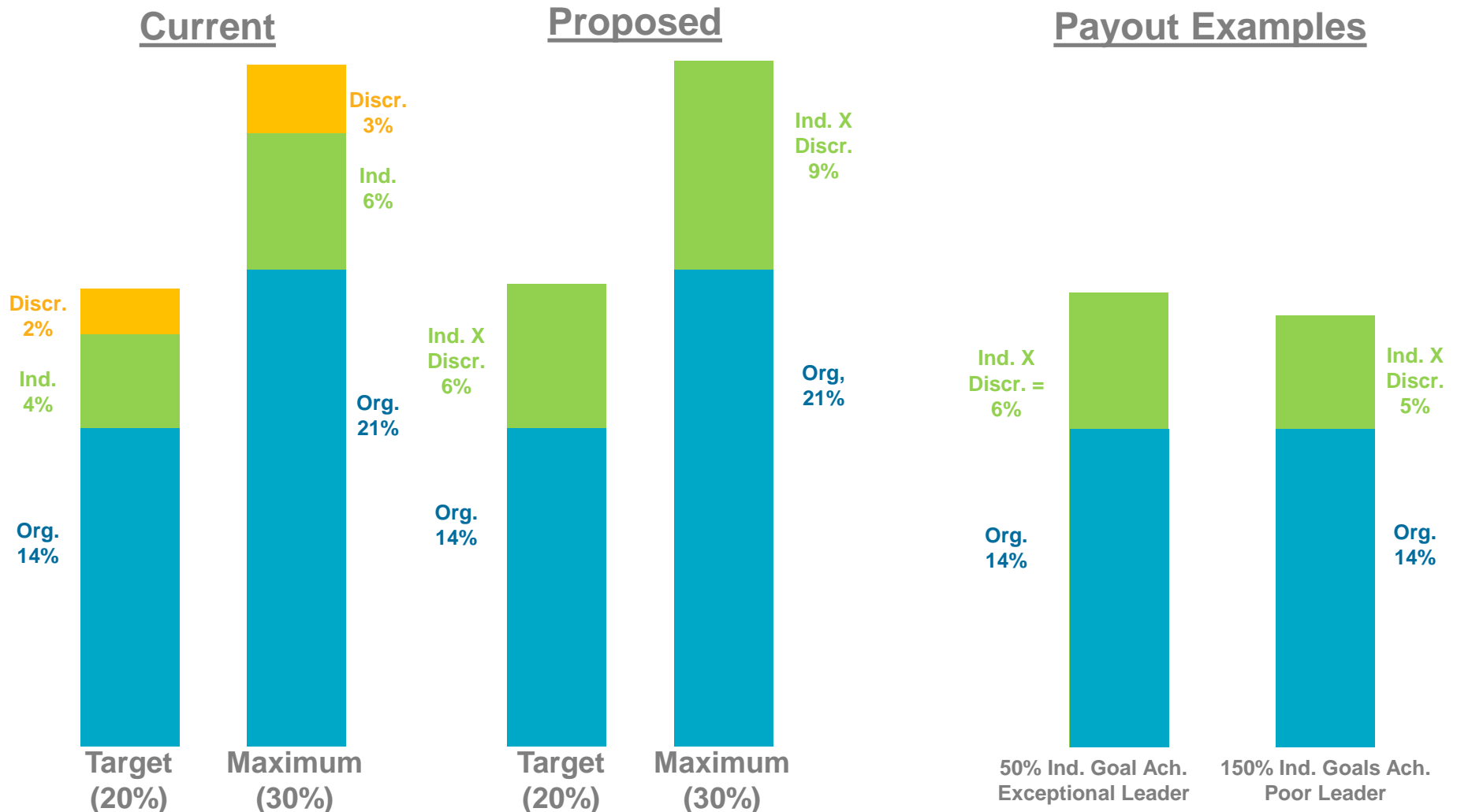
# INCENTIVE PLAN DESIGN

## RECOMMENDATIONS - OVERVIEW

- **Incentive Plan:** Modify metrics to add financial organizational goal and adapt CEO discretion
- **Driver of Change:**
  - Desire to add financial metric in determining organizational performance
  - Improve the effectiveness of the discretionary element as a component of individual performance
- **What Stays the Same:**
  - Organization-level performance is weighted at 70%, in alignment with market practice
  - Incentives paid based on performance against predetermined, measurable goals
- **What Changes:**
  - In addition to the financial threshold goal, a variable financial metric is added to the organization goals (highly prevalent among health systems)
  - Individual goals (maximum of three) are weighted at 30% of target bonus, with CEO discretion used as a modifier for individual goal pay-out (ranging from 50% to 150% of target individual payout), based on CEO overall assessment of individual executive performance

# INCENTIVE PLAN DESIGN

## RECOMMENDATIONS - ILLUSTRATION



**Discussion:** would discretion be capped at 150% of individual score? Is 50% an appropriate threshold or should it be 0%? Is max discretion 9% or 13.5% (if 100% score times 150% = 13.5% max award)



**MERCER**

**MAKE TOMORROW, TODAY**

**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.01 EXECUTIVE COMPENSATION PHILOSOPHY**

A. Coverage:

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO and approved participants. Participation in the plan is subject to approval by the Hospital Board of Directors (see Attachment A).

B. Reviewed/Revised:

New: 2/08, 6/09, 12/08/10; 8/10/11, 2/13/13, 6/11/14, 10/12/16, 1/10/18

C. Policy Summary:

The compensation philosophy is the official statement of El Camino Hospital’s Board of Directors regarding the guiding principles and objectives upon which executive compensation decisions are based, and the general parameters and components for accomplishing these objectives.

The executive compensation program encompasses both cash compensation (salary, incentive pay, and other cash compensation) and non-cash compensation (employer provided benefit plans and perquisites) which in whole, represent total compensation. The program is governed by the Board of Directors and the Executive Compensation Committee which advises the Board to meet all applicable legal and regulatory requirements as it related to executive compensation and their effectiveness in attracting, retaining, and motivating executives.

D. Executive Compensation Philosophy:

The philosophy describes the guiding principles and objectives of the executive compensation program. Executive compensation decisions will be made using the following guiding principles and objectives:

1. Support the Hospital’s ability to attract, retain, and motivate a highly-talented executive team with the ability and dedication to manage the Hospital accordingly.
2. Support the Hospital’s mission and vision and achievement of strategic goals.
3. Encompass a total compensation perspective in developing and administering cash compensation and benefit programs.



4. Considers the Hospital's financial performance and ability to pay which shall be balanced with the Hospital's ability to attract, retain and motivate executives.
5. Govern the executive compensation programs to comply with state and federal laws.

E. Components:

The three key components of the executive compensation program are base salary, performance incentive compensation, and benefits.

1. Base Salary. Each executive position will be assigned a salary range that is competitive with comparable hospitals and accounts for the higher cost of labor in Silicon Valley.
2. Performance Incentive Compensation. Each executive will be eligible for a goal-based performance incentive compensation program. An executive's performance incentive payout will be based on their performance against pre-defined organizational and individual goals and objectives aligned with the Hospital's mission, vision, and strategic goals.
3. Executive Benefits and Perquisites. The Hospital may provide executives with supplemental benefits as described in the executive benefits policy. It is the Hospital's practice to minimize the use of perquisites in total executive compensation.

F. Roles and Responsibilities:

The Executive Compensation Committee shall recommend and maintain written policies and procedures regarding the administration of each component. The Hospital Board of Directors will approve all policy changes.

G. Definitions

**Comparable Hospital** – To measure the competitiveness of the executive compensation program, the Hospital will use, in general, compensation information from tax-exempt independent hospitals from across the United States comparable in size and complexity to the Hospital. The hospitals will be comparable in size and complexity based upon net operating revenues.

**Competitive Position** – A determination of where the Hospital places executive salaries, incentives, and benefits relative to comparable hospitals nationally. El Camino Hospital's competitive position for base salaries is the market median plus a geographic differential for the Silicon Valley area.

**Geographic Differential** – Recognizes the significantly higher cost-of-labor in Silicon Valley. The Committee will periodically analyze data to ensure the geographic differential is appropriate and accurately projecting the El Camino Hospital median.

**El Camino Hospital Median** – Reflects the median base pay of the comparable hospitals plus the geographic differential for a particular position. The Hospital increases the data by 25% to calculate the El Camino Hospital median.

**Other Cash Compensation** – Other cash compensation excludes base salary and incentive pay but includes a hiring and retention bonuses, and relocation reimbursement.

**Salary Range** - A range established as 20% below to 20% above the salary range midpoint, resulting in a maximum amount that is 150% of the minimum amount.

**Salary Range Midpoint** - The midpoint of the salary range for each executive position will be set at the El Camino Hospital Median.

**Total Cash Compensation** – includes base salary plus annual incentive compensation (and other cash) paid to an executive.

**Total Compensation** – Total cash compensation plus the cost of employee and executive benefit programs.

**ATTACHMENT A:**  
**APPROVED PARTICIPANTS IN EXECUTIVE**  
**COMPENSATION PROGRAM**  
**Effective 1/10/18**

Cecile Currier, Vice President Corporate and Community Health\*  
Cheryl Reinking, Chief Nursing Officer

Iftikhar Hussein, Chief Financial Officer  
Open, Chief Strategy Officer  
Joan Kezic, Vice President Payor Relations\*  
Joanne Barnard, President, El Camino Hospital Foundation  
Kathryn Fisk, Chief Human Resources Officer  
Kenneth King, Chief Administrative Services Officer  
Mary Rotunno, General Counsel  
open, Chief Operations Officer  
Daniel Woods, President and CEO  
William Faber, MD, Chief Medical Officer  
Open, Chief Information Officer  
Open, President SVMD

\*These executives are considered grandfathered participants and shall continue to be eligible for the Executive Compensation Program as long as the individual remains in an executive position with El Camino Hospital.

Note: Executives hired on an interim basis are not eligible for the Executive Compensation and Benefits Program.

**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.02 EXECUTIVE BASE SALARY ADMINISTRATION**

**A. Coverage:**

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO or COO. Participation in the plan is subject to approval by the Hospital Board of Directors.

**B. Reviewed/Revised:**

New 9/15/09, 12/08/10, 2/13/13, 6/11/14, 10/12/16, proposed changes for discussion 1/31/18 with Executive Compensation Committee

**C. Policy Summary:**

D. Base salary is one component of the executive total compensation program which includes benefits, performance incentive pay, and other cash compensation. This policy defines how a salary range is established and provides guidelines for determining an individual’s placement in the range. The program is governed by the Board of Directors and administered by the Executive Compensation Committee (“the Committee”).

**E. General Provisions:**

1. **Salary Range** – Each executive position at El Camino Hospital will have a salary range with minimum and maximum, determining the lowest and highest pay for that job.

- a. The salary range midpoint reflects the 50<sup>th</sup> percentile median base pay of the comparable hospitals plus the cost-of-labor adjustment (known as the El Camino Median).
- b. The salary range will be from 20% below to 20% above the salary range midpoint, resulting in a maximum amount that is 150% of the minimum amount.
- c. Salary ranges will be updated annually based on competitive market data and/or executive increase market trends. The Executive Compensation Committee reserves the right to establish lower salary ranges or to freeze salary ranges and recommend freezing or lowering base salaries when financially prudent.

2. **Placement in the Salary Range** includes initial placement of a new hire, adjustments when there is a change in job scope, and periodic salary increases or decreases. An individual's placement in the range will be determined based on a combination of the following factors: paying competitively, rewarding performance, and recognizing competence, credentials, and experience.

The guidelines for placement in range are:

- a. **Pay at 80% to 90% of Midpoint** ~~may be~~ appropriate for ~~an newly hired~~ individual with limited experience in a comparable position, or for an individual who has recently been promoted and needs developmental time in the position. This may be a new hire or internal promotion. An individual may be eligible for higher percentage increases, aligned with performance, when positioned at this level.
- b. **Pay at 90% to 110% of Midpoint** is appropriate for a fully experienced ~~(6 to 8 years)~~ individual with a demonstrated record of consistently meeting performance expectations at El Camino Hospital or elsewhere. The Hospital manages base salary increases so that upward movement in salary reflects individual performance and demonstrated proficiency.
- c. **Pay at 110% to 120% of Midpoint** may be appropriate for a highly experienced individual with demonstrated record of consistently exceeding performance expectations or ~~with skills and expertise beyond those normally associated with the position~~ in roles which are particularly critical for the achievement of strategic objectives or in roles with a highly competitive labor market. The Hospital compares base salary levels above market with competitive market data to verify that individual base salary is reasonable.
- d. The Hospital Board of Directors can approve salaries above the normal salary range for hard-to-recruit positions or positions deemed critical to the success of the organization. The Hospital compares salary levels above market with competitive market data to verify that the individual base salary and total compensation is reasonable.

#### **F. Roles and Responsibilities**

1. The El Camino Hospital Board of Directors shall approve executive base salaries.

2. The Executive Compensation Committee Charter defines the responsibilities delegated by the Hospital Board such as selecting consultants and approval of the salary ranges.
3. The CEO recommends the salary range and base salary for those executives reporting to the CEO to the Committee.
4. The Chief Human Resources Officer and/or Director Total Rewards are responsible for implementing salary ranges and base salaries.



**EL CAMINO HOSPITAL  
BOARD OF DIRECTORS POLICIES AND PROCEDURES**

**03.04 EXECUTIVE PERFORMANCE INCENTIVE PLAN**

**A. Coverage:**

The Chief Executive Officer (“CEO”) of El Camino Hospital (“the Hospital”) and those executives reporting directly to the CEO or COO. Participation in the plan is subject to approval by the Hospital Board of Directors.

**B. Reviewed/Revised:**

New: 9/15/09, 12/08/10, 2/13/13, 6/11/14 (eff 7/1/14), 10/14/15, 10/12/16, 1/10/18,  
proposed changes for discussion 1/31/18 with Executive Compensation Committee

**C. Policy Summary:**

The Performance Incentive Plan is one component of the executive total ~~compensation~~ remuneration program which includes base salary, benefits, and other cash compensation. The Performance Incentive Plan is a goal-based compensation program designed to motivate and reward performance toward key annual strategic goals of the Hospital.

**D. General Provisions:**

The target amount for incentive pay will be competitive with those at comparable hospitals. An executive’s incentive payout will be based on their performance against pre-defined organizational and individual goals and measures aligned with the Hospital’s mission, vision, and strategic goals.

1. Eligibility – Participants hired after December 31 will not be eligible for the program until the beginning of the next fiscal year on July 1. Incentive compensation will be pro-rated for executives with at least six months, but less than one year in the position at the end of the fiscal year. Written performance goals and measures will be determined within the first 60 days of employment.
2. Criteria – the Hospital has established three criteria for payout. There will be no payout unless all three criteria are met. The Hospital must be accredited by the Joint Commission and the individual executive must “meet expectations” on their performance review. In addition, the Hospital will establish a financial measure that must be achieved each fiscal year (i.e., a percent of operating margin) for payout to occur.

Approval: 1/10/18  
El Camino Hospital

Rev: 1/~~2242~~/18 jj

3. Amount of incentive pay – the maximum payout for an executive is 30% of their base salary as of the end of the fiscal year. The targeted payout percent for those participants reporting to the CEO or COO is 20% of base pay. The maximum incentive pay for the CEO is 45% with a target of 30% of base salary.
4. Organizational Goals – each fiscal year the Hospital will define organizational goals that support the strategic/business plan upon which 70% (90% for the CEO) of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum. Organizational goals will account for 50% of performance incentive pay for Presidents of the Foundation, SVMd, and Concern:EAP.
5. Executive Individual Goals (excluding CEO) – at the beginning of the fiscal year, each participant will propose performance goals and measurements that support the strategic/business plan upon which 20% of performance incentive pay will be based. Whenever possible, each goal will have performance measures for threshold, target, and maximum levels and payouts will be on a continuum. Individual goals based on the Foundation or Concern's organizational goals, will account for 40% of performance incentive pay for Presidents of the Foundation, SVMd, and Concern:EAP respectively.
6. Ten percent (10%) of the executive's performance incentive pay will be at the CEO's discretion subject to Board approval. Ten percent (10%) of the CEO's performance incentive pay will be at the Board's discretion.
7. Performance Incentive Payout – Incentive compensation will be paid within 30 days of the Board of Directors approving the payout amounts. In order to receive incentive compensation, executives must be actively employed in an executive position at the time the incentive compensation is paid.

**Commented [J11]:** If recommendation is made to recommend adapting CEO discretion, will edit before Board considers change.

#### **E. Roles and Responsibilities**

1. The El Camino Hospital Board of Directors shall approve the plan design, organizational goals, executive individual goals, and performance incentive payout amounts.
2. The Executive Compensation Committee Charter defines the responsibilities delegated by the Hospital Board of Directors such as reviewing and recommending goals and performance incentive payout amounts.
3. The CEO recommends the organizational and individual goals, discretionary score, and recommends incentive payout amounts to the Committee.



4. The Chief Human Resources Officer and/or Director Total Rewards are responsible for overseeing administration of the program and implementing actions approved by the Board.

Executive Compensation Committee

Updated 1/8/2018

| FY18 ECC Pacing Plan – Q1  |   |  |
|--|---|--|
| July 2017  | August 2017   | September 21, 2017   |
| No scheduled meeting   | No scheduled meeting  | <ul style="list-style-type: none"> <li>- Receive update on Strategic Plan</li> </ul> <p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- FY17 Organizational Score</li> <li>- FY17 Executive Individual Scores</li> <li>- FY17 Executive Performance Incentive Payout Amounts</li> </ul> |
| FY18 ECC Pacing Plan – Q2  |   |  |
| October 2017   | November 9, 2017  | December 2017  |
| <p>No scheduled meeting</p> <p><i>Board to take action on the following items:</i></p> <ul style="list-style-type: none"> <li>- Accept Moss Adams' financial audit</li> <li>- Approve FY17 Organizational Score</li> <li>- Approve FY17 Executive Individual Scores</li> <li>- Approve FY17 Executive Payout Amounts (discuss in closed, vote in open)</li> <li>- Dan Woods to meet with Mercer about Exec Comp and benefits, Long-Term Incentive Plan (with Bob, Kathryn, and Julie)</li> <li>- Mercer prepares Letters of Reasonableness</li> </ul> <p>Wed., 10/25/2017</p> <p>Board &amp; Committee Educational Gathering</p> | <p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Letters of Rebuttable Presumption</li> <li>- Long Term Incentive Plans in Healthcare (educational session)</li> <li>- Review Compensation Philosophy, Base Salary Administration, and Performance Incentive Plan Policies (including employee performance appraisal process and education on IPI (integrated performance improvement))</li> </ul> | <p>No scheduled meeting</p> <ul style="list-style-type: none"> <li>- Mitch Olejko prepares cover letter for rebuttable presumption action</li> </ul>   |

**Executive Compensation Committee**

Updated 1/8/2018

| FY18 Compliance Committee Pacing Plan – Q3   |  |  |
|--|--|--|
| January 31, 2018   | February 2018  | March 22, 2018   |
| <ul style="list-style-type: none"> <li>- Review Executive Compensation Benefits Plan and Policies</li> <li>- Discuss Possible Delegation of Authority</li> <li>- FY18 CIO and SVMD President Base Salaries</li> <li>- Progress Against Committee Goals</li> </ul> <p><i>Board to take action on the following items:</i></p> <ul style="list-style-type: none"> <li>- Accept Letter of Rebuttable Presumption</li> </ul> <p><i>*Beginning of benefit/executive benefit plan year</i></p> | <p><i>No scheduled meeting</i></p>   | <ul style="list-style-type: none"> <li>- Update on FY18 Strategic Planning and progress against FY18 Performance Incentive Goals</li> <li>- Update on Executive Development Plan</li> </ul> <p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Proposed FY18 Committee Goals</li> <li>- Biennial review of Committee Charter</li> <li>- FY19 Meeting Dates</li> </ul> |
| FY18 Compliance Committee Pacing Plan – Q4   |  |  |
| April 2018   | May 17, 2018   | June 2018  |
| <p>Wed., 4/25/2018</p> <p>Board &amp; Committee Educational Gathering</p>  | <p>Committee to take action on:</p> <ul style="list-style-type: none"> <li>- Approve Minutes</li> <li>- Finalize FY19 Pacing Plan</li> <li>- Review and may approve FY19 Salary Ranges</li> <li>- FY19 Executive Base Salaries (review CEO recs, may determine recommendation)</li> <li>- FY19 Organizational and Executive Individual Performance Incentive Goals (review CEO recs, determine recommendation)</li> <li>- CEO's FY19 Base Salary</li> <li>- CEO's FY19 Individual Goals</li> <li>- Review Committee Self-Assessment Results</li> </ul> | <p><i>No scheduled meeting</i></p> <p><i>Board to take action on the following items:</i></p> <ul style="list-style-type: none"> <li>- FY19 Organizational Goals</li> <li>- FY19 Executive Individual Goals</li> <li>- FY19 CEO Individual Goals</li> <li>- FY19 Executive Base Salaries</li> <li>- FY19 CEO Base Salary</li> <li>- FY19 Committee Goals</li> <li>- FY19 Committee Dates</li> </ul>                        |