

Elements of GOVERNANCE®

Providing CEOs, board chairs, directors, and support staff with the fundamentals of healthcare governance

A SERIES BY THE GOVERNANCE INSTITUTE

BOARD SELF-ASSESSMENT A CORE RESPONSIBILITY *Second Edition*



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Elements of Governance®

A GOVERNANCE INSTITUTE SERIES

Elements of Governance® is designed to provide CEOs, board chairs, directors, and support staff with the fundamentals of not-for-profit governance. These comprehensive and concise governance guides offer quick answers, guidelines, and templates that can be adapted to meet your board's individual needs. Whether you are a new or experienced leader, the *Elements of Governance*® series will help supply you and your board with a solid foundation for quality board work.

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The Governance Institute

The Governance Institute provides trusted, independent information and resources to board members, healthcare executives, and physician leaders in support of their efforts to lead and govern their organizations.

The Governance Institute is a membership organization serving not-for-profit hospital and health system boards of directors, executives, and physician leadership. Membership services are provided through research and publications, conferences, and advisory services. In addition to its membership services, The Governance Institute conducts research studies, tracks healthcare industry trends, and showcases governance practices of leading healthcare boards across the country.



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Introduction



“For every minute spent in a committee meeting you get five minutes off your time in purgatory.”

—David Rynick, *Leadership Coach* (paraphrased)

WHEN READING THIS QUOTE FOR THE FIRST time, most of us smile but also nod in affirmation. Too often, group effectiveness (whether in a committee or board) can be difficult to monitor—and a hospital or health system board is a committee-like group of dedicated individuals focused on setting policy, decision making, and oversight of an extremely complex organization providing essential community services in a turbulent environment. Ensuring board effectiveness is paramount.

Hospital and health system boards, on average, are composed of 13 individuals¹ purposely selected for their leadership attributes, their myriad functional skills, their community commitment, and their diverse opinions. When 13 people “job share” it’s important to check in periodically to evaluate the work product as well as the processes and systems supporting accomplishment of that work.

Thus, a core responsibility of good governance is an annual, *formal* assessment of board effectiveness (The Governance Institute and The Joint Commission recommend conducting an assessment on an annual basis). The board is responsible for its own assignment of responsibility, discipline, development, and performance. No board is perfect; even high performers have opportunities to improve. Rather than assuming that good intentions and countless volunteer hours will automatically lead to good results, high-performing boards benchmark their performance against



that of their peers. They approach the board self-assessment not as a compliance exercise, but as a welcome opportunity for constructive feedback because, as good as they are, they want to be even better. They believe they are entitled to an objective analysis of their work (which is the only way to improve continuously) and they believe their community deserves nothing less.

Being effective as a board comprises several key elements, including:

- Making sure the board is appropriately configured to be most efficient and effective in its deliberations (e.g., board size and composition; member terms; board budget and staffing; officers; committees; and recruitment, selection, and orientation of new members)
- Conducting and participating in efficient and effective board meetings
- Consistently ensuring it meets its legally mandated fiduciary obligations

This *Elements of Governance*[®] is intended to aid board chairs, CEOs, governance committees, and other governance leaders in The Governance Institute’s board self-assessment process, including interpretation of the assessment results, determining how the results should be presented to the board, and developing next steps toward an action plan for improving the board’s performance and ensuring ongoing effectiveness.

¹ See *Dynamic Governance: Board Structure and Practices in a Shifting Industry*, 2011 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

The Board Self-Assessment Process



The self-assessment process should evaluate the board's effectiveness in fulfilling its fiduciary duties and core responsibilities. The process should enable the board to deepen its understanding of the organization's governance principles and recommended practices, and help identify specific opportunities to enhance governance performance.

IT SHOULD ALSO ASSIST IN BUILDING COMMUNICATION, TEAM-work, and alignment among board members and with senior management. The process typically includes:

- Completion by all board members of an assessment survey focused on board policies and practices
- A review of the assessment results by the governance committee, board chair, and CEO
- Selection of a facilitator and development of a plan for presenting the results to the full board
- Facilitated discussion of the results, including areas of excellence and opportunities for improvement
- Development of a governance improvement plan based on the assessment results
- Follow up on progress at least annually

A standardized process for board self-evaluation is a meaningful tool in a number of performance excellence arenas. First, it provides a way to structure the discussion of important elements in governance, providing a way for an individual board to see how it perceives itself against a national database and, when used over a period of several cycles, to measure progress. By utilizing such a tool, boards can discern opportunities to clarify the distinction between governance and management while concentrating on all critical components of good governance. Second, it provides the CEO with critical input into how communication to and engagement with the board is working. Committee work and board agendas can be restructured to fill perceived gaps in both areas. Finally, it provides the basis for the design of a board development plan that can assist both board leadership and the hospital/system's leadership team with a roadmap for continued performance improvement.

—*M. Michelle Hood, FACHE, President & CEO, Eastern Maine Healthcare Systems*

BoardCompass® : The Governance Institute's Assessment Tools

The Governance Institute has assembled a suite of assessment tools enabling healthcare directors to review their performance in comparison to similar organizations throughout the United States. The assessments correspond with The Governance Institute's list of recommended practices included on its biennial surveys of hospitals and healthcare systems. Within the suite there are currently four distinct tools for the following boards: 1) health system boards (i.e., hospital-based systems with two or more hospitals), 2) subsidiary boards (i.e., fiduciary boards of local/subsidiary hospitals that report to a parent or system board), 3) free-standing hospital boards, and 4) foundation boards.²

Each tool is organized in a format structured in accordance with the way in which boards actually perform their work. Most directors find this to be a highly intuitive approach to assessing the work in which they are engaged. The assessments are organized in the following categories:

- Fiduciary duties:
 - » Care
 - » Loyalty
 - » Obedience
- Core responsibilities:
 - » Quality oversight
 - » Financial oversight
 - » Strategic direction
 - » Board development
 - » Management oversight
 - » Community benefit

Each assessment is designed to be comprehensive but concise; the assessments can be completed in less than 45 minutes.

2 At the time of publication (January 2013), five committee assessments are currently in development: executive, finance and audit, governance, quality, and strategic direction. Additional assessments for other types of governing bodies are also slated in the near future. Contact The Governance Institute for more information on the availability of additional assessment tools.

Each assessment has been:

- Carefully vetted by healthcare governance experts to ensure relevancy with contemporary board practices.
- Thoughtfully worded to result in statistically reliable results.

Initiating the Assessment Process

The board self-assessment process is typically initiated by the governance committee (or governance support person, or equivalent) and consists of the following steps:

1. The chosen contact person from the board or organization notifies the board that the process is being initiated.
2. The governance committee or equivalent selects the appropriate assessment tool (i.e., system, subsidiary, freestanding hospital, or foundation).
3. The Governance Institute is contacted to provide the assessment tool and an account manager will walk the contact person through the process quickly, whether a first-time user or familiar with the tool.
4. A link to the online board self-assessment is created with the organization's name at the top. The contact person forwards the online assessment link to all board members, along with instructions for completion, which are provided by The Governance Institute. Board members are encouraged to complete it on time. (Most organizations allow two weeks for completion depending on the size of the board and their level of

engagement. Allowing too little time causes the results to be rushed and incomplete; too much time and the assessment may be forgotten.)

5. The Governance Institute sends weekly updates on the board's progress so the contact person can send reminders as needed. The Governance Institute recommends a minimum of 80 percent board member participation, but the expectation or goal should be a response rate of 100 percent. Depending on how often your board meets and the rigorousness of board member onboarding/orientation, board members serving fewer than six to twelve months may want to use discretion when deciding to participate in the assessment.
6. When notified by the organization's contact person, The Governance Institute closes the online survey and begins collating results. Results are provided to the organization within one to three weeks.
7. Results are delivered electronically; the contact person will receive an e-mail from The Governance Institute containing a PDF report of results and information on how to arrange a complimentary one-hour phone call with a Governance Institute advisor to discuss the results and help develop an action plan.

Throughout this process, The Governance Institute guarantees the confidentiality of all assessment results and protects the identities of individual board members. Results are only displayed in aggregate form.

The Self-Assessment Results



The Governance Institute provides results organized in the nine categories of fiduciary duties and core responsibilities previously discussed.

THE REPORT RESULTS ARE FURTHER STRUCTURED IN FIVE sections:

1. **Overall Score:** as part of the assessment, board members are asked, “On a scale of 1–10, with 10 being high, please rate the effectiveness of the board.”
2. **Overall Ratings:** a high-level, graphical comparison of the organization’s overall scores by category.
3. **Top-Box Scores:** top-box scores graphically reflect what percentage of your board rated its performance at the highest level possible.
4. **Detailed Results:** this set of graphs provides the detail of your board’s responses for each item in the survey, showing the full range of responses (there are no national comparisons in this section).
5. **Open-Ended Questions:** the last section of the report shows compiled responses to the two open-ended questions that appear in the assessment:
 - a. “If there was one improvement the board could make to be more effective in the upcoming year, what would that change be?”
 - b. “What suggestions do you have for ongoing board education topics?”

This representation of results allows boards to quickly identify where they are high-performing and where they may have some work to do. It also highlights areas where there may be important differences of opinion and/or misunderstandings among board members that need further attention. This report is intended to provide an objective starting point for discussion of what is working and what could be improved.



Response Rate

The report shows the number and percentage of board members who responded to the assessment.

The response rate is one indicator of board engagement. As stated before, the goal should be a minimum of 80 percent and ultimately 100 percent, unless there are any new board members who are not ready to complete the assessment.

If the board’s response rate is either below 80 percent or below expectations, consider possible reasons:

- Low level of commitment
- Low level of participation
- Problems related to assessment administration

A low response rate should be considered an area for discussion.

Section I: Please rate your level of agreement that the board or a committee of the board performs the following activities:

Please circle one response for each item.	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. Reviewing and evidencing a clear understanding of policies that specify the board’s roles and responsibilities at least every two years	SD	D	N	A	SA
2. Completing a self-assessment annually to establish board performance improvement goals	SD	D	N	A	SA
3. Clearly articulating performance expectations for committees	SD	D	N	A	SA
4. Having a formalized board leadership succession plan to develop and select officers	SD	D	N	A	SA
5. Requiring that new board members receive education on their fiduciary duties	SD	D	N	A	SA

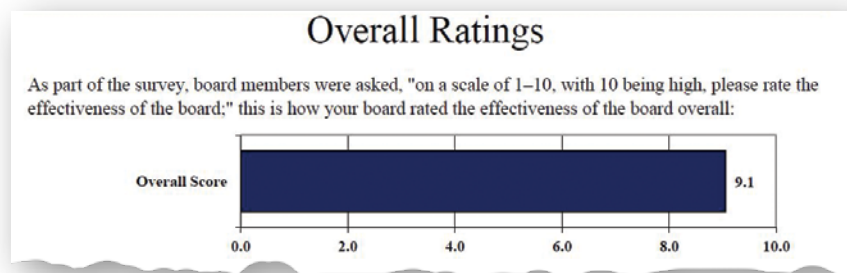
Characteristics of an Effective Self-Assessment and Improvement Process

1. Focus is on learning, shaping future direction, and continuous improvement; faultfinding is avoided.
2. Emphasis is on candid discussion; all thoughts and ideas are respected and defensiveness and semantic nitpicking is minimized.
3. Communication is highlighted as a criterion for success. The board recognizes that good work may be accomplished by a subgroup (e.g., committee), but that it must also be shared/vetted with the full board.
4. The full board receives the entire set of results and is involved in determining the follow-up action plan. Again, the board recognizes that this is not just the work of the governance committee or some subset of board leadership.
5. Objective, comparative criteria focused on best practices are the basis for the assessment; the impulse to develop a "homegrown" tool focused on a subset of issues is avoided.
6. Consistent questions and formatting are used to facilitate longitudinal comparisons of the individual board results; there is recognition that *ad hoc*, inconsistent use of assessment tools will produce an inferior result.

What to Do with the Results: Have a Facilitated Discussion, Develop an Action Plan, and Follow Up

While initiating the self-assessment process usually follows a fairly standard approach, the steps taken to review the results and develop follow up activities can vary depending upon the organization. That said, most organizations tend to take the following steps:

1. The governance committee and CEO review the results and plan for the full-board discussion (the board chair and others may be involved in this step).
2. An advisor from The Governance Institute is invited to participate in a one-hour review of the results and discussion of next steps via telephone (this consultation is included as a Governance Institute member benefit for no additional fee).
3. An inside or outside facilitator (possibly a Governance Institute advisor, if appropriate) is selected to review the results with the full board (see sidebar on facilitation options for more information).
4. The assessment results are distributed to all board members.
5. The governance committee or facilitator presents the results to the full board (The Governance Institute recommends that the results be presented to the board at a special session devoted to the assessment,³ if possible, rather than being part of a regular board meeting). It is important that the presentation of results provides the opportunity for full board discussion and takes place in a timely fashion.
6. The governance committee develops a work plan⁴ (which is approved by the full board) to identify opportunities and action steps for performance improvement.
7. The governance committee monitors the work plan to ensure that improvement goals are met, and presents progress reports to the full board.



³ See Appendix 1 for a sample agenda for such a meeting.

⁴ See Appendix 2 for a sample governance effectiveness action plan.

Facilitation Options

A board self-assessment and improvement process is greatly benefited by a facilitator, either at a special board meeting or board retreat. A facilitator may be involved in planning as well as conducting the retreat, and may also be asked to assist in development of an action plan for follow-up after the retreat.

Facilitation of a retreat or a special meeting is not the same as chairing a regular board meeting. A board meeting has a detailed agenda and business is conducted crisply within a tight timeframe. By contrast, a good self-assessment discussion has an agenda that is less constraining, and there is time for extensive discussion and deep, generative thinking.

There are two types of facilitators:

- 1. An inside facilitator** is a member of the group or organization having the discussion. A board chair, the CEO, or another board member may be an effective inside facilitator. The inside facilitator knows the organization and the group members, and can quickly understand issues, nuances, and personality conflicts that may be harder for an outsider to discern. However, the inside facilitator must be careful not to accept the status quo, advance a personal agenda, defer to formal leaders or colleagues, or use his or her organizational authority to curtail an open discussion process. Phrases such as “We tried that years ago and it failed,” or “I’m opposed to that,” from an inside facilitator can inhibit creative thinking and broad participation.
- 2. An outside facilitator** is someone who brings objectivity and a fresh perspective, content expertise based on experience with other boards and knowledge of best practices, and facilitation skills that aid both efficiency and inclusiveness. An outside facilitator provides assistance in structuring the agenda, identifying the difficult issues to address, and recognizing when local circumstances/culture require modification of best practices. An effective outside facilitator exercises care not to impose his/her personal views on the group and recognizes that the board, not the facilitator, must implement any action steps that are identified. The outside facilitator should be an expert in healthcare governance as a whole, but may also have in-depth expertise in a particular area in which the board wishes to focus, such as strategic planning or quality.

It is important to plan sufficient time for the self-assessment discussion. A minimum of three hours is recommended, and many boards devote a half- to a full-day retreat for this kind of discussion. As far as who should attend, the best approach is to include

only the board members and the CEO. The CEO should be included whether or not that individual is a voting board member. However, to ensure an open and honest conversation, no other members of management or the medical staff should attend. Finally, the results and related educational materials should be distributed to the board and CEO in advance so attendees can review and reflect on the findings before the retreat.

The assessment results should not be used to “grade” the board or find fault. They should be interpreted non-defensively with the goals of reflection and learning. It is important that everyone’s views are respected and considered; everyone should feel comfortable participating. The emphasis should be on learning, shaping future direction, and continuous improvement.



The facilitator may choose to develop a list of governance policies, practices, or issues that seem to merit further discussion at the retreat; the agenda should be set up so that issues of highest priority are discussed first.

Options for organizing the issues for discussion include grouping issues in the following manner:

- Practices in use, of which members may not be aware
- Practices not in use that the board should consider instituting
- Practices to continue but have room for improvement
- Ineffective practices to discontinue

After the board has agreed on specific steps for improvement over a specific period of time (usually one year), processes should be put in place to monitor progress until the improvement objective has been reached. The board can and should add processes and goals to its improvement “agenda” in a formal manner to ensure progress continues to be monitored and overall improvement trends upward.

Conclusion



Boards that fail to fully take advantage of a rigorous self-assessment process—and fail to meet this core responsibility—disadvantage themselves and the communities they serve. Superior boards—those that constitute an important asset of the institution they serve—embrace accountability and seek to constantly improve their performance.

BOARDS THAT RECOGNIZE THE RELATIONSHIP SELF-ASSESSMENTS have to board development and improvement, through their action, “lead by example” by modeling a commitment to a culture of continuous improvement and accountability.

The healthcare industry is experiencing unprecedented changes and market pressures, pointing to an enhanced need for innovative, effective leadership—including boards performing at their highest and most efficient ability. More so than ever, boards must affirmatively establish the governance and compliance tone for hospitals and health systems. The “tone at the top” is widely accepted as a critical component of responsible governance. The tone set by the board will be passed through the CEO and will resonate throughout the organization to become the organization’s culture. An organization’s culture is, in turn, often an extraordinarily accurate barometer of its commitment (or lack thereof) to

sound governance and transparency. Boards that embrace the responsibility to affirmatively establish a culture of compliance and best practices have effectively set a high standard for the entire organization. In the transition to providing greater value, boards must be active and engaged.

Self-assessments are a simple, cost-effective way to generate significant benefits for boards and the institutions they oversee. Board members should not feel threatened by the assessment process. On the contrary, they should be invigorated by the prospects of identifying steps that will enhance their value to the organization. Fulfilling this core responsibility will send a strong, clear signal to all constituencies that the board is committed to sound governance, transparency, and to fostering a culture of continuous improvement.⁵

⁵ Portions of this conclusion were excerpted from: Paul D. Gilbert, “Focus on the Fundamentals: Board Self-Assessments Are Key to Better Performance,” *BoardRoom Press*, The Governance Institute, April 2006.

Appendix 1. Sample Agenda for a Board Self-Assessment and Improvement Retreat

Objectives	<ol style="list-style-type: none"> 1. Review the findings of the board self-assessment. 2. Engage in a discussion of governance structures, policies, and practices. 3. Identify opportunities for continuous board improvement, using the best practices of effective boards as a benchmark. 4. Develop a working draft of a governance effectiveness action plan, for follow-up implementation after the retreat.
Schedule	
7:30	Breakfast
8:00	Welcome/objectives for the retreat, <i>board chair and CEO</i>
8:15	Review of board self-assessment results
9:45	Break
10:00	<p>Issues for discussion</p> <p>Governance committee's recommendation: important governance structures, policies, practices, or issues for discussion</p> <p>Discuss and modify list of priority issues for discussion</p>
11:00	Discussion of priorities and development of ideas for improvement
12:00	Lunch
1:00	Discussion of priorities and development of ideas for improvement (cont.)
2:15	Break
2:30	Discussion and development of a governance effectiveness action plan
3:00	Adjourn



Appendix 2. Sample Format for a Governance Effectiveness Action Plan

Action Item	Assigned To	Strategy	Deadline
Review all board conflict-of-interest materials to determine if they are rigorous enough and up-to-date with current regulations	Executive committee takes lead	<ul style="list-style-type: none"> • Review (and update if necessary) conflict-of-interest/confidentiality policy • Review/define disabling guidelines • Create/adopt definition of independent board member 	By_____
Mission review	Governance committee takes lead	<ul style="list-style-type: none"> • Review of mission with full board • Review of all projects (realized and not) against mission • Incorporation of the mission statement into board meeting agendas and minutes 	By_____
Quality	Quality committee	<ul style="list-style-type: none"> • Review of employee satisfaction and litigation data • Aggregate data report shared with all board by quality committee 	By_____
Board meetings: increase time spend on quality and strategy discussions	Governance committee and board chair	<ul style="list-style-type: none"> • Implement consent agenda • Ensure material is available early enough (at least one week prior to meetings) in board portal • Concise committee reports 	By_____
Implement competency-based recruitment tools and strategies	Governance committee	<ul style="list-style-type: none"> • Creation and utilization of competency-based criteria (profession, gender, ethnicity, board experience, etc.) for use before and during the new board member selection process 	By_____
CEO succession plan creation and review	Executive committee	<ul style="list-style-type: none"> • Creation of a written, current succession plan to ensure leadership continuity, and a process for keeping the plan updated regularly 	By_____

