Volume 17, No. 2 • March 2020

E-Briefings

New research and expert opinions in the area of hospital and health system governance.

New Priorities Coming into Focus for Compensation Committees in 2020

By Ralph E. DeJong, Partner, McDermott Will & Emery, LLP

As any board member of a large tax-exempt organization will tell you, an appointment to the compensation committee is a major time commitment, with complex issues, huge agenda books, and challenging oversight issues. And just as one year ends and these challenges are met, a new year begins, and the priorities and focus of the compensation committee continues to shift and grow. This year will be no exception. This article highlights four new priorities for compensation committees in 2020.

1. How to Remain Competitive as to Key Leaders

Larger organizations, and particularly those that have grown through acquisitions and affiliations, are moving away from lockstep compensation approaches and toward compensation approaches that will help to identify and retain the most critically important leaders. Even though base salary and incentive programs are still uniformly structured and administered, many organizations are considering these types of special compensation approaches for their "superstars":

- Special merit adjustments to base salary
- Incentive modifiers for particularly outstanding achievement on incentive goals
- Retention incentive bonuses
- New long-term incentive bonus structure for a very select leadership group
- Consideration of a different peer group in evaluating market-competitive pay

Key Board Takeaways

As compensation committees evaluate and reset their priorities for 2020, they should review governing and ancillary documents for consistency with evolving priorities:

- Committee charter (consistency with changes in committee role)
- CEO contract (consistency with succession planning)
- Executive pay philosophy (for competitiveness and flexibility)
- Governing documents for major executive benefit programs (ability to make changes as needed)

What's Inside

THE GOVERNANCE INSTITUTE

A SERVICE OF nrc HEALTH

When special compensation arrangements are considered for select leaders, the compensation committee has a greater burden to show that total compensation remains reasonable under federal tax law standards, and to provide the appropriate supporting rationale. The committee should also take into consideration the disclosure implications on the Form 990 annual tax return and the tax implications under the new Section 4960 excise tax (on annual remuneration over one million dollars to any member of the five highest-paid employees of the organization, which first applied to fiscal years beginning in 2018).

2. Succession Planning for the Top Executive Leadership Tier

Compensation committees are grappling with the effect of retirements in top leadership. Although many leaders delayed their retirements during and after the recession in 2008 to 2009, many of them have recently retired or are about to retire, and compensation committees find that they have to be prepared for the next wave. Committees are working with the CEO to make sure that emergency successors are identified and that the next generation of leaders for key executive positions are being identified, assessed, and developed with appropriate leadership opportunities. Increasingly, these succession planning efforts are integrated with the "remaining competitive" focus mentioned above, as organizations identify the next cohort of top leaders for the organization and use long-term incentive plans to challenge, reward, and retain those critical leaders identified in the succession planning process.

When succession planning involves the CEO position in particular, compensation committees have a new set of challenges. Committees are working with the CEO to assess "ready now" and "ready later" candidates for the CEO position. They are also ensuring that top candidates are being developed, using compensation mechanisms to retain top succession candidates (to make sure they are not poached or grow tired of waiting for the CEO opportunity), using compensation mechanisms to protect those who ultimately are not chosen, and working with the CEO to make sure that the timing of search and succession is adequate for the board but does not lead to a breach in the confidentiality of the process. Compensation committees may find that working with someone experienced in the succession planning process will help to navigate these delicate and difficult issues.

3. Evolution of the Compensation Committee's Role

Increasingly, compensation committees are becoming less transactional (such as reviewing and approving the compensation of a large number of executive leaders for the organization) and more strategic (such as vetting and approving new approaches to compensation that will help to identify and retain critical current and future leadership, and using compensation to guide where the organization wants or needs to be in five to 10 years). That does not mean that reviewing and approving compensation does not remain an important function of the compensation committee—after all, the "rebuttable presumption of reasonableness" that is a procedural underpinning of the committee's work is still the most important legal protection available to a tax-exempt organization in paying executive compensation. Rather, committees are recognizing that their oversight role may be more effective if they spend less time on the "nitty-gritty" of compensation market data for the fourth tier of executives, for example, and more time on how compensation approaches can be used to ensure appropriate leadership succession, provide greater community access to affordable healthcare, and meet the long-term strategic objectives of the organization.

4. Looking at the Bigger Picture of Cost and Results

As compensation committees step back from an intense transactional role of reviewing and approving compensation of many levels of executive leadership, they are more frequently looking at the bigger picture of total cost of executive pay and how the organization is performing in its local market, regionally or nationally on a wide variety of metrics. The cost analysis increasingly includes the long-term cost of retirement supplements, the full potential variation in annual and long-term incentive awards, and the cost of the new Section 4960 excise tax. The performance metrics increasingly include quality and safety dashboards, the relationship of executive pay to operating revenue and other financial indicators, diversity and inclusion, and other indicators of the organization's reputation and industry stature.

> The changing landscape of healthcare and the growth and increased complexity of hospital systems are causing compensation committees to adapt with new priorities.

The changing landscape of healthcare and the growth and increased complexity of hospital systems are causing compensation committees to adapt with new priorities. These areas of focus for 2020 show that compensation committees are increasingly thinking about how to position the organization for long-term success through retention of key leaders, succession planning for long-term leadership stability, and measuring competitiveness more broadly through a wide variety of external metrics.

The Governance Institute thanks Ralph E. DeJong, Partner at McDermott Will & Emery, LLP, for contributing this article. He can be reached at rdejong@mwe.com.

A Bond Rating Means Many Relationships

By Kevin Holloran, Senior Director, U.S. Public Finance, Fitch Ratings

As someone who has been at a bond rating agency for close to 20 years, I am still not surprised when I am asked, "What is a bond rating?" There has been, and still remains, some mystery around what exactly a bond rating is, how it works, and how one should engage with a host of new constituents involved in the process. This article focuses on three important aspects: what a rating is, and what it isn't; the ways a board can best participate; and how to manage the multiple relationships involved.

What a Rating Is, and What It Isn't

Let's clarify this right at the outset. A bond rating is a rating agency's opinion of your organization's ability to repay borrowed debt on time and in full. It's a measure of risk that investors (those individuals or firms that buy your bonds) use as a part of their risk/reward decisions as to whether they want to buy your bonds, what they may want to pay for them, and whether they keep them or sell them at a later date.

A bond rating is not a recommendation to buy or sell a particular bond. A bond rating, no matter how personal it may feel, is also not a personal judgement against any one person or persons—it's an *organizational* assessment. A bond rating is often thought to be a judgement on clinical quality, and no, that is not quite right either. While it is true that quality and financial success are highly correlated, a bond rating is ultimately based on your financial ability to repay that debt, not clinical outcomes.

Lastly, a bond rating is sometimes viewed as being dependent on size and scale. Again, there is a correlation with size and scale and higher ratings, but it all ultimately comes down to perceived risk of repayment. Less risk equals a higher rating; higher risk equals a lower rating. Size and scale can be important rating factors, but they do not, *a priori*, determine the rating.

Key Board Takeaways

- **Know what a rating is and isn't.** Bond ratings are measures of relative risk, assessing the ability of your organization to repay debt both on time and in full. Bond ratings are intended for investors, to enable them to make informed risk/reward decisions. Bond ratings are not personal referendums on you as an individual or a governance team.
- **Stay informed.** There is typically board-level representation at rating agency meetings. Stay educated on criteria, rating agency specific hot-topic issues, and current organizational performance—particularly if there has been an unexpected change from budgeted levels. Be prepared to articulate the board's expectations and level of oversight.
- **Manage your many relationships.** The board should stay in touch with the rating agencies, both directly when there is an anticipated CEO or other C-level change, but also indirectly by board-level oversight of the leadership team's communication with rating agencies. Keep them informed. Keep your bondholders informed. Rating agencies and bondholders generally do not like surprises, and will, in the absence of direct and honest communication, begin to assume the worst.

Bondholders and rating analysts like transparency—they do not like surprises.

Why a Rating Is Important to Bondholders

One of the first relationships involved in a rating is that of the bondholder. Bondholders take a disproportionate amount of risk when they loan money to a hospital or health system. From their perspective, *at best*, they get their money back plus a little interest. At worst, they lose it all in a bankruptcy or default situation. Unlike *share*holders who own a piece of a company, *bond*holders are merely loaning money for a period of time; they have no equity stake to fall back on in a distressed situation. As such, bondholders are keenly interested in what a rating agency has to say as a neutral third party about perceived risk. They are also very interested in a steady flow of information from the hospital or health system in which they have invested.

What Should I Do Going Forward?

Staying in touch and managing all your relationships is the best thing you can do. Beyond the rating agencies and bondholders, there is also the way your board manages *your* leadership teams and how *they* manage and communicate with both the rating agencies and the bondholders. Both rating agencies and bondholders will ask for and expect a continuous flow of information. Rating agencies need this to keep the rating up to date and accurate, and bondholders continuously evaluate their position and risk threshold.

Bondholders and rating analysts like transparency—they do not like surprises. Reading about something in the newspaper or on the Internet versus hearing it ahead of time from your organization does not help build a strong relationship. Rather, it creates an unfortunate opportunity for a knee-jerk reaction and potentially sets a stage of mistrust. Encourage your management teams to keep the lines of communication open, and to respond when contacted. Anything less than open, transparent, and honest discussion will generally lead to mistrust. Longer-term lack of communication can lead to the withdrawal of a rating, or bondholders refusing to loan money to your organization in the future.

What Is My Role as a Board Member?

Rating agencies prefer to have some level of board representation at rating agency meetings, certainly if it is a new rating, if it is a particularly challenging point in time for the organization, or if there is significant strategy to discuss (i.e., a potential large-scale merger or acquisition). The best way the board can participate is by being informed. A rating analyst and your bondholders will want to know how involved the board is in management's day-to-day work (at the appropriate level of oversight). Similarly, if a board member is attending the meeting or hosting an investor call, there will be an assumption that the board member is fully engaged in the organization and able to discuss it at length. You will get asked about any issues, and your rating analyst and bondholders will want to get your perspective. Bondholders and rating agencies will want to know about any pending CEO or C-level changes coming up specifically, and succession planning more generally. If your organization just had a particularly bad quarter financially, you should expect your rating analyst and bondholders will want to know what happened and how the organization is going to respond.

Summary

Obtaining and maintaining a bond rating should not seem a daunting prospect if you put yourself in the shoes of the bondholder. There is a natural and reasonable need for regular information to be shared with both bondholders and rating agencies to build and maintain transparency between the various parties. Your role as a board member is to stay informed, stay involved, and work with your management team to ensure that all constituents in the bond rating process are informed.

The Governance Institute thanks Kevin Holloran, Senior Director, U.S. Public Finance, Fitch Ratings, for contributing this article. He can be reached at kevin.holloran@fitchratings.com.

Leadership Culture and Its Connection to Organizational Performance

By Daniel K. Zismer, Ph.D., Endowed Professor Emeritus and Chair, Division of Health Policy and Management, School of Public Health, University of Minnesota, and Co-Chair and CEO, Associated Eye Care Partners, LLC

Key Board Takeaways

- Boards "own" the cultures of the organizations they govern; meaning, the people of the organization assume the state and status of the culture is what governance wants it to be—good or bad.
- Senior leaders operate on behalf of the board to set the tone for the culture of the organization. People in organizations see senior leaders as extensions of governance when it comes to culture. Consequently, there is a "culture of leadership" in every organization.
- Boards should know and understand the state and status of the leadership culture of the organizations they serve. This knowledge provides fertile ground for close collaboration and cooperation by boards and senior leaders, with the central, principal goal of creating a healthy and productive culture to best serve organizational missions and visions.

Every organization has a culture, whether by design or default. Culture moves within and through organizations like an invisible hand,[1] and it has a direct, pronounced effect on organizational performance.

Leadership "owns" culture, meaning leaders are accountable for the culture of the organizations they serve. Said otherwise, culture is the leaders' choice. Here, "leadership" is defined as those who are seen by employees as the decision makers of the organization. These people dictate the mission, values, direction, strategy, and performance requirements of the organization—those who hold power and control over the decisions that affect the employees and their jobs. Employees see leaders as being responsible for the culture of the organization, and experience demonstrates that employees hold strong opinions on the state, status, and direction of the culture of their organization (e.g., whether the culture of the organization is as good as it should be). Employees attribute accountability for culture to leadership. Simply stated, employees believe the culture is what the leaders want it to be and employees don't distinguish between the board and senior management when it comes to this accountability. For example, employees don't differentiate between the board chair and the CEO when it comes to who is responsible for culture.

Since employees hold leadership accountable for culture, it follows that there is a leadership culture in every organization. In this article, "leadership culture" is defined as "employees' collective views, opinions, and expectations of leaders' behaviors, motivations, intentions, and alignments of behaviors with the organization's implied mission, values, beliefs, and duties and obligations of leaders to all stakeholders served."

Case Study: Evaluating the Leadership Culture of the Organization

The support for the assertions above is presented in the form of the following case study.

A specialty medical and surgical group practice with employees operating within 14 professional and organizational support job categories, across six sites in two states, was preparing for the launch of a complex growth and expansion strategy. Given the level of investments of funds and human resources required to execute the expected strategy, the board (the physician owners) elected to evaluate the leadership culture of the organization to determine how related factors and dynamics might affect the performance of the strategy being readied for execution.

The goal was to receive actionable information to answer two important and practical questions related to the leadership culture and its potential to affect the performance of the envisioned strategic plan:

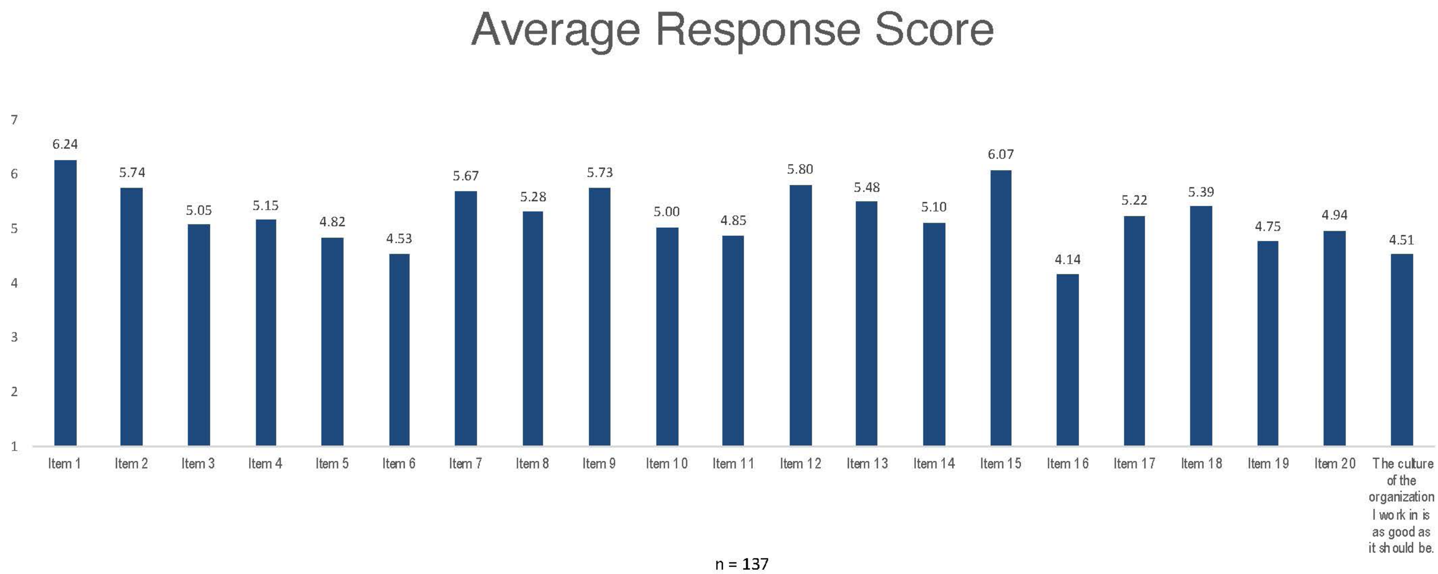
1. How might the perceptions of the culture affect the performance of the proposed strategy?
2. What is required of leaders to ensure the leadership culture best aligns the behaviors of all staff with the new strategic direction?

The CulturePULSE™ was administered to all professionals and staff, producing more than a 90 percent response rate.[2] Respondents were categorized according to their roles (jobs) in the organization to facilitate evaluations at the group and leader levels.

1 Adam Smith, an 18th-century philosopher and author, references the "invisible hand" in his first book titled *The Theory of Moral Sentiments*, and defines it as a force that operates to self-regulate free markets and societies.

2 CulturePULSE™ is a 21-item, electronically administered leadership culture evaluation tool designed to provide leaders (governing boards and management) practical and specific insights to address and enhance the leadership culture of the organization to improve mission, strategy, and operational performance. The CulturePULSE™ is provided by Management Essentials, LLC.

Exhibit 1: Average Group Scores Per Item



Note: See sidebar "CulturePULSE™ Item Detail" for the wording of all 21 items.

Exhibit 1 displays comparisons of average scores and item response distribution, per item with all responding groups combined. **Exhibit 2** on the following page, displays frequency of scaled response per item. With this initial perspective on the results, there are four noteworthy findings:

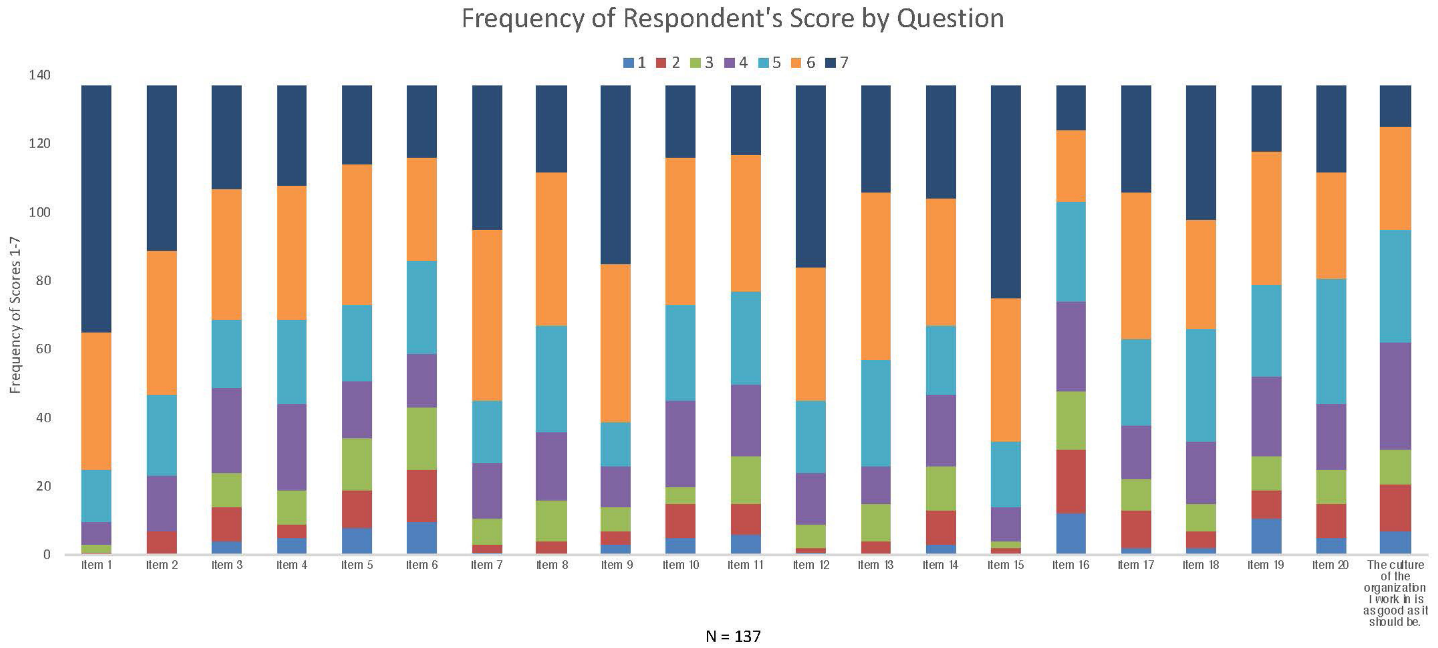
1. On a seven-point scale, there is no aggregate average response group score lower than the scale midpoint of 4.0, a favorable finding.
2. The two items with the highest average score (6.24 and 6.07) relate to respondents expressing their beliefs regarding their understandings of the "mission and purpose of the organization" and their understandings of how each respondent "makes a meaningful contribution to the mission of the organization," respectively. Respondents understand the mission and know how what they do "makes a meaningful contribution."
3. The lowest average group score is for the item relating to how leaders hold all to the same standard of accountability (4.14): "I believe that all members of the organization are held to the same level of accountability for their performance on behalf of the organization." This theme, and related item associations, plays prominently in results interpretations that follow.
4. The average score for the final item, "I believe the culture of the organization I work in is as good as it should be," was 4.51 on the seven-point scale. This item serves as the critical anchor point of reference for more in-depth analyses to follow. It determines how all other items influence respondents scoring of this last belief statement. This is also the only item that requests written comments from respondents

Exhibit 3 on page 8, displays between-group comparisons of average scores. There are three initial noteworthy findings here:

1. There are marked differences in response averages per item observed from group to group: doctors, leadership and management, clinical support staff, and administrative support staff. Each of these groups has an identified leader.
2. Notable common response patterns are revealed here; these are patterns where average item responses display similar per-group "response average directionality." These patterns are indicators of issues that are common to all departments, positive and negative, and patterns isolated to specific groupings of employees. Furthermore, they are the first indications of the leaders'

Leadership "owns" culture, meaning leaders are accountable for the culture of the organizations they serve.

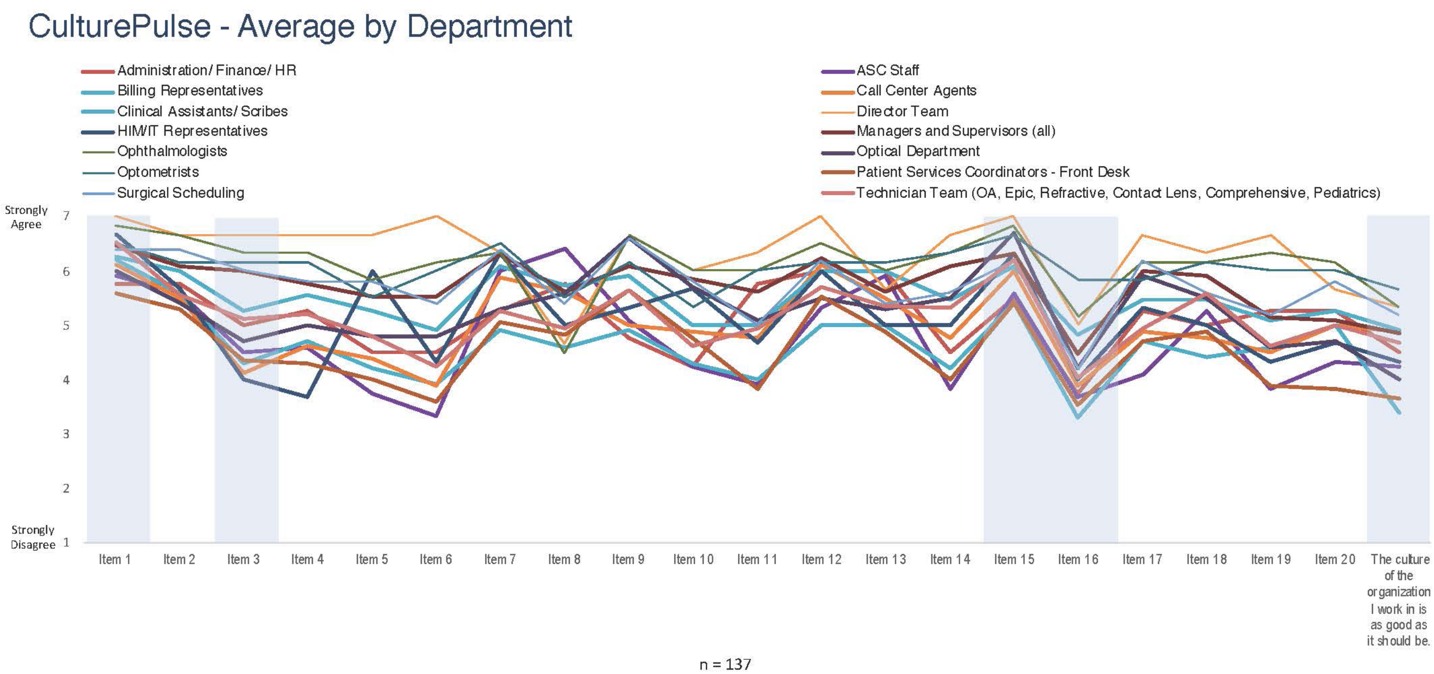
Exhibit 2: Frequency of Scores Per Item



CulturePULSE™ Item Detail

1. I believe I am clear on the mission of the organization; in other words, why we exist and why we matter.
2. I believe I am clear on the goals of the organization and the path we are on to achieve these goals.
3. I believe that the leaders of the organization are working to create an environment that I can trust will be fair to all of us who serve the organization.
4. I believe that when leaders make tough decisions, they are guided by the right values and what is best for the organization and those it serves.
5. I believe that if I perform my job well, my work will be recognized and appreciated.
6. I believe that my opinions and ideas are valued.
7. I believe that I am a member of a high-performing team at work.
8. I believe that every patient we serve will receive the experience they expect and deserve from all team members.
9. I believe that the person I report to trusts me to use my best judgment to carry out my work responsibilities.
10. I believe that I will be treated fairly when it comes to how I am rewarded for my performance.
11. I believe that when it comes to how the organization creates policies and rules in the organization, the decisions made are for the good of all people who work for the organization.
12. I am proud to be associated with the organization.
13. I believe that the quality of the services we provide are at the highest levels.
14. I believe that I work in a place that values my growth and development and will provide me opportunities to grow and develop in the organization.
15. I believe that what I do for the organization (the job I do) makes a real and meaningful contribution to the mission and goals of the organization and the people we serve.
16. I believe that all members of the organization are held to the same level of accountability for their performance on behalf of the organization.
17. I believe that when I make a mistake or fail to carry out my responsibilities to the levels expected, I can expect to be treated fairly and my mistakes will be seen by the person I report to as an opportunity for me to learn and move forward better prepared.
18. I believe I am working in the best place for me, at this point in my career.
19. I believe that leadership welcomes and will genuinely listen to honest feedback on how the organization cares for its people and those we serve.
20. I believe all leaders in the organization work and collaborate effectively for the collective good of the organization and its mission.
21. I believe the culture of the organization I work in is as good as it should be.

Exhibit 3: Average Scores across Groups of Respondents



opportunities for leadership development that matters to the people of the organization. These patterns are telltale signs of leaders' opportunities to connect culture and performance in the organization.

3. There is a clustering of group response averages for items 1 and 21, the first and last items. Here there is a comparatively "tighter and higher" clustering of responses for item 1 (respondents understanding of the "mission of the organization") and a much lower trending wider spread for item 21, "I believe the culture of the organization is as good as it should be." Stated simply, the people of the organization are clear on the mission, and they have different judgments on whether they believe "the culture of the organization is as good as it should be." This is a typical response pattern.

Exhibit 4 on the following page, displays individual group averages with comparisons to all other responses. Three of 16 total comparisons are presented to demonstrate how response averages differences vary across distinct employee class groupings. This method of results display is especially useful for individual leaders as they consider their leadership culture development plans, a basis for individual leaders to develop their personalized leadership plans.

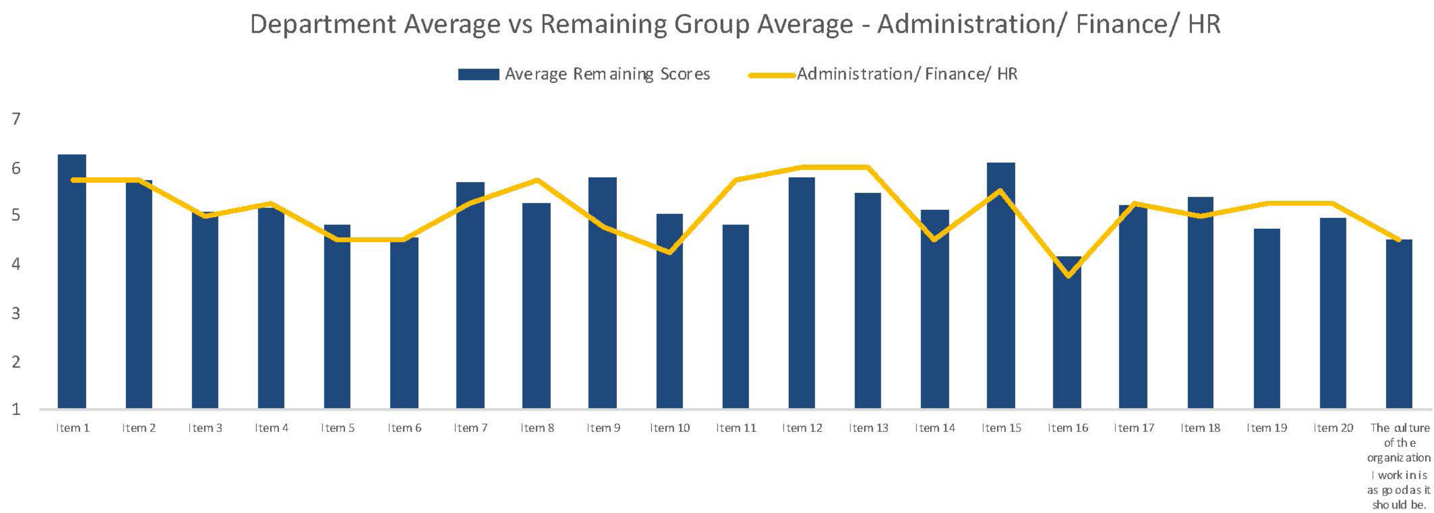
"The Most Influential Items (Factors) in This Case Study" sidebar on page 10 displays the five items (factors) that most influence all participants' responses to the final item in the instrument, "I believe the culture of the organization is as good as it should be." This output of the analysis is especially instructive for governing boards as it lays the foundation for leaders, as a team, to build their plan to align best leadership behaviors with the culture expectations of those they lead. Identification of the strongest predictors of responses to "I believe the culture is as good as it should be" does not mean that the others are unimportant. Rather, it provides leaders a good place to start with a comprehensive, culture-focused leadership development plan.

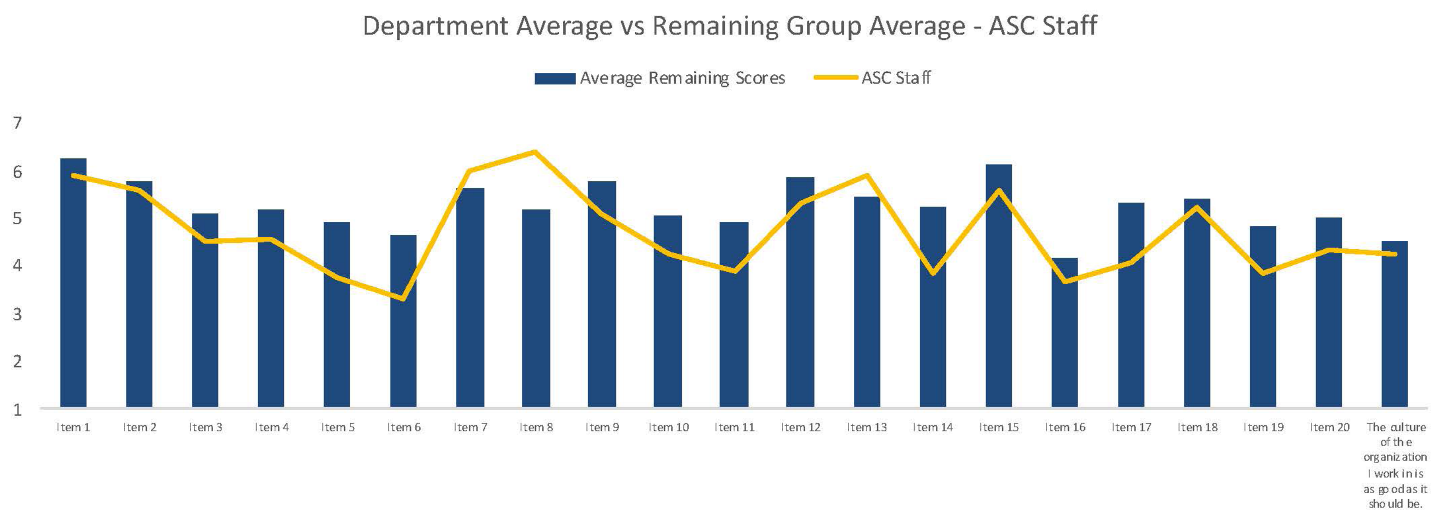
The "Summary Written Response Themes Provided" sidebar on page 10 displays a summary synthesis of themes derived from respondents' written responses to the last item ("I believe the culture of the organization is as good as it should be"). As cited above, this is the only item requiring a written response. It is common for respondents to be liberal with their written responses. Respondents are typically quite thoughtful and constructive, writing with a tone that provides leaders useful elaboration on why they responded to the last item as they did. These written responses provide an added layer of guidance for culture plan development by leaders.

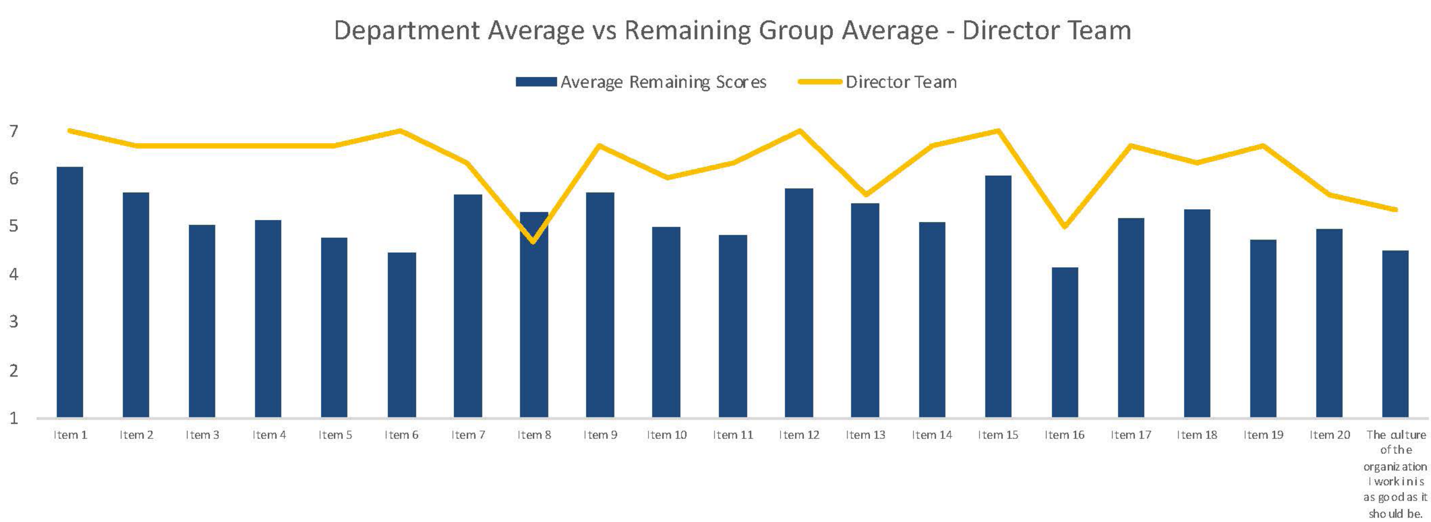
Practical Applications of the Leadership Culture Survey Results

Let's return to the rationale for determining the state and status of the leadership culture of the medical

Exhibit 4: Individual Group Response Averages as Compared to All Other Groups







surgical group in the case study. The organization was about to launch a complex growth and expansion strategy in a highly competitive market. Money, resources, and organizational reputation were at risk.

Priority goals for the strategy included:

1. Fewer, well-staffed, and well-equipped sites (facilities) capable of providing comprehensive ambulatory care with expanded provider potential, per site, along with enhanced patient convenience.
2. Required access to the right clinical providers for new patient, first visits.
3. An exceptional, reliable, and consistent patient experience, across sites, to encourage word-of-mouth referrals from satisfied patients.
4. An expanded, engaged, and loyal referring physician/provider base.
5. Strategic partnerships with community health systems and third-party payers.
6. Loyal, satisfied patients returning reliably for ongoing care on recommended protocol schedules.

Success with these priority goals is expected to produce:

1. A predictable and reliable and required flow of new patients, presenting with clinical needs consistent with the priority clinical programming.
2. Successful penetration of key health plans, including growing Medicare Advantage plans.
3. Key community health system strategic partnerships.
4. Attraction of high-quality providers and staff ahead of the expected growth curve projections of the strategy.
5. Improved free cash flow performance to internally fund the plan.

The Most Influential Items (Factors) in This Case Study

Provided in order of rank by the strength of association of response items with item 21 ("I believe the culture of the organization is as good as it should be"):

1. "I believe leaders collaborate effectively together for the good of the organization."
2. "I believe leaders work effectively together to create an environment I can trust to be fair."
3. "I believe every patient will receive the experience they expect and deserve."
4. "I am proud to be associated with the organization."
5. "I believe when leaders make tough decisions, they are guided by the right values and what is best for the organization."

Note: These top strongest predictors are examined in the context of written responses to item 21 to serve as the foundation for the leadership culture development plan. Items identified (1–5 above) are converted to leadership behaviors that reflect employees' expressed recommendation for a desired leadership culture.

Based upon the key findings of the leadership culture survey, a leadership development game plan was built to address "the culture of the patient experience" as the first priority strategic goal. Why? Success with all of the key strategic goals cited above is dependent upon a predictable growth pattern of the right types of patients accessing the services predictably and efficiently, the first time and over time. Employees told leadership, through the survey, exactly what they needed from leaders; in other words, what the people of the organization want leadership to know to effectively engage them in a strategy. A distilled, summary interpretive analysis follows:

> "Leaders need to tell us where we're headed as an organization, why we're going there, and what it looks like if we succeed with our goals. We want to be proud of the organization, that is what we do here and how we do it. We want our patients to receive the experience they expect and deserve. We expect our leaders to work effectively together for the good of the organization. We need to believe that leaders are motivated by values that are consistent with

Summary Written Response Themes Provided

Themes synthesized and summarized:

1. "Tell us where we are going as an organization and how we will get there."
2. "Hold everyone to the same levels of accountability."
3. "Leaders need to sincerely listen to those of us with experience."
4. "Ask for our opinions before important decisions are made."
5. "Leaders need to be approachable."
6. "Demonstrations of our values matter."
7. "We don't behave as if we are a unified company."
8. "There are sub-cultures in the organization that aren't helpful."
9. "Team is important."
10. "Don't punish us for our opinions; we have them for a reason."

Note: Themes provided were synthesized from over 6,000 words of the content supplied by CulturePULSE™ respondents.

our mission and vision. We need to trust that leaders work daily, together, to ensure that our organization treats us justly and fairly. Remember, we have skills, experience, and opinions that matter. If you genuinely listen to and respect us, we can help achieve our goals. We hold perspectives on the culture of the organization, including 'what it should be,' and we will gladly share these perspectives if you ask. If we trust the values and motivations of leaders, we are more likely to be on board with a plan. Lastly, we need leaders that respect the value we can contribute to our mission; and we do understand our mission and how we contribute to it."

Production of the optimal patient experience requires a complex integration and coordination of behaviors of all providers and staff, all operations, all information technologies, patient communications, and effective cultivation of all key external relationships and partnerships.

There is a culture of the patient experience in healthcare organizations. That culture affects the attitudes and behaviors of employees and drives performance.

Final Guidance for Leaders, Governing Boards, and Management Teams

Governing boards and senior leadership teams collectively "own" the leadership culture of the organizations they serve. Experience with the CulturePULSE™ demonstrates that factors that influence the leadership cultures are more common than different across industries. Lessons learned include:

1. Leadership, by definition, is behavioral and employees' perceptions of attitudes of leaders are considered to be "behaviors."
2. Leadership culture is situationally determined for better or worse. It can shift based upon dynamics internal or external to organizations; situations such as changes in leadership, market dynamics, and organizational strategies can affect culture. Leadership culture status "checks" should be routine for organizations.
3. When evaluating leadership culture, the people of the organization tend to develop their beliefs about culture both "vertically and horizontally," meaning they observe and evaluate how their leaders behave with their direct reports (vertical evaluations) and how leaders engage and collaborate for the collective good of the organization (horizontal evaluations of leadership). Employees develop perceptions of leaders' internal value systems and motivations by observing how they interact with direct reports, as well as with other leaders.
4. The people of an organization connect leadership behaviors to the top of the organization (i.e., governance). Employees are rightfully conditioned to understand that the board is the authority that sets the mission, vision, and values for the organization and it is the role of the board to hold leadership accountable for organizational performance at all levels.
5. Trust of leadership to provide for an environment that will be "fair and just" is a common, foundational theme that is strongly expressed by employees across industries observed.

The ultimate responsibility for leadership culture in organizations rests with governance. The people of organizations understand that leadership changes. They rely upon governance to "guarantee" stability of mission, values, and leadership behaviors to best ensure "the culture of the organization is as good as it should be." Governing boards should assume that employees will perform their jobs to levels of performance they believe the behaviors of leaders command and deserve. Lastly, culture is "the human condition at work." Employees need and want to work for leaders who they can trust to build and maintain an environment that is predictably just, fair, and is guided by values that are established and guarded by organizational governance. Belief in leadership predicts performance.

The Governance Institute thanks Daniel K. Zismer, Ph.D., Endowed Professor Emeritus and Chair, Division of Health Policy and Management, School of Public Health, University of Minnesota, and Co-Chair and CEO, Associated Eye Care Partners, LLC., for contributing this article. He can be reached at daniel.zismer@castlingpartners.com.