

Intentional Governance

Advancing Boards Beyond the Conventional

10
YEAR
ANNIVERSARY
EDITION



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In Memoriam

Anne D. Mullaney, formerly a partner in the law firm of Thorp Reed & Armstrong and chair of the firm's Health Law Section, served as co-author of the first edition of *Intentional Governance*. She represented clients from many sectors of the healthcare industry including hospitals, healthcare systems, long-term care facilities, hospices, physician group practices, and rehabilitation companies. After a long battle with cancer, she passed away in 2011. She was a dear friend and colleague of Sean Murphy and The Governance Institute, and thus we dedicate this 10th anniversary edition to her legacy.

The Governance Institute

The Governance Institute provides trusted, independent information, tools, 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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Table of Contents



iv	Foreword: Building Your Legacy as a Director
1	Introduction
4	Building a Better Board: Intentional Governance
5	Board Recruitment
8	Board Structure: Ownership, Organization, and Control
9	Managing or Governing?
9	Effective Meetings
11	Culture: It's Larger than Life
12	Board Education and Development
13	Evaluation and Performance
14	Continuous Governance Improvement
15	Board Leadership Succession Planning
17	Conclusion
18	Appendix 1. A Brief History of the Changing Environment in Healthcare
20	Appendix 2. Management vs. Governance Sample Checklist
22	Appendix 3. Sample Individual Board Member Assessment Questionnaire
27	References

Foreword: Building Your Legacy as a Director



Why do directors agree to serve in such a complex, challenging industry as healthcare? There are many reasons people volunteer their time. Although it is hard to generalize motivations, it is safe to say that people who are willing to volunteer their time and energy want to do so in a way that makes use of their talents and permits them to contribute in a meaningful way to an enterprise they view as important.

That being said, hospitals are in fierce competition with other worthy endeavors for a limited volunteer pool. Yet the demands put on those who are willing to consider service on a hospital board are perhaps the most strenuous of all volunteer opportunities. Much has been written with regard to the complexity of issues facing hospital and health system volunteer boards of directors. The healthcare industry is complex, the liability exposure on directors is real, and the financial and competitive forces facing healthcare providers can be overwhelming. Directors with little or no healthcare experience are expected to lead the organization through these complex times while receiving little or no financial remuneration for doing so. (The Governance Institute's biennial survey data shows no significant increase in the prevalence of board compensation despite much speculation that this trend will increase, which remains to be seen.¹) The time commitment and preparation for meetings is significant; some boards require their members to go through their state hospital association's (or other) certification program, requiring additional time commitment. The appropriateness of the volunteer model of governance is being questioned with increased frequency as the industry becomes more regulated and competitive.



Nonetheless, the volunteer hospital board is here to stay for the foreseeable future. With continuous attacks on the ACA, ongoing questions about how best to increase value and reform healthcare payment models, global pandemics halting elective procedures, and hospital closures in the front-page news, hospital and health system boards are expected to move faster and smarter than ever before to respond to change. The challenges of the environment have put unprecedented pressure on hospital leadership—both management and board—as they work to maintain the viability of the organization. Ironically, it is just when the need for leadership is at its most acute that the pool for willing volunteers with the requisite skills seems to be decreasing. As the task of recruiting, engaging, and retaining the right talent becomes more critical than ever, successful organizations must position themselves in a way to attract and retain quality directors.

The task of recruiting and retaining quality talent begins, in part, with an understanding of what motivates a potential director to serve on a hospital board. This aspect of board recruitment has traditionally not gotten much attention or focus. Rather, board recruitment typically starts with identifying what skillsets the board needs and putting the wheels in motion to identify the people with those skills. This is, of course, a very important aspect of board recruitment. However, knowing more about the expectations of potential or current directors with regard to their board participation will help a board design a culture that will result in a more satisfying board experience. The following questions serve as a good starting point when interviewing prospective directors as well as assessing current directors:

- What motivates an individual to consider serving on a hospital board given all its demands?
- What is a particular individual hoping to get out of the experience of serving on a hospital board?
- What talents or resources does a person believe he/she brings to the table?

¹ See e.g., K. Peisert and K. Wagner, *Transform Governance to Transform Healthcare: Boards Need to Move Faster to Facilitate Change*, 2019 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

These sorts of questions also help the board determine if the person is a good fit for the organization. Mutuality of goals and expectations is a critical component of long-term success.

Most people who volunteer do so with the hope that their service will have a positive impact on the organization— that their service will in some way leave a legacy. Directors wonder how the organization will have benefited from their service after they leave the board. If time and effort contributed by the director does not result in tangible benefit, why bother?



Recognizing that board members have legacy goals is an important step in creating an intentional board (which is the focus of this publication). The more board leadership understands what a director wants and expects out of his/her board participation, the better the chance the relationship will be a successful one and that the director will stay committed, particularly in trying times. Likewise, the more a director knows what is expected of him/her, the more effective his/her service will be. Boards that can monitor and assess the satisfaction of directors in “real time” have a better chance of keeping them interested and productive.

For the first edition of this publication, we conducted interviews with many current hospital and health system board members, which revealed a number of common themes relating to what draws directors to hospital service as compared to other potential volunteer opportunities or civic involvement. We believe these themes are still relevant and strongly resonate with board members today. Most of these themes are lofty in nature— aspirational. None of them are particularly surprising. But all reflect a desire to “help,” as defined by the director. Boards committed to understanding the goals or motivations of a specific director will of course have to identify their concrete expectations, but these aspirational goals are instructive and a good starting place to understand director motivations.

Better Patient Care

Not surprisingly, the number-one reason given by directors for their willingness to serve on a hospital or health system board was that they were motivated by the hope and belief that their participation on the board would result in the hospital providing better patient care. They viewed the mission of their hospital or health system to be a worthy one. They clearly had the desire to

work hard to improve the delivery of care and to support those caregivers who were committed to serving the health needs of the people in the relevant service area, although they questioned whether their skill sets really had a direct effect on care directly. Although fairly new, the sharing of quality data and the increasing involvement of boards in quality improvement is viewed positively by directors and gives many directors the reassurance that their oversight efforts do make a difference.

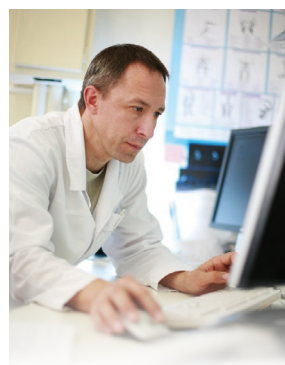
Efficient, Accessible, Affordable

A second factor frequently identified as a legacy goal is to have an impact on making the health services offered by the hospital or health system more efficient, accessible, and affordable. Business owners and leaders alike cited the concern that the cost of healthcare is choking businesses and potentially affecting the competitiveness of the economy— locally, nationally, and globally. They indicated that they were interested in understanding better the dynamics of the healthcare delivery system and using their business skills to affect the delivery of care in a way that makes it more efficient from a business perspective.

Vitality of the Region

A third common aspiration is the desire to work to ensure that good healthcare is available in the region; to protect and improve the health status of the community. It is widely recognized that a hospital or health system is a regional asset that directly affects the vitality of the

region, and that this asset needs to be preserved. As community leaders, board members felt that they could exert positive influence over decisions affecting the healthcare system in the region. Similarly, many expressed a belief that, due to the expertise they had amassed over the years in other industries, they could help shape a viable strategic plan that could help position the organization



to deal with competitive forces in the long term and help the organization respond appropriately to market pressures.

Major Regional Employer

The final legacy goal commonly expressed related to the hospital or health system as a major employer in the

region and the desire to help keep the hospital viable in order to keep good jobs in the community. Many directors expressed their belief that their expertise in human resource and personnel issues was or could be a valuable contribution to the hospital.

Understanding the motivation and legacy goals of current and/or prospective board members can help board leadership craft a board experience that is more fulfilling for the individual directors and more productive for the organization. The reason a prospective director is asked to join the board is usually clear—he or she has the desired skillsets or social network. What is not always clear, however, is the reason the prospective director accepts the invitation to serve. Perhaps boards make assumptions as to why a person agrees to join or remain on the board. Traditionally, board participation was viewed an honor. It still may be, but it is more complex and multi-dimensional now. In any event, helping the individual director express answers to the questions, “Why am I here?” and, “What do I want to get out of this experience?” will help shape the culture of the board. Boards that are able to translate these aspirational goals into concrete goals will have more success in recruiting and retaining good directors.

Ask any healthcare CEO and/or board leader and they can likely cite numerous examples of highly skilled individuals with great potential for being an effective director, who just did not “work out.” Dig deeper and the reasons for the failure can usually be identified. Most directors complete at least their first term and do not actually resign from the board, but many do not perform to their full capacity. Directors who have not found the healthcare board experience to be worthwhile can be instructive in building a better board going forward. The impediments to good experiences seem to fall into two general categories: culture and process. By better understanding how the culture and the processes of the board influence the performance of directors, continual improvement can be realized. In a sense, this board discernment process is akin to exit interviews for employees who leave the employ of the hospital. By knowing the specific impediments to a good employment experience, improvements can be made. Boards should consider adopting a similar process as part of its self-evaluation. Boards can only improve if they can identify areas of weakness and commit to improvement in a focused and intentional way.



How to Use This Publication and the Intentional Governance Library of Resources

This publication serves as an overview of our Intentional Governance concept and framework: what it is, and why it is important. It provides background in the appendices as to why boards need to perform at their highest and what is at stake for boards that don't.

Each pillar of the Intentional Governance Framework has its own resource guide, that provides a short assessment for your board to conduct pertaining to that single pillar, and actionable solutions for a deeper dive for boards that need to improve any areas of performance related to each pillar. When applicable, we make separate recommendations for boards that are part of systems vs. freestanding organizations.

Visit and bookmark www.GovernanceInstitute.com/page/IntentionalGov so you can regularly access all of our Intentional Governance Guides. To take it further, call us or email MemberServices@GovernanceInstitute.com to ask us to develop a customized Intentional Governance curriculum for your board(s).

Introduction



Hospitals and health systems are challenged on every front. The industry has been turned on its head, and the past 20 years of slow and steady incremental change have proven ineffective to increase access, quality, and experience while making care more equitable and affordable. Strategic plans and future visions must look completely different than they ever have before, and dynamic leadership is required to ignite a faster pace of change. Prior efforts to move the needle have only made minute progress. This new era will test the ability of healthcare boards to achieve what has never been achieved in this industry’s history. Are hospital and health system boards prepared?

If good governance truly is more than a haphazard (or at best, disparate) collection of governance practices; if “high-performing boards” are truly culture-driven teams—“robust, effective social systems” that are more than the sum of their parts—then they need to do what every good team and athlete does: learn, grow, and improve. A governing board’s primary responsibility is one of oversight; that is, reviewing and analyzing the organization’s processes and performance. But in order to conduct this important job of oversight, the board must also look critically at itself—it’s own culture and performance—and ensure the board is functioning at its peak, so it can truly focus on the real work of governing.

Governing boards must put stock not only in the organizations they govern, but also in themselves.

What are the additional, necessary components that take boards beyond mediocrity into excellence? Board structure and practices are key components in driving board performance, but there is a third, equally important component to consider in driving board performance: board culture.

This publication focuses on a framework we call *intentional governance*, which involves deliberate and

intentional processes that enable the board to realize its highest potential. This publication will include structure and practice components relating to the core responsibility of board self-assessment and development—director education, a board effectiveness program, processes for board recruitment, and doing more with the board self-assessment, for example—as well as ways to formulate an intentional process that has, as its outcome, full board engagement in its own development and improvement, and a healthy board culture that allows for dynamic, future-focused discussions and sound decision making that will truly move the needle. The process involves a critical analysis of what works and what does not work for a board, and the individual directors who make up the board, in carrying out its oversight responsibility. It addresses the following questions (not an exhaustive list):

- What do we want to be?
- How do we get there?
- What works in our meetings?
- What information do we need?
- What plans do we have to improve?
- What are our collective and individual goals to reach optimal performance?

Intentional governance: deliberate and intentional processes addressing board structure, dynamics, and culture that enable the board to realize its highest potential.

The Foreword addresses “legacy”—the individual director’s imprint on the organization. “Will my actions as a board member help bring the organization to a better place?” and, “Why am I here and what do I want to do to make this organization stronger?” Part of the discussion of legacy includes outlining a process to actualize that legacy; for example, what is the organization’s strategic direction and how does it fit with the individual board member’s priorities? What are the obstacles to remove and steps and actions the director can take to contribute to his/her legacy?

Combining board structure, practices, *and* culture into the framework of “intentional governance” will bring all of us closer to the elusive components of high-performing governance.

Background

The U.S. healthcare industry is (still) in midst of fundamental change. We have watched as elected officials debate the merits of health reform and struggle to come to an agreement on how best to fund and organize our healthcare system. The stakes are high, with 2020 bringing the most significant global pandemic in over a century, healthcare representing 18 percent of the gross national product, and the cost of healthcare continuing to be blamed as a major contributor to our country's economic woes. Hospitals and health systems are looking for new ways to deliver healthcare services more efficiently, and the decade between the first and second editions of this publication has shown considerable increases in hospital consolidations and mergers (a trend that is expected to continue to rise given the financial damage from the coronavirus pandemic). Outside industry disruptors are gaining momentum, forcing healthcare organizations to continuously innovate in order to remain competitive. The focus on paying for outcomes continues, although much disagreement remains on how to design a system that successfully produces positive outcomes at a lower cost.



*The examination is about who is on the board and why; it is about how directors interact with each other and how they interact with management; it is about how the board uses its time, how it establishes its priorities/agenda, and how it measures its effectiveness. It is about **governing with intention.***

Clearly, these profound changes to the status quo require proactive responses from hospitals and health systems—organizations that are critical to the delivery of care. The issues are more complex and the challenges more intense than ever. The status quo is no longer enough for hospital management and governing bodies; these times require innovative leadership. Organizations that rise to the challenge and respond creatively and effectively to the pressures of the day will surely fare better than those that continue with “business as usual.”

The challenge lies in optimizing the skills of the directors in a way that truly adds value—that is, the creation of a highly effective governing body whose leadership makes a lasting impact on all aspects of the organization (and not by accident). This has always been the goal, at least from a theoretical perspective, but given the times, the imperative for boards to perform effectively and exclusively for the good of the organization is intense and immediate. Great boards will respond with intent, examining the needs of the organization and restructuring themselves to respond to those needs. This intent will be required in both culture and process design.

Recognizing the fact that volunteer directors often come to the table with little or no knowledge about or experience with the business of healthcare, a focus on board development through ongoing education and creating a culture of continuous performance improvement is imperative to boards' ability to govern with intention. The Governance Institute's biennial surveys in 2017 and 2019 show a positive correlation between how much boards invest in board member education and their performance.²

Further, several studies over the past decade have found statistically significant correlations between board practices and care outcomes, providing strong evidence of the increasing importance of an effective board. A 2012 study³ identified benchmarks of effective boards, which included the fact that effective boards insist on the following, all of which are included in our principles of intentional governance:

- Governance policies and structures that facilitate efforts to perform the board's functions and fulfill its responsibilities
- Well-organized meetings that allow the board to focus on strategy and key priorities
- Purposeful creation of a culture that nurtures enlivened engagement, mutual trust, willingness to act, and high standards of performance

A 2010 study revealed differences in board activities between high-performing and low-performing hospitals, with high-performing hospitals being more likely to provide formal training to board members in clinical quality.⁴

2 K. Peisert and K. Wagner, *The Governance Evolution: Meeting New Industry Demands*, 2017 Biennial Survey of Hospitals and Healthcare Systems; and *Transform Governance to Transform Healthcare: Boards Need to Move Faster to Facilitate Change*, 2019 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

3 L. Prybil, S. Levey, R. Killian, D. Fardo, R. Chait, D. R. Bardach, and W. Roach, *Governance in Large Nonprofit Health Systems: Current Profile and Emerging Patterns*, Commonwealth Center for Governance Studies, 2012.

4 A. Jha and A. Epstein, “Hospital Governance and the Quality of Care,” *Health Affairs*, Vol. 29, No. 1 (2010); pp. 182–187.

The Governance Institute’s own study in 2014 on the effects of board performance on quality of care⁵ have shown strong correlations with a number of board practices that are not directly related to quality of care but rather reflect that high-performing boards govern with intent across all areas of oversight responsibility. Practices of note from this study that are directly related to intentional governance include:

- The board uses competency-based criteria when selecting new members.
- The board assesses its own bylaws and structure at least every three years.
- The board receives important background materials within sufficient time to prepare for meetings.

What is needed for true change is a sincere and honest assessment by the board of its strengths and its weaknesses, a realistic analysis of the type of board needed in this strange and complex world of 21st century healthcare, a plan to transform “what is” into “what needs to be,” and a commitment to pursue excellence. The starting point for this analysis is a blank slate. What should the board look like? How should it function? This is true with respect to both process and culture. The examination is about who is on the board and why; it is about how directors interact with each other and how they interact with management; it is about how the board uses its time, how it establishes its priorities/agenda, and how it measures its effectiveness. It is about governing with intention.

We are convinced that an effectively constituted board is essential to the success of a healthcare organization; it is not to simply fulfill the legal requirement that non-profit

hospitals have a fiduciary board made up of members from the community. Many healthcare CEOs struggle to see significant value from their board. Many see their board as another aspect of the operation that needs to be “managed.” The path to becoming an essential, intentional board is not an easy one, but maintaining the status quo is just not an option. It is a process of self-awareness, of self-definition, and of self-assessment; that the sum of the whole is greater than its individual parts. It is not only about overseeing the activities of management, it is about taking the actual act of governing with extreme care; of understanding and embracing the concept that if the board is excellent and accountable, the institution benefits. The governing process must be structured in a way that the board holds itself accountable for what it does and how well it does it, just as it holds management accountable for how well it manages the organization. (Similarly, the board holds the medical staff accountable for providing quality patient care.) Gone are the days when boards can simply assume they are doing a good job. The responsibilities of boards are just too great to continue on with business as usual.

In the pages that follow, we will focus on “intentional governance”—what it means and why it includes board culture as well as board processes. We will present an actionable framework to guide boards on their journey towards becoming intentional and reaching their highest potential. Obviously, boards are human organizations and there are no quick fixes. Only by being intentional, committed to becoming even more relevant, more accountable, and more effective, will hospital and health system boards truly add value to the organizations they govern.

⁵ L. Stepnick, *Making a Difference in the Boardroom: Updated Research Findings on Best Practices to Promote Quality at Top Hospitals and Health Systems*, The Governance Institute, 2014.

Building a Better Board: Intentional Governance

// We have met the enemy....” We know all too well how this famous quote ends. Unfortunately, things are no different within the confines of the boardroom, where often efforts to change fail at the door, even if directors know what should be done. There are many factors at play in facilitating change within an organization, any one of which can be powerful enough to derail even the most pressing initiatives. For a board to move from its present state to a high-performing board, it must focus on intentional governance—that is, adopting a series of deliberate processes that help the board avoid these issues altogether.

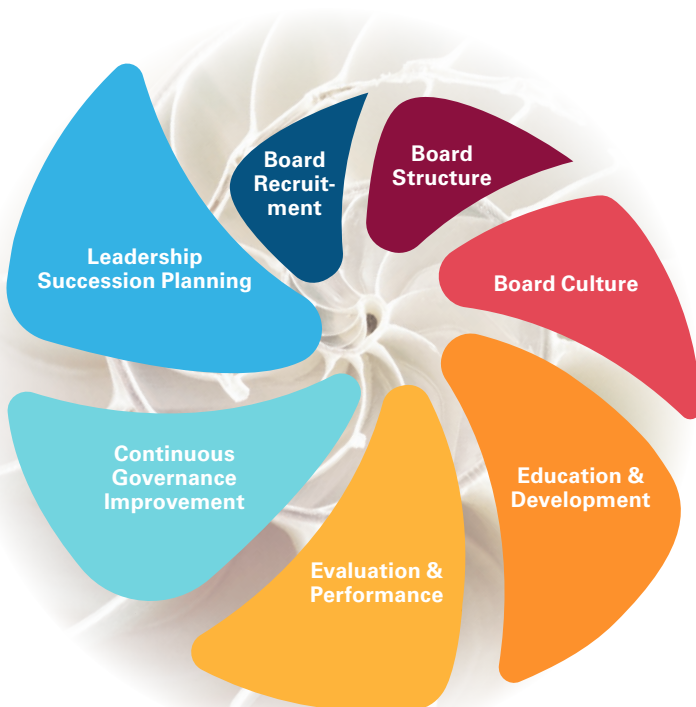
Put simply, if a board is to provide effective leadership to the organization it governs, it must go about its job with the same focus and “intentionality” as it would require of management. Although this proposition may seem somewhat self-evident, it has not historically been the practice of boards to be diligent about their own work. A board must be disciplined about the processes it puts in place to carry out its work, and measure and assess the effectiveness of its efforts on a periodic basis.

Ironically, proof of excellence is demanded from every facet of the healthcare organization, other than from the governing body. Management is judged in any number of ways ranging from the financial performance of the institution to the quality of care rendered to patients. Physicians on the medical staff are routinely measured, monitored, and peer reviewed. The board must do the same for itself.

This section focuses on some common governance challenges related to board structure, dynamics, and culture, and provides some intentional governance solutions to alleviating these challenges and/or avoiding them in the first place. Addressing these issues will help individual board members develop their legacies for board service, as discussed in the Foreword. Once the board can overcome these challenges and become accustomed to approaching governance with intention, it can move beyond the conventional and become a highly effective, efficient organism that is essential to the performance of the organization it governs.

How does a board begin the process of focusing on itself and the way it goes about its business as a means to achieve excellence in governance? How does a board learn to operate as a high-performing team rather than a collective group of individuals? This important

Intentional Governance Framework



Board Recruitment

- Organizational needs
- Board needs
- Requirements: training/ education, experience
- Stakeholder analysis
- Community representation

Board Structure

- Proper size
- Committee structure
- Board role: clear definition, responsibilities/accountabilities
- Distinction between managing and governing
- Effective meetings

Board Culture

- Clear behavior expectations
- Encourage robust engagement
- Mutual trust and willingness to take action
- Commitment to high standards

Education & Development

- Formal orientation
- Formal board education plan
- Education goals and process to meet goals
- Resource allocation

Evaluation & Performance

- Board assessment
- Committee assessment
- Director assessment/ peer review
- Commitment to making changes
- Appointment/reappointment qualifications

Continuous Governance Improvement

- Board mission statement
- Track board performance
- Evaluate efficiency/ effectiveness beyond annual assessment
- Continuous process analysis
- Challenge and change culture

Leadership Succession Planning

- Written policy statement
- Leadership position descriptions
- Selection criteria
- Identification and development
- Performance evaluation
- Connection to recruitment

transformation can only happen by putting in place processes—nuts-and-bolts mechanisms—that guide the work of a board, force it to focus on itself and its own effectiveness, and ultimately impose upon itself true accountability. This takes discipline and diligence. It is *intentional governance*.

The difference between this hospital and [the previous hospital where I served as CEO] is the way the board approaches its work. At my previous hospital, the directors were informed about a problem or issue and went about solving it on the spot. There was no attention paid to or respect for process. The ‘solutions’ were always knee-jerk. And it showed. The organization was in shambles. In my current institution, the board is driven by process. When an issue arises, the board refers the issue to the appropriate committee to be analyzed and dealt with. Data replaces emotion. Process trumps intuition. Sometimes it seems cumbersome, but the final outcome is almost always the right one. And it has led to better governance.”

—CEO, hospital in Upstate New York



*The ultimate goal of intentional governance is to find a way for the board to accomplish more, in more effective ways, in the same amount of time—to work **better**, not harder.*

Board Recruitment

The Challenge

Ten years ago, for the first edition of this publication, The Governance Institute conducted surveys of conference attendees and follow-up interviews with board chairs and CEOs who responded to the survey.⁶ The findings are still relevant today: a majority of respondents found board recruitment to be a challenge, and for many it was their single greatest challenge, especially when attempting to recruit younger and more diverse directors. Board recruitment is increasingly becoming a challenge; not only in healthcare, but for public and private companies alike.

This is significant for many reasons. Most importantly, recruiting new directors for any governing board is essential if we expect hospital and health system governance (as we know it) to exist. Yet, board service (especially for non-profits) is not for everybody, and everybody cannot serve on a board. Focus interviews cited many reasons for this challenge, including concerns about:

1. Time commitments (personal and professional)
2. Liability
3. Conflicts of interest and related issues
4. Service restrictions/limitations (i.e., corporations limiting the number of external boards on which executives may serve)
5. Mission/community benefit/corporatization of healthcare (i.e., concerns that the “modern healthcare system” is becoming more of a business than a community-based, philanthropic organization)

“It’s getting harder and harder to recruit directors—especially younger directors. Young people just don’t want to serve. They’re too busy or not interested; they have families, both spouses working, demanding jobs and careers, children—and often times elderly parents they have to care for.”

—CEO, hospital in Northern New Jersey

⁶ The Governance Institute conducted surveys of conference attendees during 2009. Most of the 317 respondents were board members (75 percent), and the rest were a mix of CEOs, executive management, and physician leaders. The authors conducted follow-up interviews with about 50 survey respondents (board chairs and CEOs).

Problem People/People Problems

In the context of board recruitment, the first impediment to effective governance is, of course, the people. An organization cannot live without the people inside, and the board, as a smaller structure representative of a larger organization, is also very much an image of the directors comprising the board. Simply because they are elevated to the position of board member does not mean that directors cease to behave in the various ways, positive or negative, that usually characterize them. Specifically, directors can develop behaviors and attitudes in their personal and professional lives that function as adaptive measures, which can be easily integrated or overlooked in a larger organization. However, these behaviors and attitudes reveal themselves with resounding clarity in a much smaller group (i.e., in the boardroom), where they can become disruptive.

How boards handle such people issues, in the small, intimate, and sheltered environment of the boardroom remains a difficult yet critical task. Waiting for the end-of-year member evaluation, if it happens, and if it is timely, still means that the board will be dealing with personality issues for the better part of a year. The primary concern lies in the



disparate impact that one individual has on the organization as a whole, by virtue of being “at the top of the organizational chart.”⁷ The “wrong” member, in the “wrong” position, can easily derail a year’s worth of success.

Conversely, lack of assertiveness is as much of an issue as a lack of adherence to social conventions. And if aggressive/disruptive/unproductive behavior is easier to notice and hopefully address, rubber-stamping is a much harder issue that is just as threatening to the success of the board.⁸

The first step in governance evaluation is to determine if the right people are at the table. One way boards can preempt potential people problems is by looking closely at some general qualifications of the members: willingness to serve, time availability, commitment and engagement, ability to step out of their own self-interest, objectivity, intelligence, communication skills, integrity, and values.⁹ On this “foundational framework” of social criteria, boards can then overlay a skill-based filter, and a gender/diversity filter, to ensure that they do not re-create a microcosm of their social circle, and end up with a board fraught with people problems due to problem people.

Focus interviews also revealed that the challenge of board recruitment is further complicated by the following related and deeply interconnected concepts:

1. **Personal skills:** whether the person is a “good match” for the board (e.g., whether director candidates possess requisite personal and human skills to enhance board performance)
2. **Board composition:** boards do not necessarily have the time, resources, or available talent pool to thoroughly examine/assess whether the people on the board are the right/best people to govern
3. **Board culture:** whether the person is a “good match” for the board



7 Hildy Gottlieb, “Ongoing Board Education: Ensuring Board Members Have the Knowledge they Need,” Community Driven Institute/ReSolve, Inc., 2005 (www.help4nonprofits.com/NPLibrary/NP_Bd_OngoingBoardEducation_Art.htm, accessed July 14, 2008).

8 Arkansas Trustee, *The Board’s Fiduciary Responsibility*, Fall 2008.

9 Washington State Hospital Association, *20 Questions Every Washington Hospital Board Needs to Answer* (<https://bit.ly/2TXe9k7>, accessed November 5, 2020).

In 2020, board recruitment gained an even larger meaning and deeper intensity due to ongoing healthcare inequities made worse from the coronavirus pandemic. In the past decade, we have learned about the importance of social determinants of health, and the hospital and health system's increasingly essential role in addressing those determinants as part of a larger population health strategy. Ethnic minority populations struggle the most with such determinants of health, and were disproportionately affected by the coronavirus, whether being more likely to be infected or losing jobs or enduring the stress of being essential workers, often in unsafe environments. A diverse board that represents the communities served has now become a critical need, rather than a "nice to have."

Intentional Governance Solutions

On the one hand, industry pressures and forces are migrating to "higher standards" of governance: that boards be prepared to prove that they are competent and qualified. On the other hand, most hospital and health system directors are uncompensated, often overworked ("under-paid") community volunteers doing the best they can. This is further complicated by the fact that, for many reasons, there appear to be fewer and fewer people who appear interested and willing to volunteer.

However, there is a more compelling argument for the board to be "intentional" with respect to its composition. We believe boards that are deliberate with regard to identifying and acquiring directors with "desired and needed" skill sets will be able to ask better questions. They will be able to provide management with better advice, guidance, and expertise. They will be better able to anticipate problems, future needs, and opportunities that might otherwise go unnoticed—or noticed too

late. Finally, they will be better equipped to engage in the essential robust strategic discussions that move the organization forward in accordance with its vision and mission.

The first step in a formal board recruitment process is to identify the organization's needs as a whole (considering the mission, vision, and strategic plan, how the organization is performing against goals, areas of weakness, etc.); then evaluate and monitor its own composition and communicate with directors about retirement and/or other issues (e.g., business or family) that might cause the board to experience a sudden, unexpected shift in composition. Through this analysis, the board can identify the kinds of expertise needed to help the organization meet its goals.

The board should not be looking at a generic "prescription" or list of board member skills and competencies and then attempt to fill the board with those who fit the prescription. Every organization is different and the needs of each organization are unique. The board should take care to focus its recruitment and development efforts by looking at the needs of the organization first.

Next, a high-level stakeholder analysis will help the board identify community members who have the potential to be board members, and determine how to maintain communication with these potential directors. Remember to take into account during this analysis that community hospital boards should represent the communities they serve.

The next step of the process is to overlay the board needs and requirements over the board/director skills and qualifications. This will help drive the twin objectives of board recruitment and board education and development by revealing areas of weakness or "expertise holes" in the board. The board can then assess the best way to fill those holes—through director education and development, and/or bringing in new board members with different skills, depending on the nature and complexity of the issue.

Board Structure: Ownership, Organization, and Control

The Challenge

The structure of the boards should fit the needs of the organization's corporate structure, while giving appropriate weight and credence to governance functions such as succession planning, board education, and so forth. The right structure will allow a board to focus on governing the institution. All too often, however, boards hold on to traditional structures and practices. Yet, putting in the hard work to streamline governance will allow boards to accomplish more, faster—to work better, not harder. In some ways, failing to ensure that the governance structure is ideal is parallel a failure to fulfill the board's responsibilities to the organization and its mission, because the wrong structure serves as a significant barrier to this fulfillment.

Intentional Governance Solutions

In order to keep an eye on the end goal, a board must structure itself so that it can delegate the focused and tactical operations that could otherwise distract from the broader picture. It must be the right size, and research shows that board size for high-performing hospitals is between 10–15 members, and for health systems, between 15–20 board members.¹⁰

The optimal board structure is one where the board operates through committees, task forces, or advisory councils. This is not an area where one model fits all, however. Every board is unique. This means, mostly, that boards should not be structured along “accepted” lines of accountability, but along what makes specific sense for a specific institution at a specific time. It also means that boards may choose to operate nimbly through *ad hoc* committees or through task forces, or through quasi-individual smaller groups. Flexibility is the key word.



One pitfall in particular that boards must be mindful to avoid is to carry committees beyond the temporal needs that led to their creation. Too often, committees get set up to address a specific need, and end up staying as formed, with somewhat amorphous agendas, because members like to chair committees, and committee members treasure the close relationships and routine tasks to which they have become accustomed. Instead, committees must come and go as they acquire or lose relevancy. Letting unnecessary committees remain in place can actually hinder the progress of the board.

For individual hospitals, the board structure assessment involves a critical look at the board's size, composition, and job description, and most importantly, a critical look the committees: which ones are still relevant/necessary, which ones are not, whether their charters require updating, whether they are staffed with the right level of expertise, and if their reporting processes to the board and management are functioning properly. Many boards may find that they can get rid of several committees and perform their work more efficiently and effectively.

The wave of hospital consolidations over the past decade have resulted in many health systems with a patchwork governance structure, with multiple boards across the system lacking a clear delineation of their role versus that of the system board. Systems, in particular, need to ensure that all boards in the organization have a clear role and purpose to enable system-wide standardization of processes, care delivery, and strategic plan implementation.

The Governance Institute has created a series of complementary toolbooks that focus in-depth on each pillar of the framework, known as Intentional Governance Guides. For in-depth information on considerations and recommendations on board structure for both individual hospitals and systems, refer to the guide on [Board Structure](#).

¹⁰ Note: The Governance Institute is not recommending one particular board size; organizations must consider their own unique circumstances. The median board size mentioned here is shown in Governance Institute biennial survey data. See, for example, *Transform Governance to Transform Healthcare: Boards Need to Move Faster to Facilitate Change*, 2019 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

Managing or Governing?

The Challenge

Whatever form of governance structure they choose, boards must define their role clearly. Are they in the business of leading the organization forward, or are they in the business of ensuring the organization does what it is supposed to do? The difference is momentous in terms of its consequences.

Boards are at the top of the organization, and they know it. But, then what?

Too many boards and board members are engaged in overseeing the details of the programs they put in place—managing—rather than keeping their gaze focused on the big picture and looking at the collective direction and future vision that their efforts contribute to—governing. Ineffective boards carry a myopic vision from the committee sub-meetings to the boardrooms, checking all the right boxes but still missing the fact that the train is off the tracks. That is how boards can end up in situations where financial committee reports are presented month after month, showing good control of historical trends and good financial management, but missing the fact that the operating account is empty until there is no choice but to put employees on furlough.

Non-profit healthcare organizations are different from for-profit businesses, and traditional business experience can carry directors only so far. Directors can easily succumb to the temptation to focus on—and meddle in—matters that are familiar to them, and neglect the imperatives of the organization as a whole.

Intentional Governance Solutions

Effective boards conduct their responsibilities within specific parameters of board responsibility and accountability. Regularly reviewing a checklist of responsibilities will help keep the board on track, and will enhance board–management interactions during board meetings. A checklist may be used as a starting point for discussion. (See Appendix 2 for a sample checklist of management versus governance

responsibilities. Remember, every board is unique, so adjustments may have to be made to the checklist for any particular board.)

Key points to consider:

- The very nature of governance “roles” helps boards take strategic approaches to issues rather than focus on operational matters.
- Boards stray into operations and away from policy for two main reasons: 1) they pursue what is most familiar to them, and 2) they lose faith in the CEO.
- Ideally, the board and the CEO have a symbiotic relationship, each being accountable to the other and pursuing the same goals. Optimal organizational performance is a joint endeavor.¹¹

Effective Meetings

The Challenge

Governing boards are often ostracized for “spend[ing] more meeting time in passive mode, listening to reports and conducting routine business, than they do actively discussing substantive matters of policy or organizational strategy.”¹² With the external pressures being placed on board accountability and expectation, it is imperative that boards reassess their current status quo with an eye for efficiency and aspirations to govern well.

Intentional Governance Solutions

It may be time to scrap the traditional monthly, two-hour board meeting and consider longer but less frequent board meetings. The point is not to allow for more reporting from management, but rather to allow more time for discussion and strategic questioning—with each board member participating to his or her fullest in the give-and-take on key issues.

Some object that with the increase in board work, boards should meet more frequently, not less frequently. However, focused work is better than possibly rushed and interrupted work, and an efficient committee structure and schedule, as well as routine communication from the organization’s CEO and board chair, ensure that issues aren’t “lost” between meetings.

¹¹ Elements of Governance®: *The Distinction between Management and Governance, Second Edition*, The Governance Institute, 2018.

¹² Barry Bader, “The right stuff, the right way: 10 ways to improve board meetings,” *Great Boards*, Winter 2005

Effective Board Meetings

Possibly the most basic constraint for effective governance relates to the increasing time demands placed on directors. It's just difficult for board members to devote the time needed to fulfill their responsibilities as directors. But time is not the sole issue. Often, board meetings themselves lack the requisite structure, or meaningful purpose, to provide for productive outcomes. As discussed above, board meetings are often highly consumed by monotonous tasks, unworthy of such intelligent conglomerations. Such confining influences often inhibit discussions of pertinent and/or unforeseen events.

Since the board's meetings may very well be the only means of communication between its members, it is critical that all members are well informed and prepared for the same. Each meeting must be driven by an appropriately structured agenda so directors can assess the areas for discussion, the order of relevance, and the predicted time allotments.¹³

Members should also be provided with comprehensive information packets on all areas of discussion prior to the meeting. These packets should be read and digested prior to all gatherings, with some even suggesting that "at a minimum, board members should receive the following prior to a board meeting: agenda, minutes from the previous meeting, topic reports or information summaries, additional background reading, and concise summaries with clear recommendations and that specify clearly the board action required."¹⁴



This is because informed members are more likely to be interactive participants.

This allows for the meeting agenda to be structured in such a way that frees up most of the board's time for active discussion, deliberation, and debate about the organization's strategic priorities. The Governance Institute's 2017 and 2019 biennial surveys have revealed that for boards that generally spend more than half of meeting time discussing strategic issues, there is a greater tendency to indicate that overall board performance is excellent.

"Strategic discussions" include issues around finance, quality, and all other mission-critical issues that require decision making of a strategic nature. It goes beyond simply discussing the strategic plan itself.¹⁵

To encourage member attendance, meetings should be at convenient times and locations, of which members are notified well in advance. The meetings may be mapped out and distributed each calendar year to most effectively ensure total attendance (a board member attendance policy is important to put in place as well). As stated earlier, attendance is an important aspect of keeping all members up-to-date, informed and involved.

Finally, boards should set aside time at the conclusion of meetings to evaluate the productivity, and discuss the potential for improvement and change. Such recommendations will effectuate a continuous process of critique and growth, essential to the board's future productivity.¹⁶

¹³ Bader, 2005.

¹⁴ Healthcare Trustees of New York State, *Boardroom Basics: What Every Healthcare Trustee Needs to Know*, 2008 (<https://bit.ly/366s5xG>, accessed November 5, 2020).

¹⁵ K. Peisert and K. Wagner, 2019.

¹⁶ Bader, 2005.

Culture: It's Larger than Life

The Challenge

Perhaps the most critical aspect of governance is also the most elusive to define, measure, and create. It is culture, variously defined as “the way we do things around here,” or “the way people behave when no one is looking.” Organizational culture is a mix of an organization’s formal rules and rituals, its espoused values (behaviors it professes), and its values in practice (behaviors it demonstrates and rewards). Like their organizations, boards have a culture too.¹⁷

How does one define a board culture that promotes success, and distinguish it from the culture that prevents success?

It is important to emphasize that having effective processes does not ensure the board has an effective culture. For example, keeping track of attendance at meetings, conducting board self-assessment retreats, focusing on governance as a separate line item at each meeting—all these steps might convey the message that governance is real and here to stay. Assuming the organization has recruited the right people for the board, various board and personal dynamics also may be seen as a proxy for an effective culture.¹⁸ These processes are necessary but do not sufficiently address the issue of culture.

Here are a few examples of a dysfunctional board culture:¹⁹

- The board is dominated by an individual. When a board is dominated by the chair, CEO, or a board member, chances are:
 - » Board members may be reluctant, or worse yet, discouraged from actively participating.
 - » Board members effectively abdicate their fiduciary responsibilities.
 - » Cliques form and meetings take place outside the boardroom.
 - » The checks and balances needed for effective governance are eliminated.
- Board members do not feel qualified to offer their perspective. Board members lacking healthcare experience may not feel qualified or are intimidated from offering their perspective. Some suggest that not only are there no dumb questions, but that all board members should be required to ask at least one question. The board, board chair, and CEO want and need each member’s perspective.

- Board chair and CEO are buddies. If the chair and CEO are too friendly, chances are:
 - » The board sees itself as a rubber stamp for decisions already made.
 - » Open and candid discussions may be stifled.
 - » The roles of the CEO, board chair, and individual board members are blurred.
 - » Board members may withdraw from participation.

Intentional Governance Solutions

Intentional governance necessitates intense examination of the board’s culture and practical steps to rectify problems and/or consolidate gains. Much is covered in this publication about the working of the board and the effectiveness of board processes, but unless you have a culture that supports the active and independent participation of every member, nothing else matters.

Intentional governance necessitates intense examination of the board’s culture and practical steps to rectify problems and/or consolidate gains.

Lawrence D. Prybil, Ph.D., a University of Kentucky professor and healthcare governance expert, compared governance structures, practices, and aspects of culture in high- and low-performing health systems.²⁰ Prybil found that boards in high-performing systems exhibit “three dimensions of board culture” and nine specific behaviors under these dimensions:

Robust engagement

- Board meetings are characterized by high enthusiasm.
- Constructive deliberation is encouraged at board meetings.
- Respectful disagreement and dissent are welcome at board meetings.
- The board is actively and consistently engaged in discourse and decision-making processes. Most board members are willing to express their views and constructively challenge each other and the management team.

17 Barry Bader, “Culture: The Critical but Elusive Component of Great Governance,” Special Commentary in *Governance Structure and Practices*, The Governance Institute, 2009.

18 Rex P. Killian, J.D., “Health System Governance: Board Culture,” *BoardRoom Press*, December 2007, The Governance Institute.

19 *Ibid.*

20 Lawrence Prybil, Ph.D., et al., *Governance in High-Performing Community Health Systems: A Report on Trustee and CEO Views*, 2009.

Mutual trust and willingness to take action

- The board’s actions demonstrate commitment to our organization’s mission.
- The board tracks our organization’s performance (financial and clinical) and actions are taken when performance does not meet our targets.
- There is an atmosphere of mutual trust among the board members.

Commitment to high standards

- The board systematically defines its needs for expertise and recruits new members to meet these needs.
- Board leadership holds board members to high standards of performance.

A follow-up study by Prybil and colleagues in 2012 found that effective boards *intentionally* create a culture that nurtures enlivened engagement, mutual trust, willingness to act, and high standards of performance. Further, effective boards expect their CEOs to demonstrate exceptional leadership and management skills, high personal and professional standards, and strong support for the role of governance.²¹

“Assessing and improving a board’s culture is not nearly as straightforward as making changes to board size, committee structure, written policies, or meeting frequency, but without a commitment to the development of an active and responsible governance culture, changes in the rules and rituals of governance are likely to have a minimal effect on board performance. On the other hand, talking first about the kind of culture the board wants to create and then designing structures, policies, and practices that will facilitate development of that culture can be a much more effective way for a board to continually improve itself.”

(From Barry Bader, “Culture: The Critical but Elusive Component of Great Governance,” Special Commentary in *Governance Structure and Practices*, The Governance Institute, 2009.)

Shaping and changing board culture is difficult but worth the effort. Sometimes the board needs to get rid of directors who do not reflect the values the governing body wishes to reflect. Board leadership can shape the culture by demanding that the behavior of all directors conform to the board’s values. Leaders must stimulate discussion by encouraging participation and

by soliciting different points of view. The atmosphere in the boardroom must be one that encourages directors to ask the tough questions without fear that the questions they ask are “dumb” questions. This is particularly true with new directors. Directors must be encouraged to be persistent and ask their questions a second or third time if they are not satisfied with the answer.

The culture must encourage dissent and avoid false consensus. Rather, true consensus must be forged.

Board Education and Development

“I know some states are requiring board education for hospital trustees and that other states have board certification programs. Maryland has nothing! I’m concerned that we’re not doing enough. That’s why I’ve decided to start our own board education program. This way we can show our community that we’re doing this, even though it’s not required.”

—Board Chair, Maryland Hospital

The Challenge

Many CEOs and boards are currently spending countless hours learning about healthcare, hospitals and health systems, and governance. Yet, the complexity and demands of the industry are unending. Specific challenges with respect to board education include the following:

1. Model: there is no single standard (educational model) or curriculum for board education. This is not to suggest that there should be; however, there appear to be wide variations of practice with respect to board education, and concern by some board members that they not only need “adequate training and education,” but that it should be documented.
2. Budget: again, there are wide variations in board education budgets, ranging from zero to more than \$75,000 a year.
3. Time: education takes time, a precious commodity for many board members. For some, the real challenge is trying to “juggle” their oversight function and obligations with education.
4. Culture: whether the hospital (management and the board) respects the importance of education—an informed board, a board in the dark, or a “rubber stamp.”

²¹ L. Prybil, et al., 2012.

Intentional Governance Solutions

Board education needs to start the very first day a member joins the board. Board members should learn about and be oriented to the industry, the hospital/health system, the community, and the other board members.

Again, The Governance Institute's biennial survey analysis has shown a significant positive correlation between the amount of money spent on board education and board performance (e.g., the more money spent on education, the higher the board performance).²²

For a board to govern with intention, board education must be more than a periodic event. It must be an integral part of the board's mission, purpose, and agenda; not an idea or plan that gets dusted off annually. This will not be easy, especially when one considers the many pressing industry and operational issues that boards and directors face on a daily basis. And like any other agenda item, board education and development must be measurable, and measured. This is part of the overall evaluation that boards need to conduct, of their members and of themselves.

As a part of intentional governance, board education needs to be deliberate, planned, and appropriate. The board should be committed to a formal board education plan that includes everything on the education spectrum from orientation, certifications, seminars, and board retreats to inclusion on and integration with the board meeting agenda. The complexity and demands of this industry require nothing less.

Evaluation and Performance

"We conduct an annual board assessment, but that's where it ends. I would have a very hard time doing much more than that—at least now. These guys devote a lot of time to this place and they're not paid a dime. It's not easy asking someone to volunteer their time only to turn around and criticize them. On the other hand, things have to change. If we don't dig deeper and start giving each other meaningful feedback about our performance, we're going to wind up losing our best directors."

—Chairman of the Board,
health system in Pennsylvania

The Challenge

Performance evaluation (both individual board member assessment and conducting a full-board self-assessment) is a fundamental governance responsibility. Research from The Governance Institute showed that it is consistently a low-scoring area for most boards as far as adoption of and performance in recommended practices for board evaluation.²³ Performance evaluation needs to be timely, meaningful, and include an action plan for improving areas of weakness identified through the evaluation process. The Intentional Governance Survey shows that a staggering 83.9 percent of respondents felt that "the board would be more effective if members were given feedback about their performance, either annually or upon reappointment."

Effective board and director evaluation is one of the great challenges of high-performing governance. Specific issues include:

1. **Culture/internal resistance:** for a board member, there is a tension inherent in being an unpaid volunteer and having to go through the process of performance evaluation.
2. **Standards:** There are no standards or requirements for individual director assessment; though there are accreditation standards and third-party tools for the full board assessment.
3. **Implementation:** Much of the most important feedback that directors can receive is "subjective" (i.e., related to behaviors). It takes leadership and skill to implement processes that enable the board to give meaningful feedback that will result in meaningful change.

Intentional Governance Solutions

Board evaluations can be effective tools that shed light on the collective performance of the board as a whole. Board assessment needs to be methodical, balanced, and fair. Intentional governance requires that this examination be done on an ongoing basis, and that there be "real commitment to making appropriate changes as a result." (See the sidebar on self-awareness for more information on individual board member assessment.)

First, board assessments must be formal, in writing, with clear and neutral evaluation of the different dimensions of governance, of management, and of effectiveness. Preferably, a committee should be charged with structuring the evaluation process and selecting an evaluation tool that is statistically valid and reliable.²⁴

²² K. Peisert and K. Wagner, 2019.

²³ The 2019 biennial survey listed board development as last in overall performance out of nine areas of fiduciary duty and core responsibilities.

Furthermore, formal assessment of individual board member performance remains extremely rare, which should be a key component of reappointment criteria (see K. Peisert and K. Wagner, 2019, pp. 46 and 62).

²⁴ It is highly recommended that boards use a third-party evaluation tool that has been tested and verified for effectiveness, such as The Governance Institute's BoardCompass®.

Likewise, the committee should help to evaluate the data and integrate it into the “continuous governance improvement” loop (discussed below).

Board self-assessment is the baseline—the point at which the board must begin. It must feed forward into continuous governance improvement, standards, and structure, and planning for the future of the board itself.

Second, and most importantly, the assessment must lead to action. Action should include not only feedback, but essentially it should also include opportunities for director and board improvement (e.g., board education and development). Most importantly, a best practice identified by The Governance Institute is “the board uses agreed-upon performance requirements for board member and officer reappointment.” Without individual assessment, this practice cannot be properly implemented.

Self-Awareness

The popular initiative in governance today is performance measurement—especially individual board member performance measurement. Yet, for many members, such performance measurement does not belong in an environment of volunteerism. “I should give up my family time, my money, and my best efforts, and on top of it, be judged?” Such are the unspoken thoughts that the specter of individual performance evaluation raises. The feeling that measurement should be strictly reserved for the people getting paid is subtly emphasized by governance literature on this issue.

Individual board member performance evaluation can be used effectively to highlight areas of strength and weakness—both of which the individual may be unaware. Like the peer review process for physicians, individual director performance evaluation should be considered a routine component of board service, and should be spearheaded by the governance committee or, in the absence of this committee, by the board chair. (See Appendix 3 for a sample individual board member assessment.)

Continuous Governance Improvement

“I went to a governance seminar that talked about restructuring meeting designs to allow for more education and more time to talk about vision, goals, performance, and the industry itself. So I brought this up at a meeting. Specifically, I suggested that we hear fewer committee reports and that we rely more on our dashboards. Several committee chairs became defensive and aggravated—especially the chair of the finance committee, who responded, ‘Do you mean to tell me that we should not be spending time looking at our financial statements with the shape we’re in?’ I tried to convey that most of the important financial information is already on our dashboard and that there is no need to duplicate the process. We could use a ‘special finance report’ to address any serious financial concerns. The finance chair became increasingly irate at these suggestions. In the end, nothing changed. I’ll tell you in confidence—I’m resigning from the board at the end of the year. I’m just going to say that I am too busy with other obligations. I don’t have time for this.”

—Board Member, hospital in Ohio

The Challenge

Continuous governance improvement assumes that the board is mindful of itself, its governance function. Yet, governance process and practice is rarely a board agenda matter. Many boards assume that governance is an outcome. Hence, many boards seem to focus more on their oversight functions and outcomes than their own functions and processes.

Is it time to do things differently? Fifty-seven (57) percent of respondents to the Intentional Governance Survey agreed their meetings would be more productive if they concluded with a meeting evaluation.

Likewise, another 83 percent thought that documentation or tracking of board performance would help

their organization “respond to increasing attention, scrutiny, and the demand for accountability.” Yet, are boards ready to add to their responsibilities? Change what they are doing? Stop doing “what has worked” for many years?

Boards need to evaluate their own processes in the same manner and with the same vigor that they evaluate the hospitals and health systems that they are charged to govern. Challenges include:

1. **Inertia:** Gravity has a way of keeping us from doing things differently, from taking on the challenge of change.
2. **Lack of model or mandate:** Boards have neither a systemic model nor mandate to perform regular and ongoing governance improvement.
3. **Metrics:** No uniform method of measurement.
4. **Culture:** Boards that are change-averse will find this very unsettling.

Intentional Governance Solutions

Boards need a process that will enable them to regularly evaluate their effectiveness—beyond the annual self-assessment. Intentional governance means the governing board takes time to assess everything it does. The board regularly asks questions that are critical to its performance:

- Are our meetings effective?
- Do we have the right information that we need to govern?
- Is our board organized and structured properly?
- Are our committees organized and operating effectively?
- Are we accountable stewards of our community assets?
Can we prove it?

Fortunately, healthcare boards already have experience in this area. Continuous process analysis and improvement is not a foreign concept to hospitals and health systems; notably, it’s a common component of the hospital’s quality program. Likewise, board members who work in business and industry are also familiar with the many varied continuous quality improvement programs and initiatives that exist.

In this era of increasing accountability and transparency, boards must incorporate this concept into their own culture: the ability to validate its practices and processes, using objective and subjective tools. If the board has evidence or otherwise believes that its processes are less than effective, it needs to evaluate, construct (or de-construct, as the case may be), and change.

In order to do this, the board must be cognizant, mindful, and aware of its essential purpose. It can do this by establishing its own board mission statement—a concise description of the board’s essential purpose in protecting and benefiting the organization it governs. After that, it should describe and define the necessary functions it must

perform to achieve its underlying mission. Finally, the board needs to implement processes to carry them out.

Board Leadership Succession Planning

“He had been a long-time board member—he served over twenty years. He was a successful businessman and a large donor. He believed in the hospital and his heart was in the right place. But he was narrow-minded, argumentative, talkative, and he lacked necessary leadership skills—people skills—that were needed to build consensus or recruit [new directors]. He wanted to be the chairman and the board felt it had no choice. No one stood up to him. These were five of the worst years of my life. Now he’s gone, and I’m stuck trying to rebuild my board. The entire thing...was a disaster.”

—CEO, hospital in Montana

The Challenge

Now that all of the previous governance challenges have been tackled with intention and your board is functioning at its peak potential, the final challenge of securing new board leaders—long before the current leaders rotate off the board or out of leadership positions—must be added to the intentional governance spectrum to close the loop.

Most hospitals and health systems have a medical staff development plan—a process to evaluate the number of physicians, specialist mix, and ages of physicians to ensure that “major clinical gaps” are filled and that there is an orderly, planned approach to manage “physician succession planning” (i.e., hospital/health system plans to recruit and replace older, retiring physicians).

It has also become an accepted practice for large corporations to engage in CEO and management succession planning; however, board leadership succession planning has largely been ignored. Meanwhile, the Intentional Governance Survey indicated that 81 percent of respondents believed their hospital or health system would benefit by having formal policies and procedures for board leadership succession planning. Thus, The Governance Institute identified a related best practice, “The board uses an explicit process of board leadership succession planning

to recruit, develop, and choose future board officers and committee chairs.”

Challenges include:

1. **Time and resources:** proper succession planning requires the identification of a selectable pool of potential candidates, and the screening of those candidates in terms of skills and organizational fit. Recruiting for both new board members and board leaders is not the same as recruiting for a job. Therefore the “interview process,” for lack of a better phrase, cannot be conveniently compressed into a matter of hours and weeks. It must be an ongoing process, led by all board members, through meetings, conversations, social interactions, and complemented by an active search for people presenting the right skill mix and/or diversity mix—people who may not even know yet that they are candidates. The investment in time and resources is significant.
2. **Mandate and culture:** of course, there can be no investment in the time and resources from the board without a mandate from the current leadership. The fact that board leaders are already in place can instill a sense of complacency where replacing them is concerned. Thus, succession planning may be difficult unless there are clear guidelines from the board as to the length of time each individual member can serve in a leadership position.
3. **Governance:** as mentioned above, a strong succession planning function is the outcome of all preceding governance functions. Success in this area is unlikely if there are other significant gaps in the intentional governance

spectrum (e.g., lack of intentional plans for board recruitment, board development, board assessment/performance measurement, and continuous governance improvement).

Intentional Governance Solutions

Board leadership succession planning is essential to protect the corporation from potential upheaval in the event a key board member leaves, either suddenly or through the normal process of retirement and attrition. Moreover, leadership succession planning is the final link on the chain of proper governance; hence any deficiencies in the other internal governance functions discussed in this chapter only exacerbate issues of leadership succession planning.

Essential elements of board leadership succession planning include:

- A written policy statement
- Leadership position descriptions with specified terms
- Selection criteria
- Leadership identification and development (partnering/mentoring programs, etc.)
- Leadership performance evaluation

Governing boards need to be intentional throughout the spectrum: from board recruiting to leadership succession planning. The governing board should have an idea about when board leaders contemplate (or may be contemplating) leaving the board (for whatever reason) so that the board can effectively identify new members in advance of their departure, in order to continue the vital governance leadership continuity loop.

Conclusion



The importance of overcoming the governance challenges described in this publication point directly to the increased public attention and emphasis being placed on not-for-profit hospital and health system boards. Healthcare is at the forefront of the minds of the American public and has been for years. Studies on the effects of the board's oversight on quality of care are showing not only improved quality of care, but also stronger connections between the performance of the governing body and the overall performance of the organization. The research on governance effectiveness will continue, and through the search for these connections, leaders will continue to seek concrete pieces to complete the elusive, high-performing governance puzzle.

We are convinced that an effectively constituted board is essential to the success of a healthcare organization. This publication has attempted to provide boards with a strong, solid foundation to clear the way for them to

deal with what truly matters for their organizations: the delivery of high-quality, high-value patient care to the communities and people they serve.

The intentional governance spectrum is a starting point, so the board can “get its own house in order” and therefore govern the institution more effectively. Boards should carefully review the processes and solutions included in this spectrum, and compare those with the board's current processes and practices, to see where there is room for change and improvement. By doing so, boards have the opportunity to overcome countless, significant barriers.

The healthcare industry continues to increase in complexity and thus the responsibilities and challenges of the governing body continue to grow. We hope that through intentional governance—deliberate and intentional processes addressing board structure, dynamics, and culture that enable the board to realize its highest potential—boards will see that they have more time to govern more effectively. That they can work better, not harder, and build a legacy of continued success for their organizations, which are vital to their communities and to our society as a whole.

Appendix 1.

A Brief History of the Changing Environment in Healthcare



In the wake of the Enron and AHERF scandals (among others), the Sarbanes-Oxley Act was signed into law in 2002, in efforts to hold public companies accountable to a host of new governance and financial rules to foster an ethical organizational culture. Though Sarbanes-Oxley did not apply to not-for-profit organizations, many non-profit hospitals and health systems voluntarily took on these new regulations, predicting the future scrutiny of non-profits that has now become reality.

In 2005, Senator Charles Grassley (R-IA) and the Senate Finance Committee pressed further by questioning not-for-profit hospitals' tax-exempt status. Committee concerns included "lack of effective enforcement vehicles available to the IRS to police tax-exempt organizations; perceived lax oversight exercised by governing boards of non-profit organizations; concerns with respect to excessive compensation paid to executives of tax-exempt organizations; deficiencies in Form 990 reporting by tax-exempt organizations; and perceived excess in travel, entertainment, and other related expenses of tax-exempt organizations."²⁵

Later, Grassley put forth an attempt to include more stringent charity care provisions in the economic stimulus package (*American Recovery and Reinvestment Act of 2009*). Although the charity care provisions were not included in the final stimulus bill compromise, there were more stringent provisions in the 2010 Affordable Care Act, including publicizing financial assistance plans and new requirements for community health needs assessments.

Finally, the rating agencies are also looking at governance as a factor in determining an organization's bond rating. Moody's Investors

Service singled out the importance of governance in a Special Comment in 2005, *Governance of Not-for-Profit Healthcare Organizations*, reinforcing its position that governance is, and will continue to be, an important dimension of credit quality in the not-for-profit healthcare sector. Moody's continues to emphasize the importance of governance for bond ratings, especially during the financial crisis of 2008–2009. Lisa Goldstein, Associate Managing Director of Moody's Investors Service, provided the following statement to The Governance Institute in 2020: "Strong governance is integral to leading a healthcare system through any challenges and greatly influences the organization's operating and financial performance. Good governance also values the importance of transparency with customers, community, and stakeholders."

The highly publicized corporate scandals over the last two decades have resulted in a diminution of public trust when it comes to corporate boards. The public is questioning the practices and effectiveness of boards with increased frequency and veracity. Transparency is being mandated. Payers and bond rating agencies are recognizing the important role of the board. The demand for excellence in governance is now front and center.



IRS Form 990: Unprecedented Transparency

In response to these calls to increase transparency and accountability of governing boards in both the for-profit and not-for-profit sectors, the IRS began requiring increased transparency via the redesigned IRS Form 990. Prior to redesign, the Form 990 was a rather simple document that tracked how non-profit organizations receive and spend their money. In contrast, the new Form 990, with its 11-part "core" and 16 disclosure schedules inquires not only about non-profit organizations' financial

²⁵ Michael Peregrine, "Sweeping Legislative Changes for Non-Profits Move Closer to Reality," *BoardRoom Press*, June 2005, The Governance Institute.

transactions and executive compensation, but also their governance processes and managerial policies. The goal of the IRS is to acquire information relating to all facets of the inner-workings of non-profit boards.

The Form 990 centers its transparency efforts on three key areas: conflict of interest, executive compensation, and community benefit. For conflicts of interest, the Form 990 seeks to expose the “disconnect” between conflict-of-interest policies and practice: the relationship between policies and effective managing of conflicts. Specifically, the Form 990 inquires not only whether the filing organization has a written conflict-of-interest policy, but also whether the organization regularly and consistently monitors and enforces compliance with the policy.

Likewise, organizations filing the Form 990 must disclose whether they have a written executive compensation policy and whether its policy includes a systematic review of compensation and expense reimbursement practices. Finally and perhaps most significantly, the 990 contains a disclosure schedule (added in 2009) devoted entirely to collecting information specific to non-profit hospitals. This schedule, labeled Schedule H, includes a number of detailed inquiries relating to community benefit, charity care policies, means-tested government programs, and community needs assessments.



The Transforming Delivery System: The Road to Accountable Care

The turmoil existing in our healthcare industry has prompted many theories and ideas relating to how organizations should best care for their communities and how these efforts should be funded. Our system of healthcare delivery is being “re-thought” at its most fundamental levels. By recognizing the inadequacies of the fee-for-service system, novel approaches have been presented and tested over the past decade, which, in many ways, challenge the most fundamental tenets of the relationship between healthcare quality, cost, and accessibility.

Responses to the question of how organizations can deliver quality, accessible healthcare, while maintaining low costs, include accountable care organizations, disease/care management programs, reducing avoidable readmissions, medical homes, bundled payments, and other initiatives that are fundamentally changing the ways in which providers deliver care.

These concepts have demanded the full attention and support of the hospital/health system board. Boards have also had to examine their own organizations to determine whether they have the organizational structure(s) and human capital in place to provide the levels of structural and clinical integration necessary. These issues have brought about more questions than answers, and boards need to be well positioned to deal with continuing uncertainty and sweeping industry changes.

Appendix 2. Management vs. Governance Sample Checklist

Overall Direction (Mission, Vision, Values)	Governance	Management	Both	Recommended*
Revise mission, vision, values				G
Determine annual goals				G
Monitor progress on goals				G
Determine strategies to achieve goals				B
Recommend policy				M
Approve policy				G
Implement policy				M
Change bylaws				G
Employ outside consultants (counsel, financial, etc.)				B
Ensure compliance with regulations				B
Strategic Planning				
Develop strategic plan				B
Approve strategic plan				G
Approve strategic plan budget				G
Approve deviations from strategic plan				G
Finance				
Approve annual operating budget				G
Approve capital budget				G
Approve deviations from operating budget				G
Approve deviations from capital budget				G
Approve senior management travel budget				M
Board Effectiveness				
Prepare and administer a board self-assessment program				G
Prepare and approve a board orientation program				B
Recommend changes in board composition				G
Recruit new board members				B

Quality of Care				
Recommend criteria for credentialing				M
Approve criteria for credentialing				G
Recommend quality indicators				M
Approve quality indicators				G
Establish standards for quality of care				G
Monitor quality improvement program				B
Management	Governance	Management	Both	Recommended*
Hire CEO				G
Specify CEO performance expectations				G
Develop CEO annual goals				M
Prepare CEO transition/succession plan				B
Evaluate CEO				G
Operations				
Assess organizational problems and suggest solutions				M
Hire Director of Nursing				M
Approve a raise for Director of the Emergency Room				M
Approve revisions in nursing career ladder				M
Terminate contract with health insurance carrier				B
Approve professional recruitment strategy				B
Secure a strategic alliance/merger				B
Approve expansion of a program				B

Source: Elements of Governance®: *The Distinction Between Management and Governance, 2nd Edition*, The Governance Institute, 2018.

Appendix 3.

Sample Individual Board Member Assessment Questionnaire

1. Sample Peer-to-Peer Assessment of Board Member Performance

Complete this questionnaire by indicating how much you agree with the following statements regarding the following board member.

Board Member's Name: _____

Scale (circle one)

Expectations of all board members	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	NA Can't Rate
1. Demonstrates commitment and passion for the mission, purposes, goals, and values of the organization.	1	2	3	4	5	NA
2. Demonstrates knowledge of the organization's policies, programs, services, history, strengths, and needs.	1	2	3	4	5	NA
3. Understands the fiduciary duties of care, loyalty, and obedience, and performs duties of board membership according to them.	1	2	3	4	5	NA
4. Exhibits strong integrity...is trustworthy, honest, and open.	1	2	3	4	5	NA
5. Understands the difference between governing and managing a complex organization.	1	2	3	4	5	NA
6. Comes to board and committee meetings well prepared.	1	2	3	4	5	NA
7. Contributes the time necessary to be an effective member.	1	2	3	4	5	NA
8. Participates actively but not to excess and makes comments at the appropriate times.	1	2	3	4	5	NA
9. Articulates his or her views clearly and succinctly in positive ways.	1	2	3	4	5	NA
10. Contributes to the CEO's and the board's perspective and wisdom by freely sharing pertinent experience and knowledge.	1	2	3	4	5	NA
11. Brings new thinking and creative ideas.	1	2	3	4	5	NA
12. Raises constructive questions and is willing to challenge prevailing assumptions when necessary.	1	2	3	4	5	NA
13. Suggests agenda items periodically for board and committee meetings to ensure that significant, policy-related matters are addressed.	1	2	3	4	5	NA
14. Avoids asking for special favors of the staff, including special requests for extensive information, without prior consultation with the CEO, board, or appropriate committee chairperson.	1	2	3	4	5	NA
15. Draws out others to make contributions.	1	2	3	4	5	NA
16. Helps move discussions along toward closure.	1	2	3	4	5	NA
17. Listens to others and is willing to change his or her views.	1	2	3	4	5	NA
18. Accepts challenges without becoming defensive.	1	2	3	4	5	NA

Expectations of all board members	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	NA Can't Rate
19. Displays independence, developing his or her positions based on objective information, not only based on management's recommendations.	1	2	3	4	5	NA
20. Maintains confidentiality of the board's executive sessions, and speaks for the board only when authorized to do so.	1	2	3	4	5	NA
21. Serves the organization as a whole rather than any special interest group or constituency.	1	2	3	4	5	NA
22. Discloses any possible conflicts to the board in a timely fashion and according to board policy.	1	2	3	4	5	NA
23. Never offers or accepts favors or gifts to or from anyone who does business with the organization.	1	2	3	4	5	NA
24. Is willing to take on leadership responsibilities and undertakes special assignments enthusiastically.	1	2	3	4	5	NA
25. Helps to open doors and communicate effectively to key external constituencies.	1	2	3	4	5	NA
26. Is willing to participate in educational opportunities and remains current on changing trends and issues affecting governance.	1	2	3	4	5	NA
Competencies specific to board member:						
27.	1	2	3	4	5	NA
28.	1	2	3	4	5	NA
29.	1	2	3	4	5	NA
30.	1	2	3	4	5	NA
31.	1	2	3	4	5	NA

Peer Assessment of Board Member Performance: Open-Ended Questions

Board Member's Name: _____

1. What are the strongest ways that this member contributes to the work of the board?

2. Where is this individual weakest as it relates to contributing to the work of the board?

3. How could this member improve his or her contribution to the work of the board?

4. Do you recommend this board member be nominated for a new three-year term?

_____ Yes

_____ No

2. Sample Self-Evaluation for Individual Board Members

The tool provided below is for individual self-evaluation. Board members are asked to evaluate themselves on each item (ideally via an online survey tool). The evaluation can be anonymous if you are simply seeking a general idea of how board members perceive their own performance in total; if your board wants to be able to perform self-evaluations with follow up review and discussion with the board chair or board mentor, the survey should not be anonymous. However, the board member evaluating him- or herself should be assured that the survey responses will go only to the agreed upon person (board chair or mentor).

Board Member’s Name: _____

Scale (circle one)

Expectations of all board members	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	NA
1. I am committed to and passionate for the mission, purposes, goals, and values of the organization.	1	2	3	4	5	NA
2. I know and understand the organization’s policies, programs, services, history, strengths, and needs.	1	2	3	4	5	NA
3. I understand the fiduciary duties of care, loyalty, and obedience, and perform duties of board membership according to them.	1	2	3	4	5	NA
4. I exhibit strong integrity...I am trustworthy, honest, and open.	1	2	3	4	5	NA
5. I understand the difference between governing and managing a complex organization.	1	2	3	4	5	NA
6. I come to board and committee meetings well prepared.	1	2	3	4	5	NA
7. I contribute the time necessary to be an effective member.	1	2	3	4	5	NA
8. I help the board to quickly grasp the strategic context and critical aspects of new and complex issues.	1	2	3	4	5	NA
9. I participate actively but not to excess and make comments at the appropriate times.	1	2	3	4	5	NA
10. I articulate my views clearly and succinctly in positive ways.	1	2	3	4	5	NA

Expectations of all board members	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	NA
11. I contribute to the CEO's and the board's perspective and wisdom by freely sharing pertinent experience and knowledge.	1	2	3	4	5	NA
12. I bring new thinking and creative ideas.	1	2	3	4	5	NA
13. I raise constructive questions, encourage others to face realities, and am willing to challenge prevailing assumptions when necessary.	1	2	3	4	5	NA
14. I suggest agenda items periodically for board and committee meetings to ensure that significant, policy-related matters are addressed.	1	2	3	4	5	NA
15. I avoid asking for special favors of the staff, including special requests for extensive information, without prior consultation with the CEO, board, or appropriate committee chairperson.	1	2	3	4	5	NA
16. I draw out others to make contributions.	1	2	3	4	5	NA
17. I help move discussions along toward closure.	1	2	3	4	5	NA
18. I listen to others and am willing to change my own views.	1	2	3	4	5	NA
19. I accept challenges without becoming defensive.	1	2	3	4	5	NA
20. I exercise sound judgment, applying pertinent principles and benchmarks to board deliberations and decision making.	1	2	3	4	5	NA
21. I am independent and develop my positions based on objective information, not only based on management's recommendations.	1	2	3	4	5	NA
22. I maintain confidentiality of the board's executive sessions, and speak for the board only when authorized to do so.	1	2	3	4	5	NA
23. I serve the organization as a whole rather than any special interest group or constituency.	1	2	3	4	5	NA
24. I disclose any possible conflicts to the board in a timely fashion and according to board policy.	1	2	3	4	5	NA
25. I never offer or accept favors or gifts to or from anyone who does business with the organization.	1	2	3	4	5	NA
26. I am willing to take on leadership responsibilities and undertake special assignments enthusiastically.	1	2	3	4	5	NA
27. I help to open doors and communicate effectively to key external constituencies.	1	2	3	4	5	NA
28. I am willing to participate in educational opportunities and remain current on changing trends and issues affecting governance.	1	2	3	4	5	NA
Competencies specific to board member:						
29.	1	2	3	4	5	NA
30.	1	2	3	4	5	NA
31.	1	2	3	4	5	NA
32.	1	2	3	4	5	NA
33.	1	2	3	4	5	NA

Please comment on any of the above:

Board Member Satisfaction:

1. Do you feel that your service on the board has contributed to the organization’s services/programs, image, or future prospects?

_____ Yes

_____ No

2. Has the experience been challenging?

_____ Yes

_____ No

3. Has the experience been satisfying?

_____ Yes

_____ No

4. How has the service differed from expectations prior to serving?

5. Is there any one thing you would like to change about your board service? If so, what would that be and how would you change it?

Note: You may choose to use a different method of rating such as “does well” or “excellent, good, fair, and poor.” Choose the method that best suits your needs, especially if you customize the template. Provide a section for comments as well.

Source: Elements of Governance®: *Individual Board Member Assessment (3rd Edition)*, The Governance Institute, 2015.

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