

# Elements of Governance®

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

A SERIES BY THE GOVERNANCE INSTITUTE

## Board Self-Assessment A Core Responsibility

**THIRD EDITION**



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1245 Q Street, Lincoln, NE 68508

(877) 712-8778

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# Elements of Governance®

A SERIES BY THE GOVERNANCE INSTITUTE

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

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The authors of the first edition (2006), upon which this edition was based, were Carlin Lockee, M.P.H., Amy Soos, Kathryn C. Peisert, and Barry S. Bader.

## The Governance Institute

**The Governance Institute provides trusted, independent information, resources, tools, and solutions 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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**Jona Raasch** Chief Executive Officer  
**Cynthia Ballow** Vice President, Operations  
**Kathryn C. Peisert** Managing Editor  
**Glenn Kramer** Creative Director  
**Kayla Wagner** Senior Editor  
**Aliya Flores** Editor

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# Introduction

**“F**or every minute spent in a committee meeting you get five minutes off your time in purgatory.”  
—David Rynick, *Leadership Coach* (paraphrased)

**W**hen reading this quote for the first time, most of us smile but also nod in affirmation. Too often, group effectiveness (whether in a committee or board) can be difficult to monitor—and a hospital or health system board is a committee-like group of dedicated individuals focused on setting policy, decision making, and oversight of an extremely complex organization providing essential community services in a turbulent environment. Ensuring board effectiveness is paramount.

Hospital and health system boards, on average, are composed of 10–15 individuals<sup>1</sup> purposely selected for their leadership attributes, their myriad functional skills, their community commitment, and their diverse opinions. When this many people “job share” it’s important to check in periodically to evaluate the work product as well as the processes and systems supporting accomplishment of that work.

Thus, a core responsibility of good governance is an annual, *formal* assessment of board effectiveness (The Governance Institute and The Joint Commission recommend conducting an assessment on an annual basis). The board is responsible for its own assignment of responsibility, discipline, development, and performance. No board is perfect; even high performers have opportunities to improve. Rather than assuming that good intentions and countless volunteer hours will automatically lead to good results, high-performing boards benchmark their performance against that of their peers. They approach the board self-assessment not as a compliance exercise, but as a welcome opportunity for constructive feedback because, as good as they are, they want to be even better. They believe they are entitled to an objective analysis of their work (which is the only way to improve continuously) and they believe their community deserves nothing less.



1 Kathryn Peisert and Kayla 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.

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

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

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

# The Board Self-Assessment Process

The self-assessment process should evaluate the board's effectiveness in fulfilling its fiduciary duties and core responsibilities, as well as the health of the board's culture (e.g., how well board members work together and with senior management). The process should enable the board to deepen its understanding of the organization's governance principles and recommended practices, and help identify specific opportunities to enhance governance performance.

It should also assist in building communication, teamwork, and alignment among board members and with senior management. The process typically includes:

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

## **BoardCompass®: The Governance Institute's Board Self-Assessment**

This assessment is intended for fiduciary and advisory boards overseeing acute care hospitals, whether within a hospital system or an independent hospital. It includes system/parent boards, public hospital boards, children's hospital boards, academic medical center/health system boards, and rural hospital boards. It is not intended for healthcare foundation boards, ACO boards, or physician group boards.

This assessment features a section on a smaller subset of questions that are the most correlated with higher overall performance to allow boards a more accurate picture of their effectiveness, as well as the ability to drill down into individual questions to identify areas of improvement and prioritize those based on their likeliness to improve overall performance.

The suite of BoardCompass® tools is dynamic and cyclical, so that in each year within a three- to four-year cycle, the board has a new and different assessment experience based on individualized improvement needs and areas of focus. When the cycle begins anew and it comes time to complete the full BoardCompass® again, the board can better analyze their degree of improvement as the multi-year cycle closes and another one begins.

The assessment is organized in the following categories:

- Fiduciary duties:
  - » Duty of Care
  - » Duty of Loyalty
  - » Duty of Obedience
- Core responsibilities:
  - » Quality oversight
  - » Financial oversight
  - » Strategic direction
  - » Board development
  - » Management oversight
  - » Community health & advocacy
  - » Board culture

The assessment is designed to be comprehensive but concise; it can be completed in approximately 15 minutes.

### **Initiating the Assessment Process**

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

1. The board chair/governance support professional will discuss the survey with your Governance Institute Customer Success Manager, and adjust the survey as needed to fit your board(s).
2. The instructions and survey will be administered online and responses collected. We expect a 100% response rate from every board, and aim for no longer than a two-week turnaround for board members to complete the survey.
3. The report will be created, and your Customer Success Manager will discuss the report results with you. During this discussion you will determine how you would like to present the results to your board, along with what is needed for step 4.
4. Your Customer Success Manager works with you to create an action plan for your board to address lower scoring areas of the assessment, with concrete goals and timelines for completion. Your Customer Success Manager will plan to check in with you periodically throughout the year to track your board's progress on the improvement goals.

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

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### **The following BoardCompass® assessments are available for unlimited use:**

- BoardCompass® board self-assessments for independent, system, and subsidiary boards
- Individual Board Member Assessment
- Foundation Board Self-Assessment
- Physician Group Board Assessment
- Committee Assessments
  - » Finance Committee
  - » Audit & Compliance Committee
  - » Quality Committee
  - » Strategy Committee
  - » Executive Committee
  - » Executive Compensation Committee
  - » Governance Committee



# The Self-Assessment Results

**T**he Governance Institute provides results that show your board’s overall effectiveness at a glance, along with focus areas of highest and lowest performance.

The report is organized with the following sections:

1. **Executive Summary:** shows at a glance your overall effectiveness rating; experience as a board member; opportunity to influence; and percentage of board members responding “Very Effective” in each of the 10 fiduciary duties and core responsibilities.
2. **Focus Areas:** this section of the report details your board’s highest- and lowest-performing questions, as well as those with the greatest response distribution, signaling that board members are not in agreement about how the board is performing in those areas.
3. **Additional Feedback:** this section shows the scores and comments provided by board members from the open-ended questions at the end of the survey.
4. **Question Summary:** this section shows the board members’ responses to each question on the survey.
5. In each of these areas, the report shows benchmarks against The Governance Institute’s national database (average or top quartile) as well as your board’s prior year scores.
6. **About The Governance Institute’s Board Compass®:** this section provides background information about why the questions were selected and how the assessment works, along with definitions of the fiduciary duties and core responsibilities. It includes discussion questions for the board to consider as you review your results.



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

## Response Rate

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

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

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

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

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

**Section I: For each question below...**  
Please indicate how effectively the board or a committee of the board performs the practice.

**How effectively does the board or a committee of the board perform this practice?**

	Very Effective	Effective	Satisfactory	Ineffective	Very Ineffective	Don't Know
<b>Duty of Care</b>						
1. Receives necessary background materials and well-developed agendas within sufficient time to prepare for meetings.	VE	E	S	I	VI	DK
2. Exercises due diligence in gathering unbiased information before making major decisions (e.g., financial, strategic, legal, clinical, etc.).	VE	E	S	I	VI	DK
<b>Duty of Loyalty</b>						
3. Uniformly and consistently enforces a conflict-of-interest policy that, at a minimum, complies with the most recent <a href="#">IRS definition of conflict of interest</a> .	VE	E	S	I	VI	DK
4. Follows a specific definition, with measurable standards, of an "independent director" that, at a minimum, complies with	VE	E	S	I	VI	DK

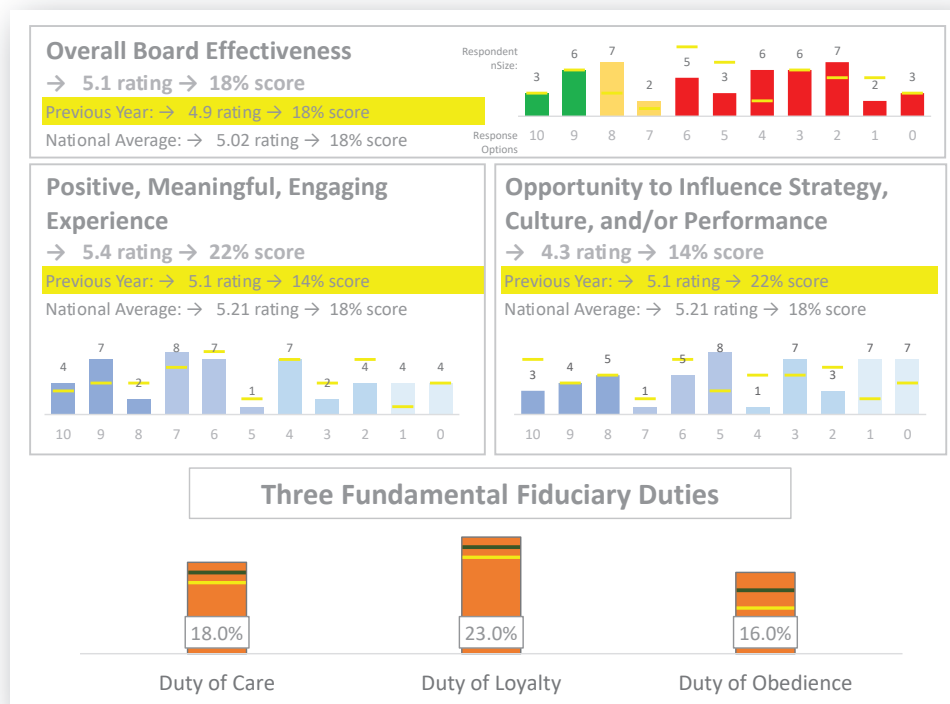
## Characteristics of an Effective Self-Assessment and Improvement Process

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

## What to Do with the Results: Facilitated Discussion, Action Plan, and Follow Up

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

1. The governance committee and CEO review the results and plan for the full-board discussion (the board chair and others may be involved in this step).
2. Your Customer Success Manager will discuss the report results with you. During this discussion you will determine how you would like to present the results to your board, along with what is needed for next steps.
3. An inside or outside facilitator (possibly a Governance Institute advisor, if appropriate) is selected to review the results with the full board (see sidebar on facilitation options for more information).
4. The assessment results are distributed to all board members.
5. The governance committee or facilitator presents the results to the full board (The Governance Institute recommends that the results be presented to the board at a special session devoted to the assessment,<sup>2</sup> if possible, rather than being part of a regular board meeting). It is important that the presentation of results provides the opportunity for full board discussion and takes place in a timely fashion.
6. Your Customer Success Manager works with the governance committee to develop a work plan<sup>3</sup> (which is approved by the full board) to identify opportunities and action steps for performance improvement.
7. The governance committee monitors the work plan to ensure that improvement goals are met, and presents progress reports to the full board.



<sup>2</sup> See Appendix 1 for a sample agenda for such a meeting.

<sup>3</sup> See Appendix 2 for a sample board development plan based on assessment results.

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## Facilitation Options

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

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

There are two types of facilitators:

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



It is important to plan sufficient time for the self-assessment discussion. A minimum of three hours is recommended, and many boards devote a half- to a full-day retreat for this kind of discussion. As far as who should attend, the best approach is to include only the board members and the CEO. The CEO should be included whether or not that individual is a voting board member. However, to ensure an open and honest conversation, no other members of management or the medical staff should attend. Finally, the results and related educational materials should be distributed to the board and CEO in advance so attendees can review and reflect on the findings before the retreat.

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

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

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

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

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

# Conclusion

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

Boards that recognize the relationship self-assessments have to board development and improvement, through their action, “lead by example” by modeling a commitment to a culture of continuous improvement and accountability.

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

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

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

<b>Objectives</b>	<ol style="list-style-type: none"> <li>1. Review the findings of the board self-assessment.</li> <li>2. Engage in a discussion of governance structures, policies, practices, and culture.</li> <li>3. Identify opportunities for continuous board improvement, using the best practices of effective boards as a benchmark.</li> <li>4. Develop a working draft of a governance effectiveness action plan, for follow-up implementation after the retreat.</li> </ol>
<b>Schedule</b>	
7:30 a.m.	Breakfast
8:00 a.m.	Welcome/objectives for the retreat ( <i>board chair and CEO</i> )
8:15 a.m.	Review of board self-assessment results
9:45 a.m.	Break
10:00 a.m.	Deep dive on results: areas for improvement, root causes
11:00 a.m.	Discussion of priorities and development of ideas for improvement
12:00 p.m.	Lunch
1:00 p.m.	Discussion of priorities and development of ideas for improvement ( <i>cont.</i> )
2:15 p.m.	Break
2:30 p.m.	Discussion and development of a governance effectiveness action plan
3:00 p.m.	Adjourn



# Appendix 2. Sample Board Development Plan Based on BoardCompass® Results

	Plan for Improvement Goals and Objectives	Assigned To	Deadline
<b>Board Culture</b>			
The board has a culture that allows for active participation, candid communication, and rigorous decision making; board members voice opinions/concerns regardless of how sensitive the matter may be	<ul style="list-style-type: none"> <li>• Have private discussions with individual board members to better understand barriers-</li> <li>• Create a plan to work towards removing those barriers</li> <li>• Develop a training/education session for the board and senior management demonstrating the dos and don'ts of handling sensitive issues, along with the potential risks to the organization when concerns are not fully addressed</li> </ul>	Board chair and CEO, with assistance from governance committee and governance support staff	End of Q1
<b>Board Development</b>			
Participates at least annually in education regarding its responsibilities to fulfill the organization's mission, vision, and strategic goals	<ul style="list-style-type: none"> <li>• Develop an annual or ongoing education program on board member responsibilities for mission/vision/strategy fulfillment</li> <li>• Create a tracking process to ensure that every board member can participate in annual education</li> </ul>	Governance/development committee	End of Q1
Enforces minimum meeting preparation and attendance requirements	<ul style="list-style-type: none"> <li>• Review attendance policy and determine if it needs updating or whether board members need to review the policy; determine what enforcement mechanism needs to be put in place</li> <li>• Determine barriers to board member preparation for meetings and create a mitigation plan (e.g., do materials need to go out sooner? Are the materials too long/overwhelming? Are expectations out of alignment?)</li> </ul>	Governance/development committee	End of Q1



### Strategic Direction

The board strives to spend more than half of meeting time in most meetings engaging in active discussion, deliberation, and debate about strategic priorities of the organization.

- Review board meeting agendas to determine if items are strategic in nature and adjust timeframes/consent agenda/preparation expectations/reporting from management to maximize time for active discussion and debate

Board chair and strategic planning committee

End of Q3

### Duty of Loyalty

Uniformly and consistently enforces a conflict-of-interest policy that, at a minimum, complies with the most recent IRS definition of conflict of interest

- Review COI policy against current IRS guidelines and Governance Institute sample policy that is more robust than IRS policy
- Review COI disclosure and enforcement procedure to identify gaps/areas to improve

Compliance committee

End of Q4