

BoardBrief

Prepared for Colorado Hospital Association Trustees

Ensuring Success in a Transforming Health Care Environment **Governance Practices and Performance Assessment**

Extraordinary changes and transformation in the health care delivery system are occurring. These forces hold significant opportunity for hospitals. They also hold substantial implications and remarkable challenges for hospital management and governance. The most critical challenge confronting many boards is determining a strategic plan for a leaner, more efficient organization without sacrificing high-quality care, offering more and better programs and services, and achieving it all with fewer resources.

Recognizing new and different opportunities, mapping out plans, monitoring performance and ensuring achievement in today's quick-pace world of change are key responsibilities of the board. New rules and regulations are going into effect, driving all members of the health care delivery system to act and react. Trustees must be nimble, astute, and highly-competent in carrying out their responsibilities and fulfilling the hospital's mission. How the board must perform today and tomorrow is different than how the board needed to perform yesterday. Just as there are new standards by which hospital performance is being measured and reimbursed, there are new criteria the board should evaluate when gauging its performance. Some criteria are driven by the IRS' Form 990, the Patient Protection and Affordable Care Act (ACA), and the Joint Commission. Other standards like trust and value are driven by the demands of patients and communities the hospital serves. High caliber boards will ensure their annual governance practices and performance assessment is updated with the criteria needed to prepare them to lead into the future.

Mission-Driven Leadership

Media attention often calls into question the mission of hospitals. Many are asking if hospitals are driven by their mission motives, or by profit motives. How well the hospital achieves its vision, adheres to its values and fulfills its mission is one of the strongest rebuttals trustees can offer in the face of

questions. As the hospital's leaders, trustees are accountable for ensuring the hospital's mission, values and vision are successfully communicated and carried out.

To assess how well the board is leading, trustees should ask themselves if the mission, values and vision are being taken into account in their decision making at all board meetings. To ensure a well-aligned organization capable of delivering high quality care, the board must work in close collaboration with senior management and medical staff leadership in developing the vision, values and mission of the hospital, and then infuse them throughout the organization. Together, these three groups should be vested in annually reviewing the hospital's performance in relation to its mission, vision and goals.

Ensuring Continuous Board Improvement

The American Hospital Association has coined the phrase "redefining the H" as hospitals consider what it means to be a hospital in today's transforming health care environment. In order to be successful in this endeavor, hospital trustees must also redefine their boards, including the board's roles, responsibilities, and composition. Governance practices and performance assessments are an important starting point boards can take to ensure their boards are well-poised to carry their organizations into the new health care world.

A governance practices and performance assessment is an organized evaluation of board members' satisfaction with all

aspects of board performance in fulfilling the board’s governance responsibilities. Governance assessments generally use a combination of quantitative and qualitative measurements of board, committee and individual performance.

Successful assessments enable boards to identify “governance gaps,” or areas in which the board has the greatest potential for improvement. The assessment process identifies these gaps, and facilitates the development and implementation of initiatives and strategies to improve leadership performance.

Through an effective, well-developed governance practices and performance assessment process growth opportunities can be realized, education can be pinpointed to unique governance needs, recruitment of new trustees can be undertaken with increased confidence, and long-range planning can be conducted within a consensus-based framework with everybody on the same page.

Using the Governance Practices and Performance Assessment to Improve Governance

A successful governance assessment engages the board in a wide-ranging evaluation of its overall leadership performance. At the same time, it provides trustees with an opportunity to rate their personal performance as vital contributing members of the board of trustees. An excellent assessment process will achieve several key outcomes:

- Define the board’s most critical governance success factors;
- Secure anonymous, broad-based and insightful trustee input on the critical fundamentals of successful governing leadership;
- Create an opportunity to address major issues and ideas in a non-threatening, collaborative manner;
- Clearly demonstrate where the board is both in and out of alignment on leadership fundamentals and issues;
- Objectively assess the degree of common trustee understanding, expectations and direction for the board;
- Assess the deficiencies that may impact the board’s ability to fulfill its fiduciary responsibilities;
- Identify opportunities for meaningful leadership improvement; and

Goals of a Governance Assessment	
1	Set measurable objectives for improving hospital performance
2	Gather information to assess board effectiveness in improving hospital performance
3	Use pre-established, objective process criteria to assess board effectiveness in improving hospital performance
4	Draw conclusions based on findings, and develop and implement improvement in governance activities
5	Focus on sustained improvement in leadership areas defined as needing attention

- Help administration better understand and respond to the board’s leadership education and development needs.

Many hospital boards conduct an assessment prior to their annual retreat, at which they have ample time to discuss the assessment results and explore ways to improve leadership performance.

Some boards have the internal resources and knowledge to successfully design and conduct the assessment, compile and analyze the results and present the findings in a way that facilitates discussion and governance action planning. Others rely on outside consultants with experience using tested and proven tools, techniques and processes.

Conducting the Governance Assessment

The governance assessment may be conducted using a printed survey, an online survey, individual interviews, a facilitated, full board discussion, or some combination of these methods. In addition, a board may choose to utilize electronic keypads to conduct a “real-time” assessment at a board meeting or retreat, with results instantly available for evaluation and discussion.

The assessment should include specific, precise and well-articulated criteria that relate to the hospital’s unique board and leadership challenges. These criteria should be developed by a board development committee, or a special governance assessment task force, and should be reviewed and endorsed by the full board as leadership accountabilities they embrace.

Areas addressed in many assessments include: assessment of overall board performance in several areas of leadership accountability; assessment of committee performance; identification of issues and priorities facing the board; assessment of individual trustee performance, including a peer evaluation; and assessment of the board chair.

A meaningful rating scale must be developed that ensures clear and concise input that results in an effective scoring of the board’s performance. A good scale to use is one that rates board performance on a scale of level 5 – level 1, including a clear definition of what each rating level represents. Below is an example of a “Level 5 – Level 1” rating scale:

- **Level 5:** I strongly agree with this statement. We always practice this as a part of our governance. Our performance in this area is outstanding.
- **Level 4:** I generally agree with this statement. We usually practice this as a part of our governance, but not always. We perform well in this area.
- **Level 3:** I somewhat agree with this statement. We often practice this in our governance, but we are not consistent. We perform fairly well in this area.
- **Level 2:** I somewhat disagree with this statement. We inconsistently practice this as a part of our governance. We do not perform well in this area.
- **Level 1:** I disagree with this statement. We never practice this as a part of our governance. We perform very poorly in this area.
- **N/S:** Not sure. I do not have enough information to make a determination about our performance in this area.

Assessment of overall board performance should be divided into several leadership responsibility areas, such as:

Questions to Consider About Your Governance Assessment Process	
<input type="checkbox"/>	Do you conduct a governance assessment annually?
<input type="checkbox"/>	Does your full board participate in the assessment process?
<input type="checkbox"/>	Is your assessment anonymous, allowing trustees to freely and candidly express their opinions and ideas for governance change?
<input type="checkbox"/>	Does the full board review the results of the assessment, discuss their interpretation of the findings, and determine potential areas for necessary board improvement?
<input type="checkbox"/>	Do you use the assessment results to develop actionable and measurable plans for governance improvement?
<input type="checkbox"/>	Do you communicate the results of the assessment and the board’s governance improvement plan to hospital employees? To the local community?

- Mission, values and vision;
- Strategic direction;
- Leadership structure and governance processes;
- Quality and patient safety;
- Community relationships;
- Relationship with the CEO;
- Relationships with the Medical Staff;
- Financial leadership; and
- Community benefit and health.

Rating Committee Performance. The committee performance evaluation asks trustees to rate criteria specific to the charter and goals of each committee. The committee evaluation may also ask trustees to provide additional ideas for ways each committee can improve its leadership performance.

Below are some examples of areas to be rated for various committees. These are limited examples, and are not intended to be all-inclusive:

Finance Committee

- Reviews and refines the annual operating and capital development budget prepared by management
- Monitors the implementation of major initiatives that impact strategic and financial objectives, making appropriate recommendations to the board on an as-needed basis
- Reviews monthly financial statements
- Recommends hospital investment policies and monitors the hospital’s investments

Quality Committee

- Oversees the development, implementation and reporting of a hospital-wide program that measures quality, risk management and clinical resource utilization
- Reviews results of regulatory and accrediting body review of the hospital’s performance
- Reviews quality and patient safety indicators

- Periodically reviews trend reports that reflect the overall performance of the hospital in providing quality care in a customer-focused, cost-effective manner

Compensation Committee

- Evaluates the CEO's performance at least once a year in light of the established performance goals and objectives, using the evaluation to set the CEO's annual compensation, including salary, bonus, incentive and equity compensation
- Ensures that the CEO's performance evaluation is based on pre-determined and clearly communicated performance criteria
- Recommends the CEO's annual compensation package
- Ensures that the CEO's compensation package is tied to performance and is comparable to CEO salaries of health care organizations similar in size and scope

Audit Committee

- Assists the board of directors in fulfilling its oversight responsibilities with respect to the independent auditors' qualifications and independence
- Is financially literate and possess a general understanding of basic finance and accounting practices
- Has at least one member that is determined to be an "audit committee financial expert," possessing accounting or related financial management expertise

Major Governance Issues and Priorities. When done correctly and consistently, a governance assessment process enables the board to identify critical "governance gaps," and achieve and maintain the level of governing excellence required for success in today's challenging health care environment.

In addition to rating the board's performance in the important areas outlined earlier, the assessment should also provide trustees with an opportunity to answer several open-ended questions, such as:

- What is your single highest priority for the board in the next year?

- What are the governance strengths that must be maximized in order to ensure leadership success in the next year?
- What are the governance weaknesses that must be overcome in order to ensure the hospital's success in the next year?
- What do you see as the most significant health care trends that the hospital's leadership must be able to understand and deal with in the next year? In the next five years?
- What challenges or issues are most critical to be addressed if the board is to be most successful in leading strategic change in the next year?

Individual and Peer Performance Assessment

An individual performance assessment is a critical piece of a quality governance assessment process. Trustees may have one view of the overall board's performance, and have an entirely different view of their own individual performance, and that of their colleagues. A personal, introspective look at individual leadership enables trustees to focus on the essentials of good leadership and their personal impressions of their individual performance.

A good way to evaluate personal governing performance is through a peer assessment. This enables trustees to personally evaluate their performance, and the performance of each of their board colleagues, using a short list of relevant criteria.

Trustees should rate themselves and their colleagues in two broad areas: 1) governing attributes, the factors that define their performance in fulfilling their governance duties; and 2) personal competencies and attributes, the factors that describe the personal strengths and abilities required for effective trusteeship.

In addition, each trustee should answer one simple question after rating each individual board member: "What suggestions do you have for ways this trustee colleague can improve his or her governing performance?"

The process provides trustees with unique insights into their leadership attributes and needs from the informed perspective of their trustee colleagues.

Compiling and Analyzing Governance Assessment Results

There are a variety of ways to compile and analyze the results of your governance assessment, from simply tallying responses using Microsoft Excel to using customized governance assessment software or external consultants. Although every organization may approach the process differently, it is critical that the results are reported in an easy-to-understand format that sparks meaningful dialogue about the findings.

The five steps below outline one potential process for analyzing assessment results:

- Compile the results using software, such as Microsoft Excel, that allows the creation of graphs using a variety of combinations or sorting.
- Develop bar graphs that display the ratings for each of the assessment areas, ordered from highest to lowest scores, and that depict the number of trustees assigning each rating to the criteria which reveals the degree of consensus among board members.
- Develop a written report or PowerPoint presentation that includes summary graphs of the criteria in all of the rating areas, as well as key themes from trustees' open-ended comments.
- Present and discuss the results at a special board meeting or board retreat, allowing ample time for trustees to discuss their interpretation of the findings as well as develop "governance gain" action plans to address low-performing areas.
- If a peer evaluation is conducted, each trustee should receive a report that includes his or her personal performance rating and their colleagues' ratings of their performance, using the same criteria. Each trustee's unique report should be then reviewed in a one-on-one meeting of the individual trustee and the board chair.

The full board assessment report should include a summary of trustee performance ratings, in graph form, to enable quick analysis of the degree of consensus on important leadership criteria. It should also include analysis of the ratings, highlights for board discussion, a summary and analysis of verbatim ideas and answers to questions, and recommendations for improving board performance in each rating area.

Putting Your Assessment Results to Work

Conducting the governance assessment is just the first step in improving governance leadership performance. The key to success of the full process is not simply the measurement of trustee viewpoints, but is instead the action that is taken as a result of a careful examination of trustee viewpoints.

The assessment results should be a catalyst to engage trustees in a wide-ranging discussion of findings that highlight performance gaps and areas where trustees lack consensus about the board's performance.

A full review of trustees' viewpoints should stimulate the board to discuss their opinions and ideas for improving board success, and result in the development of a governance improvement action plan with clearly defined responsibilities, time frames and projected outcomes. Boards should then monitor their progress to ensure that projected outcomes are achieved, and revise the governance improvement action plan when necessary.

Communication with Employees and the Community

The practice of using governance assessment results to not only achieve a higher level of board and organizational performance, but also strengthen employee and community trust, is often an overlooked advantage. The most important element of the assessment process is what happens after the assessment is complete.

In addition to using the results of assessment to develop specific governance improvement goals and action plans, the board should communicate its process and general results to hospital employees and the community at-large. This communication will help employees, the medical staff and others to understand the challenges the hospital faces and recognize the board's efforts in addressing those challenges. Support from employees and the local public is vital to hospital success in the face of increasing public scrutiny from lawmakers, regulators, community groups and the media.

Communicating with key stakeholders will deepen understanding of the board's commitment to the hospital and the community, raise awareness of the depth and range of challenges the board faces, and demonstrate the high standards the board holds itself accountable for.

The results should be shared with hospital employees first; boards will build trust with employees by ensuring that they hear about the assessment first, before it is reported in the local media. The employee memo should include:

- An overview of the process, why it was conducted and how often it is conducted;
- High-level results;
- Board improvement opportunities identified; and
- Specific actions the board intends to take to create governance gain.

Boards should also tell employees that a news release is expected to be published in the local newspaper promoting the hospital's emphasis on transparency and willingness to share its strengths, opportunities for improvement and challenges with the community. Following distribution of the employee memo, the news release should be provided to local media, and should include information similar to that in the employee update.

Using Your Governance Practices and Performance Assessment to Build Governance Gain

After reviewing the results of your governance assessment, developing a “Governance Gain Plan” will assist the board to create actionable, measurable next steps for improving leadership. The plan should include specific ideas for governance improvement in each area the board believes needs the most attention. Specific items to include for each governance improvement include:

- **Initiative Description.** A detailed description of the governance improvement initiative, effort, program or action to be taken that will result in governance gain.
- **Priority.** Prioritize the initiative on a scale of 1, 2 or 3, from highest to lowest priority
- **Projected Outcomes.** Specific goals and outcomes that will be achieved as a result of the completion of the governance improvement initiative.
- **Primary Responsibility.** The individual, group or committee primarily responsible for ensuring the governance improvement initiative is completed.
- **Resources Required.** The estimated cost of implementing the initiative.
- **Start Date.** The assigned date for work on the governance improvement initiative to begin.
- **End Date.** The target date for completion of work on the governance improvement initiative.

Governance Gain Examples

Each governance gain plan is unique to the board’s assessment results. For example, if corrective action is needed in the area of the board’s structure and processes, governance gain initiatives may include some of the ideas below:

Education Initiatives

- Provide trustees with the background information and intelligence resources required for active participation in board dialogue
- Conduct a regular community health care environmental assessment; ensure trustee understanding of the changes taking place in the health care environment, and their implications on the hospital, its physicians, and local health care consumers
- Develop an education plan that ensures trustee understanding of the issues essential to effective governance; conduct education and orientation at every board meeting, and annually at the board retreat

Structural Initiatives

- Examine board composition, and match present skills against current and emerging trends, challenges and issues; ensure that skills are/will be in place to successfully deal with the future
- Clearly define board, medical staff leadership and management strategic planning roles and responsibilities
- Involve physicians in meaningful ways as key participants in governance decision making, including trusteeship, committee appointments, strategic task force involvement, etc.
- Develop comprehensive and usable governance policies and procedures
- Develop a process for governance “renewal” to ensure that committees, policies, procedures and overall board structure and functions create a high-performance organization

Efficiency Initiatives

- Ensure that trustees receive agendas at least one week in advance of board, committee and task force meetings; provide background materials that ensure trustee understanding of critical governance-related issues
- Examine the board committee structure to ensure responsiveness to evolving challenges and opportunities. Consider establishing “strategic issues teams” to replace some traditional standing committees
- Evaluate the quality and quantity of information used by the board to make policy and strategic decisions; ensure that information is relevant, timely, understandable and actionable, and that it facilitates high-quality board decision making
- Examine the content of board meetings to ensure that the most significant and meaningful issues are being effectively addressed, that trustee time is respected and used efficiently, and that trustee involvement and participation are enhanced
- Examine the prior six board agendas; assess the ratio of time spent discussing issues and opportunities vs. time spent on approval of minutes, committee reports, and other more procedural issues; make discussion of strategic issues the centerpiece of every board meeting