


**HTNYS**


# Governance Insight

*Intelligence for New York hospital governing board leadership effectiveness*

## *What's Your Leadership IQ?*

*Look inside  
for a checklist  
to determine  
your board's  
self-assessment  
and  
CEO evaluation  
"leadership IQ."*

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## Maximizing Your Board Self-Assessment Processes

A board self-assessment is an organized quantitative and qualitative evaluation of its performance in fulfilling its governance responsibilities. It combines ratings of statements about the hospital's governance environment, focus, processes, and performance with trustee recommendations for change to improve leadership performance. Done correctly and consistently, a board self-assessment process (a combination of the assessment and the action plans created from it) enables the board to identify critical "leadership gaps" and achieve and maintain the level of governing excellence required for success in today's challenging health care environment.

### Board Self-Assessment Rating Areas

Hospital board self-assessment criteria may vary depending on each organization's unique needs and goals; however, all board self-assessments should include an evaluation of each trustee's personal performance and the board's overall performance in ten key areas: 1) the hospital's mission, values, and vision; 2) strategic direction; 3) leadership structure and governance processes, such as meetings, communication, and committees; 4) quality and patient safety; 5) developing strong community relationships; 6) building an effective and collaborative relationship with the chief executive officer (CEO); 7) building effective and collaborative medical staff relationships; 8) ensuring strong financial leadership; 9) improving community health; and 10) ensuring organizational ethics and compliance.

### Using the Self-Assessment Process to Improve Governing Performance

Conducting the board self-assessment is only the first step in improving leadership performance. An excellent board self-assessment process does not simply measure trustee viewpoints about governing performance. To be successful it must be a catalyst to engage trustees in a wide-ranging discussion of assessment findings that highlight performance gaps and areas where trustees lack consensus. Finally, it must facilitate the development of a governance improvement action plan with responsibilities, time frames and projected outcomes.

Self-assessment should stimulate the board to focus on the key ingredients of leadership success, question assumptions, and examine whether there is a common understanding. This enables trustees to uncover specific areas of under-performance in comparison to their leadership needs, and clearly and crisply pinpoint specific and targeted responses and solutions.

### Ensuring an Effective CEO Evaluation Process

A well-planned CEO evaluation can improve organizational performance and support the accomplishment of the board's goals. The process should allow the board to state its perceptions of the CEO's performance and provide the CEO with direction about performance improvement

This *Governance Insight* is the second of four HTNYS' publications highlighting critical issues and essential information for health care governing boards in New York State. This publication includes an overview of the issue, what hospital governing boards in New York are doing, and a Leadership Quotient Checklist to guide hospital boards in actionable next steps.

The information about New York hospital governing board activities is the result of HTNYS' 2005 Governance Education Needs Assessment. Sixty three hospitals responded to the Web-based survey, providing information about their boards' performance, functions, and operations.

and the board's expectations. An evaluation should also be encouraging and empowering for the CEO, allowing him/her to understand board perceptions of performance and strengths, and enabling him/her to concisely communicate achievements in addressing key objectives. Regularly evaluating the CEO allows the board to identify areas of future growth and necessary development.

By adhering to a clear performance and compensation evaluation strategy, the board and CEO know what is expected of them. The strategy defines the board's direction and goals for the future and outlines specific benchmarks and goals the CEO is expected to achieve. A clear evaluation strategy allows the board to regularly monitor the CEO's progress and take corrective action when necessary, rather than waiting for the next annual evaluation to address emerging issues. This approach ensures that the board and CEO each achieve their maximum leadership potential.

### CEO Evaluation Criteria

The criteria used to evaluate the CEO and determine incentive payment should be based on a variety of factors that support the organization's mission, vision, and market strategy.

Potential quantitative measures should include:

- financial performance and specified financial ratios;
- operating indicators, including length of stay, average daily census, admissions, outpatient visits, etc.;
- market share growth;
- physician satisfaction;
- employee satisfaction;
- patient satisfaction;
- public trust and confidence; and
- achievement of hospital strategies/objectives.

In addition to numerical measures, qualitative measures can help identify how well the CEO performs in several important areas, including:

- medical staff relations;
- internal operations;
- leadership and strategic development;
- financial development;
- community relations;
- board relations and development;
- independence and development;
- communication;
- problem solving;
- ethics; and
- the CEO's success in accomplishing specific strategic and personal objectives defined by the board at the beginning of the evaluation period.

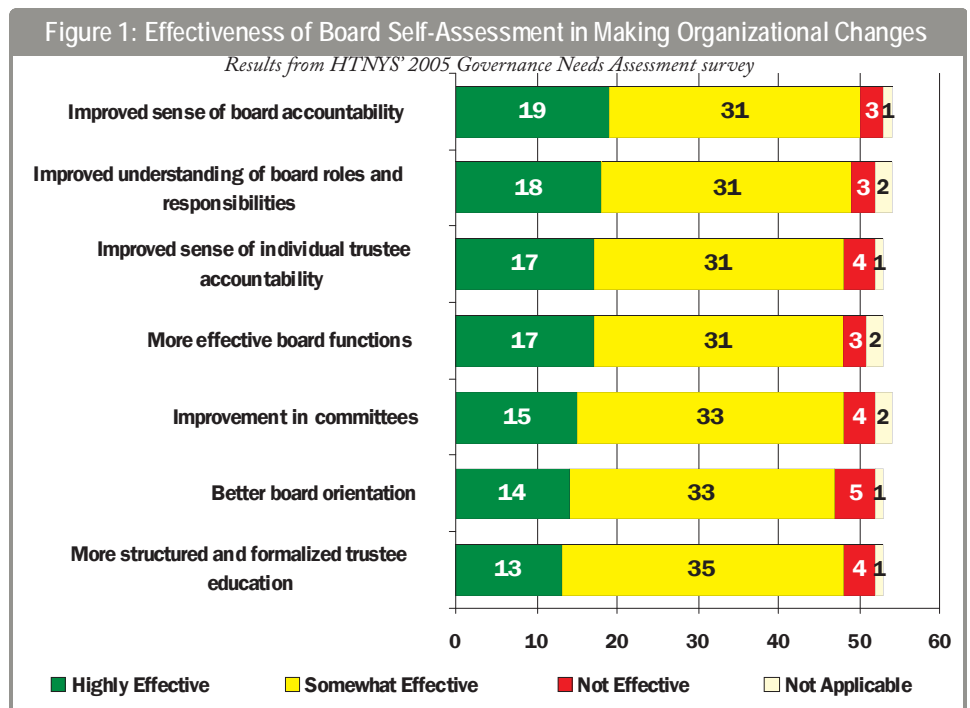
### CEO Leadership Responsibilities Assessment

To identify important CEO organizational-specific functions and leadership qualities, boards should conduct a CEO Leadership Responsibilities Assessment. The assessment may be completed by board members, physicians, and senior management, resulting in a compilation of organizational leaders' viewpoints about the importance of various CEO functions and leadership qualities in ensuring the hospital's future success. This type of assessment is **not** an evaluation of the CEO's performance in each specified area, but is instead an assessment of the importance of various factors in CEO success. The results of the Leadership Responsibilities Assessment can be used to develop a prioritized list of criteria with which to then rate CEO performance.

A typical assessment consists of two areas: 1) essential functions of the CEO; and 2) personal attributes of the CEO. Each of these areas is further divided into subcategories of leadership factors, with specific criteria important to organizational leaders underneath each category. Typical categories include essential functions and personal attributes of the CEO.

Essential functions of the CEO may include:

- medical staff relations;
- internal operations;
- leadership development;
- leadership and strategic development;
- financial development;
- community relations;
- board relations and development;
- teambuilding; and
- regulatory compliance.



FOR MORE INFORMATION ABOUT THIS TOPIC, CONTACT

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**Figure 2: CEO Performance and Compensation Evaluation**

	<b>Yes</b>	<b>No</b>
Board has a formal CEO evaluation process	94%	6%
CEO evaluation based on specific predetermined performance criteria and objectives	97%	3%
CEO evaluation directly linked to compensation	92%	8%

Personal attributes of the CEO may include independence and creativity; communication; problem solving; and ethics.

## On the Front Line: Board Performance in New York Hospitals

Conducting a regular board self-assessment and taking action based on the results is a critical function of high-performing boards. HTNYS' members responding to the 2005 Governance Education Needs Assessment provided insight about board self-assessments at their organization, including the frequency with which they are performed, methodology, and the effectiveness of the self-assessment process in making organizational change.

Over eight in ten respondents' boards conduct a performance self-assessment. The majority of the self-assessments are conducted annually (64%); however, approximately 20% conduct their board self-assessment every two years. About 8% of the respondents indicate that they conduct a board self-assessment every three years, and 6% do not perform a self-assessment regularly.

The majority of the respondents report use of a standard instrument developed and administered by the organization, while a small percentage of the respondents use an instrument developed and administered by an outside consultant. In addition, other methods responding organizations use for self-assessments include:

- discussion without a formal methodology, such as a discussion at a retreat and/or review of board goals and objectives; and
- an adapted or modified version of a standard instrument.

Although the majority of the respondents rated all areas of their board self-assessment as "somewhat effective," the highest rated areas of board self-assessment effectiveness include an improved sense of board accountability; improved understanding of board roles and responsibilities; improved sense of individual trustee accountability; and more effective board

functions (see Figure 1). About 8% of the respondents believe that their board self-assessment process is not effective in making needed organizational change.

Additional impacts of the board self-assessment process on responding organizations include:

- improved focus on strategic thinking and planning;
- increased accountability and board engagement; and
- increased awareness of areas in need of improvement as well as affirmation of high performing areas.

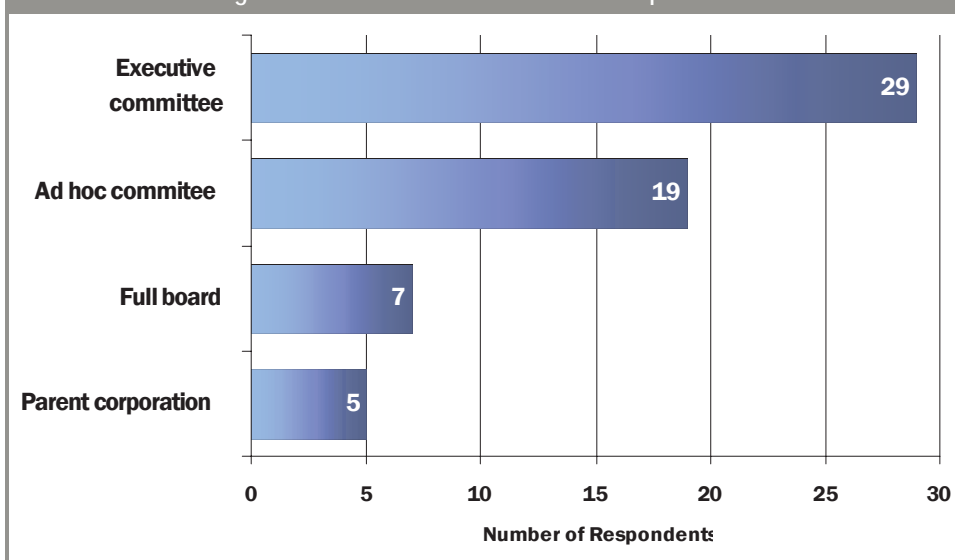
## On the Front Line: CEO Evaluation in New York Hospitals

In addition to evaluating their own performance, conducting the CEO performance and compensation evaluation is a critical board function. In the 2005 Governance Education Needs Assessment, HTNYS' members provided an overview of their CEO evaluation process.

An overwhelming majority of responding organizations' boards have a formal CEO evaluation process (94%). Nearly all of the CEO evaluations are based on specific, predetermined performance criteria and objectives, and are linked directly to CEO compensation. Over nine in ten of all respondents' CEO evaluations are conducted annually, with a small minority conducted either every two years or not regularly scheduled (See Figure 2).

The executive committee is the most common decision-making body that makes recommendations regarding CEO compensation, followed by an ad hoc committee (see Figure 3). Approximately one in ten of the responding organizations utilize the full board to make recommendations on CEO compensation, and a few organizations rely on their parent corporation.

**Figure 3: Recommendations on CEO Compensation**



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# What's Your Leadership IQ?

Test your board's education and communication "leadership IQ" using the checklist below. Mark the level that best fits your board's understanding in each area, using the following 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.

## Board Self-Assessment Leadership Quotient Checklist

Does Our Board...	Level 1	Level 2	Level 3	Level 4	Level 5
Do a board self-assessment annually?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Understand the purpose and value of self-assessment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Have a uniform commitment to self-assessment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Allow trustees, through the self-assessment, to freely express their ideas for needed change?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Self-assessment result in specific ideas for ways to improve governance processes, structure, and outcomes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Use the results of our self-assessment to create specific governance improvement action plans?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Leadership Quotient Checklist

Does Our Board...	Level 1	Level 2	Level 3	Level 4	Level 5
Have a list of essential CEO functions and personal skills and attributes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Develop Web-based and/or printed versions of a 360-degree survey of board members, senior managers, and physician leaders to determine the most critical essential functions and personal characteristics of a successful CEO <i>at our organization</i> ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Conduct a leadership essentials assessment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Compile the results of the leadership essentials assessment, and list (from highest to lowest rated) the prioritized criteria in each of the essential functions and personal assets areas?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Convert prioritized leadership essentials survey results into a summary of CEO performance expectations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Develop a clear and concise evaluation policy and process?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Develop a final CEO evaluation tool, based on key performance indicators that relate to our organization's mission, vision, values, and strategic goals?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tie CEO compensation to CEO performance in meeting predetermined performance indicators?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Research salary, incentive compensation, and benefits levels among U.S. hospitals of similar size and complexity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Source: *Healthcare Trustees of New York State, 2006*