Board Performance Evaluation: a Case Study of a Private Hospital in Australia

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Abstract

Sound corporate governance principles are a prerequisite for the effective performance of modern organisations. Members of the Board of Management of a private hospital in Australia were concerned with establishing a process whereby the Board could gauge its own performance in relation to the governance of the organisation. The paper outlines the process adopted by the Board and provides a summary of the outcomes of the process.

The research project utilised an Action Research design (first cycle) involving the development of a self administered questionnaire.

While adopting sound governance principles, Boards of Management in the Private Health Care sector need not converge or diverge from private sector corporate governance standards and can design an evaluation process that maintains their cultural identity and yet conforms to sound governance principles.

The paper is of significance to academics researching corporate governance, to members of Boards of Management and to consultants that practice in the area of governance for Boards.

Keywords: *hospital administration, governance, Board performance, Board evaluation*

Introduction

This paper presents the results of the first stage of an action research governance project conducted by the Board of Management of a private hospital in New South Wales, Australia.

Private hospitals are a vital and complementary partner to the larger public sector in the provision of a wide range of services and contribute significantly to the balance and sustainability of the Australian health system. There are 284 private hospitals in Australia, with 25,252 beds – around 32% of all hospital beds in Australia. These hospitals contain 252 free standing day surgeries.

The peak national body representing these private hospitals and day surgeries is the Australian Private Hospitals Association (APHA). According to the APHA (2007), annual report, private hospitals:

- treat almost 40% of all patients in Australia.
- admitted 2,846,000 patients, up 17.0% on the previous four years to 2005-2006.
- perform the majority of surgery in Australia – 56%.

Private hospitals are subject to Commonwealth legislation directly relating to corporate governance (Corporations Act 2001). As such, Board members are subject to the same responsibilities as members of private sector Boards.

The Board members were concerned that, as part of a general philosophy of continuous improvement in the hospital, the Board should demonstrate leadership and consider various options in relation to measuring the performance of the Board and to improve overall governance of the organization.

As part of the way forward, the Board engaged a consultant to assist the Board in developing evaluation criteria and an evaluative process that was seen by the Board members as both practical and relevant to the activities of the Board.

There is inferential evidence suggesting that governance practices within the industry require closer scrutiny as to their appropriateness and efficacy and Boards of Management are looking to the private sector to improve their governance processes.

However, there is some debate within academic discourse as to whether the concept of 'best practice' in corporate governance is, in fact, a process whereby organizations such private hospitals, many of which are not for profit, are subject to a process of conformity which is not necessarily appropriate for non-profit organizations. Steane and Christie (2001) have explored the notion that a fundamental difference between for-profit and non-profit organizations in part relates to them taking a *stakeholder* as opposed to *shareholder* approach to key issues of governance. More recently, Mason, Kirkbride and Bryde (2007) have extended this exploration to include an examination of 'stewardship' and neoinstitutional approaches.

Literature Review

Hoye and Auld (2001) note three major themes of empirical studies that engage with issues of Board performance in non-profit organizations. In relation to the first of these themes, they cite Taylor, Chait and Holland (1991), Fletcher (1992), Wood (1992), Bradshaw, Murray and Wolpin (1992), Kearns (1995), Dart, Bradshaw, Murray and Wolpin (1996), and Holland and Jackson (1998) as investigators concerned with the factors that 'influence the ability of the Board to perform their roles effectively' (Hoye and Auld 2001, p.109).

The second theme identified and cited by Hoye and Auld (2001), that of developing evaluative tools, is supported by Jackson and Holland (1998), Herman and Renz (1997, 1998, 2000) and Slesinger (1991).

The third theme identified – the attempt to 'establish a causal link between Board performance and overall organizational effectiveness' has been the concern of Provan (1980), Green and Griesinger (1996), and Herman and Renz (1997, 1998 and 2000).

It is interesting and important to note that these themes are similar or identical to themes that pervade commentary that engages with issues of corporate governance across all sectors. The concerns regarding Boards performing effectively, Board evaluation and causal links between Board performance and how an organisation performs are central to generic corporate governance discourse. Since 2000, relatively few researchers have pursued the differences but most significantly include Steane (2001), Steane and Christie (2001), Hoye (2004), Brown (2005), and Mason, Kirkbride and Bryde (2007).

The central theme in much of the research relates to whether it is appropriate for non-profit organizations to converge or diverge with the corporate governance practices of for profit organizations.

This argument for divergence has been significantly extended by Mason, Kirkbride and Bryde (2007, p.293) who have argued that the different orientation of non-profit social enterprises in the UK 'should not be expected… [to] develop similar governance structure to [for-profit] corporations'. In arguing this case, they evaluate both stakeholder and stewardship approaches to corporate governance in the non-profit social enterprise sector and explore the veracity of neoinstitutional theory. It is, finally, an argument for divergence with regard to how non-profit organizations should be governed and regulated.

This appears to be an acknowledgement of a key difference between for-profit and non-profit organizations identified by Steane and Christie (2001, p. 56) where 'non-profit Boards can mimic some aspects of a *shareholder* approach to governance' but, in fact, have priorities and activities that indicate 'a *stakeholder* approach to governance'.

In relation to this paper, issues of convergence or divergence were not considered. The Board members were more concerned with establishing a process whereby the Board could gauge its own performance and not to benchmark against other organizations whether they are for profit or not for profit.

The basic assumptions underlying the Board's direction to the consultant were:
- the primary purpose of a performance evaluation is to achieve continual improvement in the governance of the Board.
- any relevant evaluation can only be made against criteria established by the Board itself as to what the Board considers to constitute responsible governance.
- to improve performance, evaluation must be frequent and continuous.

Methodology

In order that the Board might have an opportunity to discuss evaluation issues and establish evaluative criteria, time was set aside at a Board meeting to allow the consultant to deliver a short presentation on governance and Board evaluations and then to facilitate Board members to discuss their expectations of the Board, develop a role specification for the Board and establish the criteria by which evaluations would be measured and a process for undertaking it.

Board evaluations are seen by most organizations as a critical part of the governance process. The aim of this initiative was to assist Board members to answer four significant questions that underpin rigorous and effective performance evaluations:

1. What are the duties and responsibilities of the Board and how do these arise?
2. What are the Board member's expectations about the Board's performance and can these expectations be usefully utilised as performance criteria to evaluate the Board's performance?
3. What is the simplest, most useful and relevant mechanism that can be used to undertake an evaluation?
4. Can the process adopted by the Board for evaluation be used frequently and regularly so that the Board can judge and benchmark its performance and keep on track?

The members used brain storming to arrive at an agreed position for the evaluation and the critical areas that were to be evaluated. The general agreement between Board members included statements about the proposed evaluation process. These included issues like - the Board's evaluation is of its own performance, and not an evaluation of the performance of the organisation which is a separate and different evaluation. It is not the Board's job to accomplish the Strategic Plan for the organisation. That is the job of the CEO and staff. The Board's role is to develop and approve of the strategic direction and monitor progress towards it.

After some discussion, the Board agreed on the following critical roles (Carver 1993):

- being a linking point between the organisation and the community (the linking role),
- proving the organisation with strategic direction (the strategic direction role),
- being the approving body for policy (the policy development role), and
- having an acceptable level of assurance monitoring (the monitoring role).

The Board members then engaged in a facilitated process to determine the perceived roles of the Board and the perceived processes that the Board should use in order to undertake these roles. The outcome of the process was to develop criteria that might be used in the Board evaluation.

Having agreed on the general questions to be investigated and the critical roles of the Board for governance, the Board members decided on which type of evaluation process to use. Members wanted a process that is considered by the Board members as the simplest and most useful tool for them and one that can be sustained. The decision of the Board was therefore to adopt a self-evaluation model to take the following form:

▪ The design of a simple Board questionnaire to be administered to members six monthly at meetings that would aim to elicit comparisons of actual Board performance and behaviour with the stated policy intentions. The questionnaire would be completed by members confidentially and a summary report provided by the consultant to the following meeting where an agenda item will provide for an evaluative review and discussion of the report and any actions arising from it.

The Board's established expectations and processes would be constantly under review as would be the evaluative model adopted.

Following the meeting, the consultant then condensed and synthesised the feedback from Board members concerning the perceived roles of the Board and the perceived processes that the Board should use and then converted this feedback to develop a draft of the Board Evaluation Questionnaire.

The questionnaire was developed in three parts. Part A consisted of:

- Eight (8) questions under the 'linking role' heading

For example: The Board promotes good relationships with other organizations.

- Eight (8) questions under the 'strategic direction role' heading

For example: The Board sets a clear strategic direction for the organisation?

- Four (4) questions under the 'policy development and review role' heading

For example: Policies are in place in all key areas.

- Eight (8) questions under the 'monitoring role' heading

For example: The Board has an effective committee structure.

Part B included thirteen (13) questions about Board Processes (are Board members acting in the way they said they would?)

For example: Points of view raised by members are given proper consideration.

Part C of the questionnaire provided members with space to list any suggestions on how the Board might improve its performance in any of the areas listed or where attention should be given to other areas.

The questionnaire was piloted to determine any difficulties in understanding or comprehension. Following some minor amendments, the self completion questionnaire was administered at the next Board meeting. The mechanics of the process was that the questionnaire would be completed by the members confidentially at the Board meeting, sent to the consultant for analysis

who would then provide the Chair of the Board a summary report of the outcomes of the survey for the next meeting.

Results and Discussion

The actual results of the survey are commercial in confidence. However, the consultant prepared a report listing the variables (questions from the survey) with a graphical representation of the anonymous responses from the survey demonstrating an overall (average) view of the Board as a whole and where the views of the Board members diverged or converged with the views of other members.

For this Board, the general flavour of the responses was:

Interpretation of the results for section A (1) the 'linking role of the Board' of the questionnaire:

The Board members were generally satisfied with the way in which the Board performed its linking role both externally to other organizations and internally to the organisation's community and the professions. While performance in this area was perceived to be very good, on the basis of the evaluation, the Board was able to discuss strategies as to how this area of performance may be improved in the future.

Interpretation of the results for section A (2) the 'strategic direction role of the Board' of the questionnaire:

Overall, the Board members were generally satisfied with the way in which the Board performed its strategic direction role. However, in the members view, two areas required attention. These were the Board's performance in the area of 'developing and promoting the organisation' that might be loosely referred to as the Board's marketing role, and, in the Board's role in 'influencing health policy'.

The marketing performance of the organisation could be easily reviewed by someone with marketing expertise and they could be tasked with making suggestions to the Board on how the Board might improve its performance in this area.

In respect of influencing health policy, this may be a more complicated area requiring long term and incremental strategies. The Board may wish to discuss strategies as to how this area of performance may be improved in the longer run.

Interpretation of the results for section A (3) the 'policy development and review role of the Board' of the questionnaire:

While Board members considered the policy development role to be satisfactory, Board members on the whole, consider that there is considerable room for improvement in the area of policy review and the link between the research on policy matters and Board decision making.

The Board therefore considered instigating a general review of policies that are in place. Often organisation are good at establishing policies but the policies

fall out of date or become redundant and a policy review is able to determine what areas of policy are in need of updating and where perhaps more policy is required.

When new policies are being placed before the Board for approval, it is clear that the Board required a greater degree of research on the proposed policy to be undertaken and the results of this research to be presented with the policy being proposed.

Interpretation of the results for section A (4) the 'monitoring role of the Board' of the questionnaire:

Board members on the whole considered that there was considerable room for improvement in the monitoring role of the Board. This is of course, a key area in the governance of Boards generally and what many commentators suggest is the primary role of a Board (.Nadler, Behan and Nadler 2006).

However, in the very significant area of financial monitoring and financial governance, Board members were generally satisfied that the provision of financial data to the Board for decision making and overall financial governance are strong areas in the Board's performance. Such a finding should be viewed as very positive.

In respect of the other areas where Board monitoring was not considered by Board members to be satisfactory, the following identifies the areas and strategies for the Board to consider:

- The Board's committee structure

Effective Board committee's are an integral part of good Board governance and Board members consider that the Board's committee structure is not working effectively. Perhaps the Board might consider instigating a general review of its committees to ensure that the present committees align with the strategic priorities of the Board and that each committee has the appropriate members or mix of members to undertake its monitoring role effectively.

- The monitoring of the performance of the CEO and staff

The Board members are strongly in agreement that this area requires close attention. This finding does not mean that the performance of the CEO and staff are under question, but the monitoring of their performance is either not taking place or is insufficient.

Conclusions

This paper reports on the first cycle of an action research project involving governance in a private sector not for profit hospital. The results of this investigation suggest that not for profit Boards of Management need not converge or diverge from private sector corporate governance standards and can design an evaluation process that maintains their cultural identity and yet conforms to sound and established governance principles.

In this case, the evaluation determined that in respect of the 'linking role of the Board', the Board members were generally satisfied with the way in which

the Board performed its linking role both externally to other organizations and internally to the organisation's community and the professions.

In respect to the 'strategic direction role of the Board' the Board members were generally satisfied with the way in which the Board performed its strategic direction role. However, in the members view, two areas required attention. These were the Board's performance in the area of 'developing and promoting the organisation' that might be loosely referred to as the Board's marketing role, and, in the Board's role in 'influencing health policy'.

For the 'policy development and review role of the Board', while Board members considered the policy development role to be satisfactory, Board members on the whole, consider that there is considerable room for improvement in the area of policy review and the link between the research on policy matters and Board decision making.

Lastly for the 'monitoring role of the Board' , Board members on the whole considered that there was considerable room for improvement in the monitoring role of the Board in the areas of benchmarking, the Board's committee structure and the monitoring of the performance of the CEO and staff.

The research has demonstrated the effectiveness of not for profit Boards of Management achieving continuous improvement in the governance of the Board by the development of rigorous criteria established by the Board itself as to what the Board considers to constitute responsible governance.

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