

**South Australia Innovation HUB – Effective Governance  
Project**

# Effective Governance: a framework for aged care

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June 2015

# Effective Governance: A framework for aged care

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# 1. Introduction

## 1.1 The South Australia Innovation Hub and the governance project

Aged care policy is developing a more refined definition of 'quality' to ensure the aged care service expectations of older Australians are met or exceeded. Changes were announced in the Australian Government 2015 Budget to ensure the aged care system continues to meet the demands of an ageing population.

The aged care sector has evolved over the years while at the same time our populations has been ageing and consumer expectations are changing significantly. The timing is right to move to a less regulated, more consumer driven and market based seamless 'end to end' aged care system. The expected consequences of this will be increased competition, which together with reductions in red tape for aged care providers; will lead to enhanced quality and innovation in service delivery.

The *Effective Governance - a framework for aged care* is the result of an iterative exploration of the concepts of quality, high performance and leadership in relation to aged care governance undertaken as part of the South Australia Innovation Hub (SA Hub) implementation projects. From October 2014, the SA Hub has been an important vehicle for co-design between ten South Australian aged care providers, the Department of Social Services, the Australian Aged Care Quality Agency, the Aged Care Financing Authority and COTA Australia. As part of this, it was acknowledged that aged care provider boards need to provide strong leadership in relation to ensuring quality outcomes for stakeholders and organisational performance through comprehensive good governance processes and effective consumer engagement.

The objective of the SA Hub is:

*... to improve and sustain better outcomes for older Australians engaged with aged care services. This will be achieved through developing an earned autonomy approach for aged care in support of the Government's deregulation and social policies.*

This objective gives emphasis to the importance of sector driven high performance of boards and their governance.

Effective governance is seen as the cornerstone of supporting high quality of care and quality of life in aged care service provision.

## 1.2 The purpose of Effective Governance - a framework for aged care

The *Effective Governance - a framework for aged care* is designed to provide a non-prescriptive approach to support aged care providers to benchmark their current governance performance and identify areas for improvement.

Two simple questions that all boards should be asking themselves and more importantly striving for are:

- What does a high performing board look like?
- What are the characteristics of a high performing board?

A high performing board continually strives to improve its governance and performance. The emphasis given in this document is towards the attributes of effective boards, their culture and the importance of leadership; elements seen to be the key for high performance for aged care provider boards.

The *Effective Governance - a framework for aged care* aims to support boards to examine factors that enable effective provider performance and support market maturity through 'a framework' to support self-assessment and continuous improvement towards 'high performance' governance practice. It is specifically focused on supporting boards to build capacity and consider key areas of challenge for aged care provider boards such as board composition, culture, leadership, risk management, and keeping pace with the current policy, demographic and regulatory changes in aged care.

A key consideration for the design of the *Effective Governance - a framework for aged care* has been the recognition of the diversity in service type and provision within aged care, including consideration of both private enterprise and 'not for profit' business models.

The *Effective Governance - a framework for aged care* is not a step by step guide, a detailed toolkit, checklist or a self-assessment rating tool. And it does not seek to replicate the plethora of existing governance resources of this nature that are generally available (many of which are referenced at the end of this report). The *Effective Governance - a framework for aged care* is principle based and provides a clear structure for exploration, self-assessment, quality improvement and strengthening performance in governance practice.

## 2. Foundations of high performing boards

The evidence that informed the development of the *Effective Governance - a framework for aged care* supports the view that detailed and prescriptive governance requirements alone are not sufficient to ensure effective board performance. High performance manifests from the behaviour and ethics of individual board members supported by board leadership and culture. A system for good governance sets the foundation of structures, expectations and activities on which high performance can be built. A system for good governance will incorporate the 'basics' of governance and build on them.

Heidrick and Struggles (2014) recognise that the debate "*has shifted from pure governance to a greater emphasis on the effectiveness of boards*" (p.1) and that ...

*in the end, it is all about the people on the board – they are the key to high-performing boards. It is the ability of the directors to work together in a collegiate and sharing culture that makes top-performing boards. Without a common culture and a strong bond between directors, boards will be compliance-driven, and not high performing, effective boards* (p.3).

Moreover Heidrick and Struggles (2014) identified four key capabilities required by high performing boards that are supported by nine drivers.

*The four capabilities are:*

- **People** – continually review top talent and engage in succession planning.
- **Vision** – have clarity of vision and strategy that is both shared and understood.
- **Leadership** – promote the team dynamics through the leadership of the board.
- **Innovation** – maximise the capacity of the board to consider and adapt to risk and innovation.

*Nine drivers supporting the capabilities in various combinations are:*

- balance of skills, knowledge and experience
- empowered support of committees
- regular board evaluations
- identifying board improvement opportunities
- balance between executive and non-executive directors
- regular board meetings
- clear criteria for board member replacement
- diverse gender and cultural mix
- representative number of independent directors.

*The top four characteristics of an independent director listed by respondents in the SA Hub governance project are:*

- personal integrity
- having the best interest of stakeholders at heart
- being objective and constructively challenges senior management
- paying attention to detail and doing thorough preparation for meetings.

### *Boards achieving the right balance*

The aim for a board to perform effectively is to achieve the right balance between *what it does* and *how it operates*. This does not necessarily require equal investment in each area or static levels of focus overtime. Rather the characteristics of a high performance board highlight a dynamic process incorporating regular review, analysis and targeting of activity to address identified issues and needs.

### 3. Effective Governance - a framework for aged care

This section includes information on the components that make up the *Effective Governance – a framework for aged care*:

**Definitions** of effective governance (refer 3.1).

**Principles** for effective board performance in aged care (refer 3.2).

**A governance framework for aged care boards** that is underpinned by a refined version of the Hilmer and Tricker (1991) model and includes:

- Indicators,
- Measures,
- Questions for deliberation, and
- Stories that describe the continuum of governance practice leading to 'high performance' (refer 3.3).

#### 3.1 Definitions of effective governance

Within the aged care sector a core determinant of 'quality aged care' is the extent to which quality outcomes for care recipients/consumers are achieved. Good governance by aged care providers is an essential element in achieving this for aged care recipients.

The literature, including Tricker's later research (2010), recognises that good governance goes beyond organisation focused functions and requires a board to manage its own performance, culture, ethics and relationships. The definitions of 'effective governance' are described primarily within the context of the not-for-profit/community sector. Good governance looks beyond accountability – meeting compliance and ensuring financial safeguards – and introduces qualitative aspects. This places more emphasis on people and their ethics, judgement and behaviour; and the role of leadership, relationships and culture in board effectiveness.

*Effective governance structures allow organisations to create value, through innovation, development and exploration, and provide accountability and control systems commensurate with the risks involved...*

(Australian Institute of Company Directors [AICD] 2013, p.7)

*Good governance is embedded in the good behaviour and the good judgement of those who are charged with running an organisation.*

(AICD 2013, p.7)

The ASX Corporate Governance Council (2014) uses the definition from Justice Owen in the HIH Royal Commission that states corporate governance is:

*...the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled within corporations. It encompasses the mechanisms by which companies, and those in control, are held to account (p.3).*



## 3.2 Principles for effective board performance in aged care

The following ten principles are drawn from a range of good practice governance principles identified during an SA Hub governance project. They include the ASX Corporate Governance Council (2014) *Corporate Governance Principles and Recommendations*, the AICD (2013) *Good Governance Principles and Guidance for Not-for-Profit Organisations* and the Code Steering Group (2011) *A Code for the Voluntary and Community Sector*. The principles that follow have been determined by the SA Hub members as a helpful starting point for their own boards when considering what constitutes good governance and in developing Key Performance Indicators (KPI) to monitor and evaluate the performance of their boards. These principles underpin governance practices that are likely to lead to good governance outcomes and meet the performance and accountability expectations of key stakeholders in aged care. However, it is recognised that different service types may legitimately adopt different governance practices relating to these principles, based on the diversity factors evident in the aged care industry such as a private enterprise or 'not for profit' structure, size, complexity, care recipient demographics and needs, history and organisational culture.

These principles are not prescriptive or mandatory. The purpose of these principles is to allow aged care providers to utilise them as guiding principles for good practice and effective governance in aged care.

### 3.2.1 Ten principles that promote good governance in aged care service organisations

#### *Principle 1: Roles and Responsibilities*

##### *The need for clarity*

Clarity between the roles and responsibilities of the board and management and how their performance will be monitored and evaluated should be established and disclosed. This includes clarity regarding individual board member responsibilities, organisational expectations of board members and the role of the board.

#### *Principle 2: Board Composition*

##### *The right group of people*

A board needs to have the right group of people, considering each individual's background, skills and experience, diversity (e.g. age, gender, culture) and how the addition of an individual builds the collective capability and effective functioning of the board. An appropriate and diverse mix of skills and experience needs to be determined that will best assist the organisation to achieve its goals. Considerations include the size, composition, skills and commitment required for the board to discharge its duties effectively and set the future vision.

#### *Principle 3: Purpose and Strategy*

##### *An appropriate vision, purpose and set of strategies*

The board plays an important role in setting the vision, purpose and strategies of the organisation, helping the organisation understand these and adapting the direction or plans as appropriate.

#### *Principle 4: Risk - Recognition and Management*

##### *Recognition and management of appropriate risk oversight*

By putting in place an appropriate system of risk oversight and internal controls, boards can help increase the likelihood that their organisation will deliver on its purpose. A sound risk management framework should be established and its effectiveness should be periodically reviewed.

#### *Principle 5: Organisational Performance*

##### *A focus on effective use of resources*

The degree to which an organisation is delivering on its purpose can be difficult to assess. This can be aided by the board determining and assessing appropriate performance categories and indicators for the organisation.

#### *Principle 6: Board Effectiveness*

##### *Appropriate board structures and processes*

A board's effectiveness may be greatly enhanced through: careful forward planning of board-related activities; board meetings being run in an efficient manner; regular monitoring, assessment and improvement of board performance; having a board succession plan; and the effective use of sub-committees, where appropriate.

#### *Principle 7: Integrity and Accountability*

##### *The right information at the right time*

It is important that the board have in place a system whereby: there is a flow of information to the board that aids decision-making; there is transparency and accountability to external stakeholders; the integrity of financial statements and other key information is safeguarded. The board should have formal and rigorous processes that independently verify and safeguard the integrity of its organisational/corporate reporting.

#### *Principle 8: Organisation Building*

##### *Build and maintain organisational capability to deliver on purpose*

The board has a role to play in enhancing the capacity and capabilities of the organisation they serve. Some boards extend this principle to also consider their role in community capacity building.

#### *Principle 9: Culture and Ethics*

##### *A healthy culture in the boardroom and throughout the organisation*

A board should act ethically and responsibly. The board sets the tone for ethical and responsible decision-making throughout the organisation.

#### *Principle 10: Engagement*

##### *Effective stakeholder engagement*

The board helps an organisation to engage effectively with stakeholders. Within this, establishing and promoting strategies for effective consumer engagement is a key area for aged care providers to address.

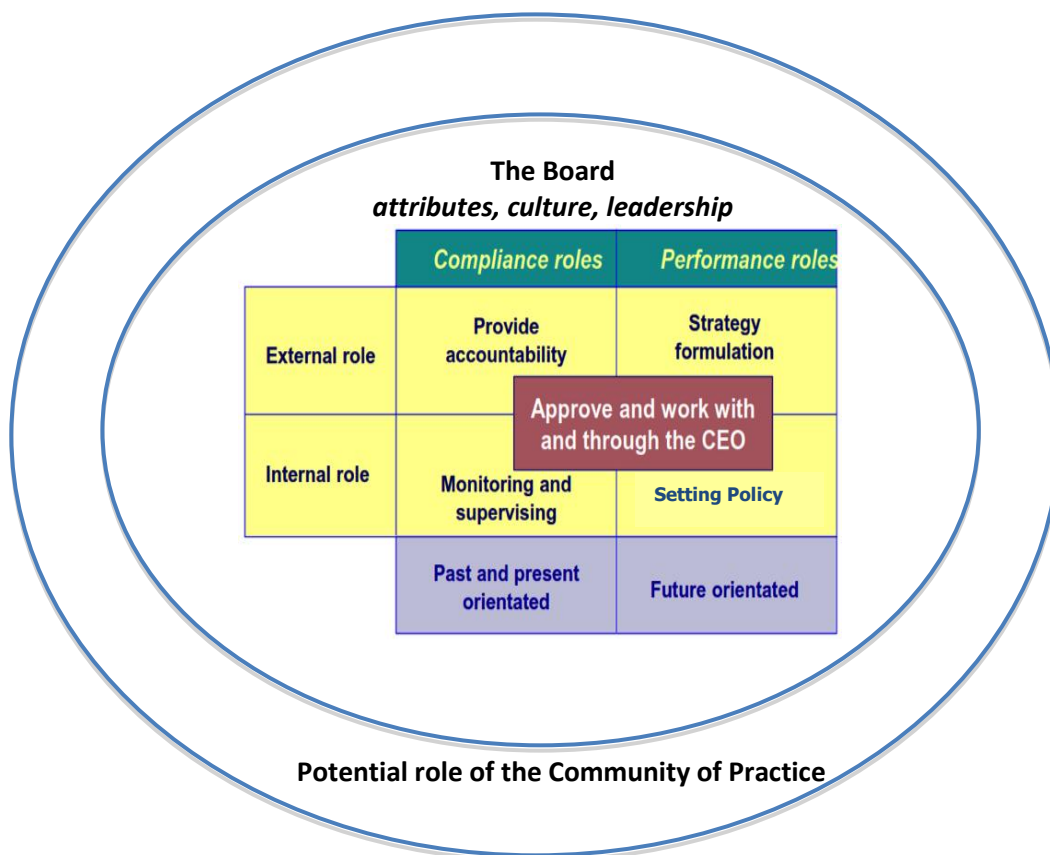
### 3.3 The effective governance framework for aged care

The theories from Hilmer and Tricker (1991), Tricker (2010) and Wheatley (as cited in Zuieback 2012) together with the insights from the SA Hub members were used to create a framework to conceptualise the broader governance role and board performance. The following framework formed the basis for our exploration of good governance and what might constitute 'high performance' governance in aged care.

The challenge for good governance and high performing boards is to consider and address all components in the right balance. The *Effective Governance - a framework for aged care* has evolved as part of our iterative process exploring these aspects and builds upon existing governance models. The circle labelled 'board attributes, culture, leadership' is included as these are the components of a board seen as the cornerstone leading to effective aged care provider performance.

The outer circle suggests a potential role for a Community of Practice<sup>1</sup> (or network of provider boards) in promoting dialogue, sharing information and facilitating governance capacity. This Community of Practice was represented by the SA Hub members and their boards in the development of this framework.

#### The Effective Governance - a framework for aged care



(adapted from Hilmer and Tricker 1991, Tricker 2010 & Wheatley 2010 )

<sup>1</sup> A **Community of Practice (CoP)** is a term that describes a group of people sharing a like interest both privately or organisationally (Lave J and Wenger, E 1991, *Situated Learning: Legitimate Peripheral Participation*. Cambridge University Press, Cambridge, ISBN 0521-42374-0).

### 3.3.1 The seven elements in the aged care governance framework

- i. Strategy formulation
- ii. Setting Policy
- iii. Provide Accountability
- iv. Monitoring and supervising executive functions
- v. CEO/Board relationship
- vi. Board attributes, culture and leadership
- vii. Potential role of the Community of Practice

### 3.3.2 Description of the seven elements

#### **i. Strategy formulation**

This is about leadership and performance, setting the direction of the organisation and ensuring policies are in place to deliver the aged care provider's vision. The board needs to work with and through the Chief Executive Officer (CEO) to formulate the aged care provider's strategy.

#### **ii. Setting Policy**

This is about the policies and culture that translate the strategy into effective operations. Policies and procedures could be developed by management and approved by the board. While the board may make some policies, particularly regarding board specific policies, we have adapted Hilmer and Tricker's (1994) framework title of "Policy making" to "Setting Policy" to better reflect the board's key role in providing guidance on setting policy, rather than 'policy making' which would be more the domain of the CEO and management.

#### **iii. Provide Accountability**

This is about ensuring compliance and accountability. This includes accountability to Government as funder, compliance with regulatory authorities, legislation, and meeting community expectations. Meeting community expectations is the highest focus; stakeholders include internal and external, staff and customers or clients, external leaders, funders.

#### **iv. Monitoring and supervising executive functions**

According to Tricker (2010), this is about having policies, processes and systems in place to monitor and supervise the delivery of results by management, including monitoring the performance of the CEO and the organisation as a whole.

#### **v. CEO/Board relationship**

The centrality of the relationship of a board with the CEO is represented in the Hilmer and Tricker (1991) framework by the overlap between the 4 quadrants – 'working with and through the CEO'. Clearly defined roles and responsibilities of the board chairperson, board members and CEO are essential. Trust between CEO and board members plays a key role here.

#### **vi. Board attributes, culture and leadership**

This circle of the framework aligns with Tricker's more recent research and the Wheatley (as cited in Zuieback 2012) model and goes beyond the functional

approach of 'what a board should do' and into the humanistic elements of 'how the board should govern'.

It describes the characteristics of boards, the way they approach their role, and the way they provide leadership and build capacity. It incorporates characteristics of boards, attributes, composition, values and behaviours of members.

### **vii. Potential role of the Community of Practice**

While this element is not essential for aged care provider boards to effectively utilise the above elements within the framework it does provide an opportunity to see how this element can support the development of organisational and community capability through shared learning and dialogue in effective governance practice.

In addition, it explores the potential of a Community of Practice to inform government policy and implementation strategies towards a single, streamlined aged care system that encourages enhanced quality and innovation in service delivery.

### **3.3.3 The structure for exploring the seven elements**

This section explores the first six elements in the *Effective Governance – a framework for aged care* outlined following section 3.3.2 by following the structure outlined below from the letters a to f. The final element - the potential role of the Community of Practice in supporting governance capability building - is addressed in section 3.3.10 outlining the way in which the SA Hub Community of Practice evolved and the potential of it as a model that could be extended to other aged care providers. It explores the potential value of such a Community of Practice in areas such as informing aged care policy as well as building organisational and community capability.

- a) **Descriptor** – describes the concept.
- b) **Alignment with principles** – indicates how, and which, principles are reflected in the element.
- c) **Indicators** – describe criteria for self assessment and benchmarking current performance. These are presented as:
  - ✓ How do I know its happening? (good governance measures)
  - ✓ Differentiators of high performance from good governance.
- d) **Measures of governance performance** – These can be used by aged care providers to self-assess and discuss their achievement of the indicators and identify areas for review and improvement that supports progression towards high performance governance practice. They provide clear measures that can be used to measure governance in action. The measures are divided into either *good governance* or *high performance governance*. It is the intention that these be used as a guide, rather than a prescriptive measure, and that they can be customised to reflect various organisational contexts.
- e) **Questions** that promote board dialogue and enhance the progression to high performance.
- f) **Governance in Action – stories and examples.** These are designed to further support the self-assessment and quality dialogue of effective governance

practice, including supporting review and improvement towards high performance governance practice. They include SA Hub member examples of stories of both governance in action and of high performance.

## 3.4 Strategy formulation

### a) Descriptor

According to Tricker (2010), this is about leadership and performance, deciding the direction of the aged care provider and ensuring policies are in place to deliver the aged care provider's vision. The board needs to work with and through the CEO to formulate the organisational strategy.

### b) Alignment with Principles

This element aligns closely with the following principles as detailed in section 3.2:

- ▶ Principle 3. Purpose and Strategy
- ▶ Principle 6. Board Effectiveness
- ▶ Principle 8. Organisation Building
- ▶ Principle 10. Engagement

### c) Indicators

#### *How do I know it's happening*

#### **Strategic thinking and planning**

- Boards and trustees accept their obligations to set the organisation's strategy with and through the CEO. The board must be prepared to debate and review the organisation's Strategy. The CEO must also be prepared to have their work reviewed and questioned.
- Strategic planning is a leadership opportunity to engage the aged care provider (board and executive, staff, customers and community) in conversations that will inform decisions about the direction of the organisation.
- Boards work with senior management in the strategic planning process.
- Boards undertake regular environmental scanning.
- Boards develop/ endorse a rolling strategic plan (coherent, contemporary and dynamic) that assists the aged care provider to position itself for its future goals (e.g. growth, sustainability, community position, aged care sector changes).
- Boards consider the wider context within which they operate and create professional development opportunities to engage with and explore relevant topics.
- Risk appetite<sup>2</sup> is a key factor in setting strategy – organisation's need to determine what their risk appetite is. A strong risk management framework is essential but also

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<sup>2</sup> Risk appetite is "the amount of risk an organisation is willing to take on in pursuit of value" (KPMG 2008, Understanding and articulating risk appetite, available from: <http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Risk-appetite-O-200806.pdf>)

the ability to make decisions to progress the aged care provider and the community even if the stakes are high (an example would be the decision making process about the level of investment in new facilities).

- Robust dialogue to inform decision-making is needed to avoid 'group think'.

### **Consumer engagement role in policy formulation**

- Consumer engagement mechanisms are essential in strategy formulation.
- Boards must ensure they have a 'line of sight' to consumers so that strategy development is considered in relation to on the ground intelligence.

### *Differentiators of high performance from good governance*

#### **Investing in exploration of emerging trends of potential impact on the aged care provider**

- Time is taken to discuss and explore issues of relevance to the aged care provider, and actively engage in exploration, debate and review of research. Management have a clear role to inform and present findings to the board for their review and consideration.
- Commitment and support for management is provided by the board to develop research partnerships locally, nationally and internationally, relating to emerging evidence and trends in clinical care and education.
- Management are supported in establishing marketing and communication research to monitor emerging client and community needs and expectations.
- Structural and investment planning is undertaken to prepare for aged care provider change.
- Education is established for board members on emerging requirements of aged care regulatory and policy reforms (from which strategy can be reviewed and progressed). A key question to ask: 'Does the board sufficiently understand the aged care business they are in?'

#### **Strategic culture**

- The board is committed to the 'culture' of the aged care provider and developing a strategic focus as part of this, and this is reflected in their quality statements.
- The board adds value to the aged care provider – it is strategic, responds and adapts to change and strives for innovation.
- The board applies strategic thinking to address the issue of sustainability of the aged care provider, and its role within the sector.
- Resilience of the aged care provider within the changing political and business environment is considered in the strategic thinking process.
- Consideration of internal stakeholders (staff emerging and future needs, customers or clients) as well as the external environment informs strategic thinking.

#### **Board visioning of potential futures**

- The board regularly considers 'possible futures' based on provision of widely sourced material about the operating environment and the aged care provider.
- The board envisions a preferred future and uses this to plan for the aged care provider's organisational change. Future thinking activities enable consideration and



analysis of opportunities and challenges. The board is able to make decisions about structural and investment planning to prepare for changes.

#### d) Measures of governance performance

<i>Governance</i>	<i>High Performing Governance</i>
<ul style="list-style-type: none"> <li>▶ Vision and purpose of the organisation has been well thought through, clearly articulated and documented, and communicated throughout the organisation and among stakeholders.</li> <li>▶ The strategic plan is clear to all key stakeholders and underpinned by well-researched information and informed decision making.</li> <li>▶ The board schedules discussion on strategy throughout the board calendar.</li> <li>▶ The board regularly analyses organisational capacity to deliver on its strategic objectives.</li> <li>▶ Board decision making is based on alignment with strategy.</li> <li>▶ Actions are defined by the board to help ensure the organisation has a clear idea of its vision and purpose and that an appropriate set of strategies and plans supports their achievement.</li> <li>▶ Education is provided to those board members who require it to build strategic planning capability.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Links between ethics (mission), integrity and organisational objectives are built into the strategic planning process.</li> <li>▶ External challenges, opportunities and industry / regulatory changes are identified and explored for organisational impact and to support planning and decision making.</li> <li>▶ The board holds regular 'creative thinking and reflection sessions' to promote innovation and improved decision making and planning.</li> <li>▶ A forward annual calendar for review and monitoring of business performance is established.</li> <li>▶ The performance and review calendar includes identification and timing of business performance review activities e.g. <ul style="list-style-type: none"> <li>✓ Scheduled review meetings (e.g. monthly)</li> <li>✓ Strategic plan/ risk management process review</li> <li>✓ Expert input to board members as part of ongoing education program</li> <li>✓ Board must include KPI for CEO/ management that can be reviewed by the Board and hold Management/CEO to account.</li> </ul> </li> </ul>

#### e) Questions

To promote board dialogue and enhance the progression to high performance ask:

- ▶ Are we adding value to the organisation's strategic direction?
- ▶ How should the board review the organisation's purpose and strategies to assure their continuing relevance and effectiveness?
- ▶ How best can the board help to deliver on the organisation's purpose and/or mission?
- ▶ How can the board be confident in the quality, scope and breadth of information about the wider social, political and economic context that it uses to inform decision making?
- ▶ Boards often focus on their critical role in building organisational capability – what is the role of the organisation in extending this to building community capability?



## f) Governance in Action – stories and examples

### **Setting strategy**

The board of XXX aged care provider is keen to develop its strategic plan – and is conscious of the changing political and social landscape within which it operates, including changes to business models. Specific strategies to encourage creative, critical thinking on possible futures are regularly implemented.

As preparation for its strategic thinking, a series of topics are discussed at board meetings. The topics explore a range of potential 'futures', imagining the various possibilities and using these to tease out implications, challenges and opportunities. These include issues of the wider political and social environment, including international trends in aged care provision – the approach is to identify the 'disruptors'. The board understands its focus is not on operational or management issues.

To foster innovation, space is set aside for any board member or staff to write down any creative ideas – a 'dream room' where people are encouraged to articulate their visions and aspirations. Input on topics is also sought from staff, clients and the community.

Board members explore their creative ideas. A preferred future is envisioned and this is used to guide the planning process.

As a result, the board 'changed tack' and made the decision to invest significantly in infrastructure to support anticipated growth in requirements for increased provision of different models of care.

### **Calendar of business to ensure timely monitoring of all critical aspects of governance**

The board established a forward annual calendar to ensure that it has time to review and monitor components of its business. Examples of the allocation of time for specific topics includes:

- Regular meetings scheduled – ten per year (monthly).
- Regular review of strategic plan and risk management progress.
- Annual two day residential retreat including board members and senior management.
- A program of external speakers on topics of relevance to the board and to increase knowledge and expertise – to help the board in its deliberations.
- Case study presentations in board meetings by both residential and community services departments.
- Holding of board meetings at different sites and including opportunities for discussion or presentations by management at those sites.
- Time is spent in purposeful review of board policy (scheduled) to manage updating, review, currency of policies.
- Periodically the board reviews its calendar and schedule of what should be reported and discussed at board meetings and allocates time for topics of interest or significance to the organisation.
- An external evaluator is engaged to conduct a review of board function and structures every two years or so – this creates opportunities for updating and improvement.

## 3.5 Setting Policy

### a) Descriptor

This is about the policies and culture that translate the strategy into effective operations. Policies and procedures could be developed by management and approved by the board. While the board may make some policies, particularly regarding board specific policies, we have adapted Hilmer and Tricker's (1991) title of "Policy Making" to "Setting Policy" to better reflect the board's key role in providing guidance on setting policy, rather than 'policy making' which would be more the domain of the CEO and management.

### b) Alignment with Principles

This element aligns closely with the following principles as detailed in section 3.2:

- ▶ Principle 1. Roles and Responsibilities
- ▶ Principle 7. Integrity and Accountability
- ▶ Principle 9. Culture and Ethics

### c) Indicators

#### *How do I know it's happening*

##### **Policy framework**

- The board has a comprehensive policy framework with regular review and gap analysis. A policy framework facilitates the role of the board in setting policy directions that align with the strategic vision for the organisation and can then guide management in their implementation.
- Clear document control ensures currency of policy formulation and implementation.
- Information from management about the operations of the organisation provides evidence and input to the board to help form policy.
- There is clarity around accountabilities and adherence to policies that are made – as they are implemented operationally, the organisation can review its efficacy based on experience. The framework would differentiate between policy development and ongoing implementation and subsequent updating and review.
- There is a clear delineation between board policies and management policies.

##### **Decision-making**

- Clear decision making parameters for policies exists that includes which policies are delegated to board committees, which is the board responsible for setting and which ones can be made by management.
- A comprehensive, regularly reviewed, 'delegations matrix' exists.
- The board and management executive periodically meet to evaluate how the organisation performs against the agreed good governance principles.

#### *Differentiators of high performance from good governance*

##### **Critical review of policies and processes**

- The board adopts a regular 'stress testing' (i.e. critical review) of policies and processes to ensure they remain robust and appropriate. Critical review or stress testing relates to eliminating complacency by trialling or testing the policy to ensure it

is robust and an appropriate match. It also involves using the 'unlucky fortunes' of others as a trigger to examining own policies.

- There is an ease of access to policies by board members.
- The board knows how to develop good policy, having a good understanding to be able to bring quality to the way policies are framed, developed, reviewed and implemented.
- The board engages in periodic professional development in the qualities of good policy making so that they can be confident of their ability to guide effective policy development.
- The board benchmarks and reviews policies with a wide range of organisations (including outside of the aged care sector) in order to improve their awareness of the characteristics of good policy.

#### d) Measures of governance performance

<i>Governance</i>	<i>High Performing Governance</i>
<ul style="list-style-type: none"> <li>▶ A policy framework clarifies responsibilities and accountabilities guides' policy development and review and ensures policies support the strategic vision of the organisation.</li> <li>▶ The policy framework differentiates organisation policies from board only policies.</li> </ul>	<ul style="list-style-type: none"> <li>▶ The board instigates a comprehensive and rigorous process to critically challenge and review its policies.</li> <li>▶ The board periodically organises professional development to strengthen its expertise in 'good policy'.</li> </ul>

#### e) Questions

To promote board dialogue and enhance the progression to high performance ask:

- ▶ What does 'good policy' look like? How can we ensure that we have the expertise to confidently evaluate and benchmark our policy capacity?
- ▶ How can we ensure that we are vigilant (not complacent) in testing and reviewing our policies?
- ▶

#### f) Governance in Action – stories and examples

##### **Board analysis and determination of how operational matters are reported**

The board of XXX aged care provider was keen to ensure that it streamlined reporting and increased confidence in its operating of the organisation.

The board mapped the KPI's used in its operations and determined those that are most appropriately reported at board level, and those that are management level. This analysis enabled the board to link operational KPI reporting to its strategy – enhancing strategic decision making.

Board meetings could then focus on dialogue about significant operational issues or strategic discussions.

### **Clinical governance**

XXX aged care provider has established a sub-committee for service delivery aspects of clinical governance at a macro level. The subcommittee has clear terms of reference so that it is not pulled into the operational detail. The subcommittee has the right skills mix and mandate to ensure appropriate governance oversight on clinical matters.

### **Policy framework**

Over time, XXX aged care provider had produced a wide range of policies. The board had taken an active and onerous role in all policy development. It was decided to establish a framework for policy development and review.

There were 4 categories of policies identified:

- Policies to guide the organisation and its planning.
- Policies to guide the procedures and actions of the board itself.
- Policies to guide membership to the board (including skills and succession).
- Policies to guide accounting and reporting.

Once the policies were reviewed, XXX aged care provider established clear guidelines for delegations, development and review.

This meant that everyone knew which policies the board approved, which were reviewed by the governance committee, and which by CEO.

The board always approved high-level policies. XXX aged care provider decided to have a small number of broad policies that it could easily manage and delegated to management the proper implementation through procedures documents.

Procedures, which sit behind policies, and which outline roles and behaviours can be amended or changed at the organisation level without reference to the board.

A better practice approach is to have a set term for responsibility to share exposure, expertise and offer fresh perspectives.

## **3.6 Provide Accountability**

### **a) Descriptor**

This is about ensuring compliance and accountability, including managing financial and other risk. This includes accountability to Government as funder, compliance with regulatory authorities, legislation, and meeting community expectations.

Meeting community expectations is the highest focus; stakeholders include internal and external, staff and customers or clients, external leaders, funding.

### **b) Alignment with Principles**

This element aligns closely with the following principles as detailed in section 3.2:

- ▶ Principle 1. Roles and Responsibilities
- ▶ Principle 4. Risk - Recognition and Management
- ▶ Principle 5. Organisational Performance
- ▶ Principle 6. Board Effectiveness
- ▶ Principle 7. Integrity and Accountability
- ▶ Principle 10. Engagement

## c) Indicators

### *How do I know it's happening*

#### **Systems and processes**

- The board has a good understanding of their legal obligations.
- The board has a fundamental understanding of the business they are governing.
- Systems and processes are derived from, and align with, the aged care provider's legal or founding structures such as its Constitution (however, there are many different corporate structures within aged care so that the outcomes of such alignment varies from organisation to organisation).
- The board has in place, the systems and processes to govern their organisation effectively.
- Organisations produce documented plans to support their operations. These could include strategic plan, operational plan, annual report, financial forecasts and plans. The board ensures that such plans are monitored and reviewed regularly to guide operational decisions.
- The board uses sub-committee structures to ensure that the right expertise can contribute to important management obligations. Sub committees are provided with clear terms of references and charters, delegations and reporting lines in place. Sub-committees do not make decisions, unless delegated, rather recommendations to the board. All subcommittee minutes are reported to the board noting its ultimate responsibility as a board for decisions.
- Sub-committees have clear delegations or reporting lines in place.
- Role of constitution and other structures e.g. charter, policies, delegations (documentation of processes and systems, minutes, recording) – it is acknowledged there are many different corporate structures within aged care providers.

#### **Executive support to the board**

- The board understands the importance of effective documentation and record keeping such as agendas, registers, minutes and periodic reviews.
- The board has adequate secretariat support, to maintain board records and prepares board minutes. This may vary with smaller organisations/boards. Board minutes are independent, professional and effective.

#### **Reporting structures for accountability**

- Board subcommittee and reporting structures comprehensively report on finance, client care and community relations.
- Mechanisms are in place to enable relevant staff to engage directly with board and subcommittees.
- The board has mechanisms to engage with clients.
- Accurate and timely minutes are kept.
- Predictive financial and customer data aids the board and management in financial sustainability.

#### **Policy review**

- The board and management engage in regular policy reviews to ensure that policies are current and reflect industry changes and innovations.

- External benchmarking or inputs are used by the board to support it to 'know what they don't know' so that they can be rigorous and confident in policy frameworks.
- Benchmarking of policies with other organisations is undertaken to provide an opportunity to reflect on practice and ensure policies are current, dynamic and agile.
- Policy review reflects board and organisation actions and can be linked to implementation of the strategic plan.

### **Risk Management and approach**

- Risk management is a significant aspect of accountability and organisations (board and executive) have risk and crisis management plans in place that are continuously reviewed. A risk register is maintained and reviewed.
- The board is up to date with legal and compliance requirements, monitors their compliance and meets its reporting requirements.
- Comprehensive systems exist for collection and monitoring of incident and risk data, and this is regularly reviewed by whole board.
- The board and CEO work to ensure appropriate information is provided to enhance decision making; clear systems and processes exist to capture and report on data related to key risk areas:
  - ✓ Reputation
  - ✓ Service failure
  - ✓ Financial
  - ✓ Clinical/Quality of life
- Clear systems and processes exist to capture and report data on corporate performance in areas such as service support, information management, people management/ workforce development, environmental management and business management, financial and customer management.

### *Differentiators of high performance from good governance*

#### **Crisis and time management**

- The board recognises that in a crisis it may intervene in management of the organisation, but as confidence and trust improves, the board will step back to its oversight role.
- Time management is a crucial issue for high performing boards. Board members must commit to preparation time as well as to board meeting time.

#### **Approach to governance and evaluation of the board itself**

- Board members are committed to value adding, and periodically reflect and review their performance against good governance principles. The board proactively improves its own governance practices.
- The board has a clear understanding of what they are accountable for and the evidence they need to establish that this is in place.
- The board's decision-making is characterised by considering alternatives, challenging of information, dialogue and debate. Board papers are concise and provide context and offer alternatives to assist in better board decision-making.

- The board maintains accountability by regularly assessing themselves against a stakeholder framework and by articulating the criteria to which they hold themselves accountable.

### Stakeholder engagement

- The board is able to clearly identify stakeholders and has strategies to garner their perspectives, views or input. The board also determines those stakeholders that have highest impact or whose views must be canvassed.
- The board establishes and actively promotes opportunities for stakeholders (staff, residents/clients/carers, management, community) to engage in planning processes and provide feedback or input.
- Activities are initiated to gain/respond to stakeholder feedback. Activities could include 'Plan of Care' evaluation, focus groups, surveys, compliments, complaints and suggestions, topic/concept consultation and /or committee meetings.
- The strategic plan is published/communicated as a public document to encourage stakeholder awareness and input into planning.

### d) Measures of governance performance

<i>Governance</i>	<i>High Performing Governance</i>
<ul style="list-style-type: none"> <li>▶ Specific information needed to achieve board's role and organisation's mission is identified and provided.</li> <li>▶ Relevant information is provided in an accurate, complete and timely way in language and formats that are appropriate to the board's membership mix.</li> <li>▶ Timely accurate meeting papers &amp; minutes.</li> <li>▶ Adequate resourcing of board is provided in areas such as:               <ul style="list-style-type: none"> <li>○ secretariat and administrative support, and</li> <li>○ timely provision of appropriate information.</li> </ul> </li> <li>▶ Frequency and location of meetings.</li> <li>▶ IT support.</li> <li>▶ Use of committees, panels and external advice and other structures.</li> <li>▶ Planning and running meetings to ensure sufficient time to consider information and discuss issues.</li> <li>▶ Access to expert external advice and assistance in identifying and developing strategies to manage and mitigate risk.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Risk and accountability systems and processes embed ethical decision making.</li> <li>▶ Assessments are conducted to evaluate how well the organisation is achieving its mission/stated values.</li> <li>▶ Due diligence assessments are regularly carried out and includes assurance that the board members and organisation's staff are behaving ethically and meeting own accountability objectives.</li> <li>▶ Board regularly reviews its appetite for risk and conducts comprehensive risk governance reviews.</li> <li>▶ The board actively engages staff and key stakeholders in research and dialogue to determine 'quality of care' and 'quality of life' performance indicators.</li> <li>▶ The board actively engages the organisation and key stakeholders in evaluation of quality indicators and ensuring the organisational culture supports their achievement.</li> </ul>

## e) Questions

To promote board dialogue and enhance the progression to high performance ask:

- ▶ How does the board benchmark itself against international best practice and review its own performance? How can it demonstrate that its governance practices have made a difference to the quality of life of its constituents?
- ▶ How does the board actively encourage debate about its 'appetite for risk' and have critical dialogue about potentially competing drivers such as risk, sustainability, growth, investment and innovation?
- ▶ How does the board shift from stakeholder engagement as an input to decision making, to consideration of accountability and social impact?

## f) Governance in Action – stories and examples

### **Risks have been identified and obligatory mitigation strategies are in place**

XXX aged care provider decided to place a greater focus on risk management. A risk management professional was employed to drive the development of a risk management framework.

As a result, the management executive and the board have identified risks and rated them using rating criteria developed after extensive consultation between the board and management.

Current controls to mitigate those risks have been assessed. The highest rated risks are regularly monitored by management and subject to quarterly board review. The risk identification and assessment process is repeated annually.

### **Subcommittee structure – better practice**

XXX aged care provider recognised the workload and expertise spread of its work and put in place a subcommittee structure to spread the workload and to garner appropriate expertise.

All board members are expected to participate in at least 1 subcommittee. There are clear terms of reference for all sub committees. Standing subcommittees are set up for topics or issues as required or determined by the board. XXX considered the following aspects of its work in deciding which subcommittees to establish and their terms of reference

- Finance
- Risk
- Client care
- Community relations, consumer
- Clinical
- Audit or quality
- Complaints
- Succession planning or human resources

Each subcommittee has the option to include co-opted specialist expertise to add to its capability (and experts are also charged with further developing the specialist skills of subcommittee members).

There are clear boundaries and parameters around delegations and each subcommittee is clear about its role in decision making – what decisions it can make, and what it must refer back to the board (with recommendations).

To ensure transparency, all board members have access to all papers, including minutes, of sub-committees.

There is a clear commitment by the board that they do not abdicate responsibility by delegation to subcommittees.



## 3.7 Monitoring and Supervising Executive Functions

### a) Descriptor

This is about having policies and processes and systems in place to monitor and supervise the delivery of results by management, including monitoring the performance of the CEO and the organisation as a whole.

### b) Alignment with Principles

This element aligns closely with the following principles as detailed in section 3.2:

- ▶ Principle 1. Roles and Responsibilities
- ▶ Principle 4. Risk - Recognition and Management
- ▶ Principle 5. Organisational Performance
- ▶ Principle 6. Board Effectiveness
- ▶ Principle 7. Integrity and Accountability
- ▶ Principle 8. Organisation Building
- ▶ Principle 9. Culture and Ethics

### c) Indicators

#### *How do I know it's happening*

#### **Clarity of roles and accountabilities**

- Clarity exists between the role of the CEO and the board to clearly identify CEO and board accountabilities and transparent KPI's. Basic board responsibilities include:
  - ✓ Hiring and firing of the CEO, performance evaluation and monitoring of the CEO
  - ✓ Strategic direction of the organisation with goals, measurable KPI's etc.
  - ✓ Fiscal and legal oversight, risk assessment
  - ✓ Role of the chair
  - ✓ Effective board meetings and information including agenda setting
  - ✓ Community relations, consumer engagement strategy
  - ✓ Resource development, business sustainability
  - ✓ Management systems
  - ✓ Board self-management e.g. recruitment, selection, succession planning; evaluating board and sub-committee performance/ effectiveness.
- The board builds relationships with the management executive for better governance, and to ensure they have the capacity to understand the business.
- The board recognises that trust is a critical factor in monitoring and supervising. There has to be a high level of trust and this relates to the culture of the boardroom – it ranges along a continuum from monitoring and supervising to engaged and strategic inclusion.

### **Reporting framework and performance review**

- The board has a program to review and report on achievement of policies or activities – this is a regular agenda item for board meetings, for example bi-monthly.
- Goals (financial and other) are established and reported on at monthly meetings, including a dashboard report that includes key financial indicators.
- Regular internal and external review mechanisms are established and conducted to assess board structures, processes and performance.
- A third party process such as an audit is supported by the board to ensure credibility and objectivity and the ability to challenge.

### **Commitment to continuous improvement**

- The board has a strong focus on continuous improvement; it is embedded in everything that happens in the organisation including governance.
- The commitment to continuous improvement by the board and management is linked to reporting – effective reporting enables identified issues to be analysed and resolved.

### **Clinical governance**

- The board established a clear board role in clinical governance. The board doesn't need to know all aspects of clinical governance, but does need to have a clear role in oversight of high-risk areas.
- Clinical governance also impacts on organisation culture – as such, the board's approach to clinical governance considers behavioural indicators.
- The board uses reports of critical incidents to glean learnings and improve performance.
- The board establishes mechanisms to enable organisational monitoring and review of all complaints and feedback (e.g. medication errors, faults) to feed directly into approaches to clinical governance.

### *Differentiators of high performance from good governance*

#### **Risk management approach**

- The board members obtain required information through the CEO and other identified key management executive (or with the agreement of the CEO) to identify and monitor risks. The board also recognises the importance of creating a culture of provision of 'frank and fearless advice' at both management and board level.
- Board and CEO work together to ensure the board is appropriately equipped through education and information provision to manage risk effectively. This includes processes established to ensure access to timely information and expertise to support testing, processing and understanding of risk issues.
- 'No surprises' rule demonstrates board engagement with all issues, an expectation that advice should be open, timely and uncensored and that the board receives reports of all incidents.

#### **Management through Key Performance Indicators**

- The board and executive identify and understand the organisation's key triggers. The KPI's have been established to address key triggers and are connected to the strategic plan. Well-functioning monitoring and oversight of the organisation by the board based on KPI's and the organisation's key triggers.

## d) Measures of governance performance

<i>Governance</i>	<i>High Performing Governance</i>
<ul style="list-style-type: none"> <li>▶ Clearly defined CEO and board accountabilities and transparent KPI's are identified by the board.</li> <li>▶ Board values, structures, roles and procedures are clearly defined and formally documented (e.g. board manual or charter).</li> <li>▶ Board meetings are effectively planned, structured and chaired to ensure clarity and effectiveness of decision making and that key areas of risk are addressed.</li> <li>▶ Assessment of the CEO's performance and leadership is based on clearly defined and communicated KPI's.</li> <li>▶ Key metrics / information is provided that ensures the board can:               <ul style="list-style-type: none"> <li>✓ benchmark organisational performance relative to KPI's and stated objectives</li> <li>✓ participate fully in processes and make informed decisions</li> <li>✓ understand their roles, rights and responsibilities.</li> </ul> </li> <li>▶ Clear and agreed view exists among board members, CEO and key stakeholders as to 'what success looks like' for the organisation.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Board uses key metrics or a "dashboard" and research at a broader industry level to evaluate how the organisation is performing relative to KPI's and strategic plan and inform future planning and action.</li> <li>▶ Risks are monitored and board recognises the importance of creating a culture of provision of 'frank and fearless advice' to inform decision making.</li> <li>▶ Education and information supports effective risk management.</li> </ul>

## e) Questions

To promote board dialogue and enhance the progression to high performance ask:

- ▶ How can the board foster a supportive culture for evaluation that includes provision of 'frank and fearless advice', not only within the board but also in the whole organisation?
- ▶ If measures suggest that the organisation is performing well, how can the board avoid complacency and stimulate and promote further effort to continuously improve?
- ▶ Does the board have a charter and protocols that help define its role and set out particular types of decisions that are reserved for the board (e.g. by reference to expenditure limit, type of decision etc.)? Do the charter and protocols cover how the chair and the board are expected to interface with the CEO and management?
- ▶ The key to capability in supporting high performance governance is identifying what should be measured and how – how does an organisation know that its KPI's are measuring the things that matter for high performance?

## f) Governance in Action – stories and examples

### **Evolving thinking about policies and procedures**

The XXX aged care provider realised that numerous policies were a mixture of policy and procedures.

The board saw this as an opportunity to refine its approach. It is aware that some aged care providers are aiming to refine to eight overarching policies with the remainder being procedures.

The board is working on analysing and reflecting on the policy framework that will provide differentiation for board level versus operational or management level review and monitoring.

### **Engagement with 'Risk'**

XXX aged care provider has day-to-day reporting of risks that goes directly to the board.

Every two months the executive/staff responsible for risk management and reporting meet privately with a board member in person to review incidents, and risks. This increases trust and promotes a culture of problem solving and continuous improvement.

## **3.8 CEO/Board Relationship**

### a) Descriptor

The centrality of the relationship of a board with the CEO is represented in the Hilmer and Tricker (1991) model by the overlap between the four quadrants – 'working with and through the CEO'. Clearly defined roles and responsibilities of the board chairperson, board members and CEO is essential. Trust between CEO and board members plays a key role here.

### b) Alignment with Principles

This element aligns closely with the following principles as detailed in section 3.2:

- ▶ Principle 1. Roles and Responsibilities
- ▶ Principle 7. Integrity and Accountability
- ▶ Principle 9. Culture and Ethics
- ▶ Principle 10. Engagement

## c) Indicators

### *How do I know it's happening*

#### **Role and protocol clarity between CEO and board**

- The organisation invests in developing clear role descriptions – for the chair, for board members, subcommittees, CEO, executive roles and operational roles. Role descriptions clarify accountabilities and expectations.
- Clear communication protocols exist for interactions between the board and the CEO.
- The CEO and board relationship is critical - the board directs the CEO, and has clarity that the CEO's role is to direct executive management and operationalise the organisation's strategy (directors direct and managers manage).
- The board monitors the tension between the board's role in operating at a strategic and board governance level, against the risk of moving into operational areas that are the responsibility of management (this is an important concept for board members, the chair and CEO to have in mind and to raise where operational 'straying' may be emerging). Conversations about boundaries encourage sharing and trust.
- The board supports the CEO being involved in the induction of new board members and recognises this demonstrates good practice and provides for role clarity.
- Good documentation exists to ensure clarity of roles and expectations, e.g. a governance handbook containing constitution, values, vision, expectations, code of conduct, board charter, the role of the board etc. This should be given to all new directors.
- The board recognises operational issues must have line of sight through the CEO and subordinates of CEO should have a degree of interaction with the board with appropriate CEO visibility.
- The board ensures there is clarity around the particular (and different) relationships:
  - Between CEO and the chair.
  - Between the executive and the board.
- The board ensures there is a clear mechanism to manage any breakdown of relationships e.g. between the CEO and the chair (please note; if a CEO is also a board member [director] there is clear consideration regarding how these roles and responsibilities are managed and when required, separated).

#### **Supporting effective decision-making**

- The board acknowledges that the CEO must be skilled and equipped to provide the board with the right information and options so that the board can make the informed decisions it needs to make.
- The board acknowledges that part of the role of CEO is a conduit of information from the organisation to the board.
- The board ensures that information is proactively provided – and with a level of information and carefully analysed choices that will assist the board to make informed decisions.

#### **Communication between board and management**

- The board ensures that the organisation has regular, comprehensive and transparent communications between the board and management. There is an open and transparent relationship between the CEO and the board.

- Avenues such as a 360° review of CEO is used to enhance discussion about quality performance as are KPI's linked to strategic implementation when used to assist with CEO performance management.

### *Differentiators of high performance from good governance*

#### **Atmosphere of trust**

- The board and CEO work to establish good working relationships between the CEO and the board, and between executives and the board sub-committees. The board appropriately challenges management through both board and board sub-committee meetings.
- The board ensures the 'tone' of interactions promotes openness, debate, engagement, respect and trust.
- The board supports and enables the CEO to 'be brave' in pushing the boundaries for innovation, in taking some calculated risks, in making plain the level of trust in the CEO (articulated as well as inferred).

#### **Board/ executive management opportunities for performance review and planning**

- There are established regular forums (e.g. annual workshops) for executive management and the board to review areas of organisational performance, board performance and future directions for strategy/culture.

#### **Honest, challenging, debate and dialogue**

- The board has crucial conversations with the CEO. The board and CEO enjoy active debate and dialogue about all aspects of the organisation.
- The board has regular in-camera<sup>3</sup> discussions without the CEO present. In camera meetings should be concise, not long and with the chair informing the CEO at some stage of the theme of the discussion that took place.
- A challenge culture exists both from the board to management, and within management itself.
- The board is constantly aware of the need to avoid 'group think' and challenges itself and its members to explore differences.

#### **Conflict of interest**

- Conflict of interest is managed by the board – not only disclosure of interests, but also a clear understanding of when conflicts of interest may arise. Conflict of interest is also about 'potential conflict' or 'perceived conflict'.

#### **Visibility of the board in the organisation**

- The role of the board in modelling leadership/culture is enhanced through its visibility and engagement with the aged care provider. This can be complex as the board and CEO presence needs to align in terms of messaging, engagement and communication and the matter of delineation between board level engagement and operational level responsibility for management. Boards need to determine the extent and parameters of their presence in the organisation.

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<sup>3</sup> In-camera is a term to describe a closed door board meeting held without any other non-board or management members present (Langlaise, G 2011, available at: <http://www.lexology.com/library/detail.aspx?g=2ece58af-7f88-4f3d-8cee-d69c2f5a1bd2>).

## Leadership of CEO or chair of the board

- The role of the chair or president of the board includes providing leadership in supporting new board members to understand and enact the culture.
- The role of the chair should be well defined and be reviewed along with the effectiveness of the board.
- Leadership skills of the CEO and chair are acknowledged as being of critical importance in setting the culture, projecting the aged care provider narrative and stewarding the organisation.
- The board has a view on the longevity of its key roles (chair, CEO) in order to balance ongoing renewal with knowledge and cultural management. There is a process to underpin 'renewal' of the aged care provider to avoid stagnation (the concept of 'refreshing the board').
- The board reflects and adapts to the constraints of its context, for example, in rural or remote areas or in smaller aged care providers, it is likely that board members will have personal relationships with staff or clients. Those boards that experience this are able to acknowledge it and manage any impacts.

## d) Measures of governance performance

<i>Governance</i>	<i>High Performing Governance</i>
<ul style="list-style-type: none"> <li>▶ Role descriptions clarify accountabilities and expectations for both board and CEO specifying not just what areas the board is involved in but 'how' they should be involved. Board member roles may include:               <ul style="list-style-type: none"> <li>✓ <i>Decision maker/evaluator</i> – including clarity regarding board: CEO delegations</li> <li>✓ <i>Advisor</i> – provision of information/ expert advice</li> <li>✓ <i>Implementer</i> –e.g. board representation, subcommittee roles, stakeholder engagement etc.</li> </ul> </li> <li>▶ Data is collected and analysed to evaluate board performance.</li> <li>▶ Desired ethics and behaviour is consistently modelled by board.</li> </ul>	<ul style="list-style-type: none"> <li>▶ High levels of trust between board, chairperson and CEO exist that ensures board can raise issues and challenge management to improve performance.</li> <li>▶ Anonymous or confidential options for reporting concerns and contributing to evaluation of board performance and culture are provided.</li> <li>▶ The board evaluation considers inclusion of feedback from the CEO, and chief financial officer.</li> <li>▶ Uses evaluative processes to identify where and how to foster cultural change including procedural and relational activities.</li> </ul>

## e) Questions

To promote board dialogue and enhance the progression to high performance ask:

- ▶ Does the chair have an effective working relationship with the CEO that demonstrates leadership, mentorship, and wise counsel?
- ▶ What is the balance between open transparent communication and the role of the board to operate clearly as a board of directors and not as a board of management?
- ▶ What leadership style and capabilities, for both CEO and board chair, can best facilitate effective interaction in board relationships?

- ▶ The issue of the relationship between CEO and board is quite subjective – how can you measure its effectiveness? How can a board identify potential issues that could be indicators of the quality of this relationship?
- ▶ A challenge for a board is avoiding ‘group think’ and also ‘chair think’ (where the role of facilitating and managing discussion becomes directive). How does a board recruit and select to ensure that it keeps dialogue open, encourages debate and continues to explore issues?
- ▶ How do you introduce cultural change when the level of awareness of the need and direction of the change is low or where there is resistance to change?

## f) Governance in Action – stories and examples

### **Communication avenues – board/CEO/staff**

Communications between the XXX aged care provider board and management are regular and given in a variety of ways, including through formal board and board sub-committee meetings, formal reports and decision papers, and bi-monthly board strategic workshops and presentations.

The board interfaces beyond the CEO and has open communication with the executive director and the chief financial officer, and encourages flatter open lines of communication

Some board meetings are scheduled on site at the various XXX aged care provider locations. At these meetings, staff (senior and front line) have the opportunity to present to the board, to showcase activities, to highlight practice, to engage in discussion – on anything they choose (not filtered) and this increases connection between board and management, and the organisation.

XXX aged care provider also has informal functions and board members are invited to attend. They also attend information sessions for clients and answer questions or give presentations.

Visibility and commitment is also demonstrated by board members taking an active role in spot checks, accreditation and reviews.

Formal communications with staff occur through quarterly leadership forums, strategic planning workshops and road shows.

There are regular opportunities for informal discussions when the board and management executive attend staff and community events.

### **Open information**

XXX aged care provider is conscious of the importance of the board’s relationship not just with the CEO but with the full management executive.

To this end, they conduct 360° feedback of the management executive (by staff) and this is shared with the board.

## 3.9 Board Attributes and Culture/Leadership

### a) Descriptor

Within the *Effective Governance – a framework for aged care* outer circle relates to the board attributes, culture and leadership; it aligns with both Hilmer and Tricker (1991), Tricker (2010) and Wheatley (2010) and goes beyond the functional approach of ‘what a board should do’ and into the humanistic elements of ‘how the board should govern’.



It describes the characteristics of boards, the way they approach their role, and the way they provide leadership and build capacity. It incorporates characteristics of boards, attributes, composition, values and behaviours.

## b) Alignment with Principles

This element aligns closely with the following principles as detailed in section 3.2:

- ▶ Principle 1. Roles and Responsibilities
- ▶ Principle 2. Board Composition
- ▶ Principle 6. Board Effectiveness
- ▶ Principle 7. Integrity and Accountability
- ▶ Principle 8. Organisation Building
- ▶ Principle 9. Culture and Ethics

## c) Indicators

### *How do I know it's happening*

#### **Board composition**

- Composition of the board supports the aged care provider's vision. The board consciously considers current membership skills, diversity mix (e.g. gender, age, culture) and those skills required in the future to effectively respond to a changing environment – one criterion for board member selection is alignment to its strategic directions.
- The board engages in critical thinking about its ideal composition– including actively seeking alternative or new skills to align with any changes to its strategic direction.
- The board has a proactive approach to identifying future needs of the aged care provider and recruiting to meet those needs, for example, emerging demands or expectations for example on information technology or financially.
- Recruitment to the board is not just on the basis of a skill set, but also about the right fit for the organisation and its culture. A range of expertise is sought to add value.
- Board members are encouraged to bring their 'networks' with them – for example to support fund raising, increase knowledge and influence of the board.
- Board membership reflects diversity in terms of range of experience, age, gender and skills mix, longevity on the board, board terms, rolling appointments, and understanding of the business.
- Board tenure is often linked to the organisations Constitution, however some may not be reflected, or state terms or tenure. The board determines what length of tenure is required to be effective or to add value. This also applies to tenure for the chair. The tenure of the chair is critical to an aged care provider. The organisation determines how long a chair is effective and what is the succession plan for the chair is.
- The board ensures there is a balance of attributes or intrinsic motivators against skills, expertise and judgement (competency, capability) in the board composition.
- Remuneration of board members can be an issue – the board recognises that in competing for a pool of skilled members remuneration might be advantageous. There can be significant personal liability for directors and a range of approaches from volunteer through the continuum to commercial rates of payment . Such

responsibilities and obligations of directors are not diminished if they are not receiving payment and see themselves as a volunteer.

### **Core values of board members**

- Board recruitment and selection is also based on commitment to core values such as integrity, openness, honesty, inquisitiveness, collaboration and information sharing.
- The board recognises and values the importance of attributes such as ethics, commitment to the community, the aged care sector and quality of life as well as quality of care for older Australians. The board recognises that such commitments are common motivators for board involvement in this sector.
- The board forms an understanding of 'quality of life' matters, based on an understanding of older people's needs, to set organisation standards and reporting.

### **Education of board members (induction and ongoing)**

- The board ensures new members are inducted into their role in the organisation. They ensure new board members are introduced to the organisations business model, provided with an up to-date governance handbook and often visit some or all of the organisations operational sites.
- The board provides for ongoing professional development for members to extend knowledge and keep up to date, including opportunities for board members to educate one another. For example, every board meeting includes a declaration of new learnings or insights since the last meeting.

### **Culture and Leadership**

- The board include a range of opportunities for members to interact and engage with both staff and the community.
- The board communicates effectively with their organisation and have transparency about parameters for decision making.
- The organisation 'owners' (Trust, private, Church etc.) values are actively practiced and are supported by policies and processes that are monitored and reviewed and which deliver desired outcomes. However a cautionary note is that while this may be a potential strength it can also be a potential risk - the 'stakeholders' whilst their values etc. are important to uphold the tradition of the organisation can, in some cases, have significant oversight which can impede effective and strategic decision making. The board must ensure that there are policies/procedures/controls in place to ensure desired outcomes are monitored and achieved.
- The board is both cohesive and actively involves all members in constructive dialogue and debate. The role of the chair is particularly important in managing input and debate.
- The board culture and interactions reflect and encourage open and candid exchange of views, an enquiring environment and the "courage" to maintain such outcomes in the best interests of the organisation.

### *Differentiators of high performance from good governance*

#### **Evaluation of board's performance**

- The board periodically engages in a performance review of their own practices, for example appointing an external evaluator or facilitator or conducting surveys.
- Opportunities for reflection and evaluation of performance are actively created and encouraged by the board and used to signify continuing commitment.

- The board is internally reflective of its own performance; it monitors and reviews future needs, succession, culture fit and capacity development.
- Robust review by the board includes self-assessment and peer assessment. CEO and key directors should be part of the review and report the findings back to the board. The findings will contribute to response strategies .
- The board has a strategy and process for removing non -performing members (e.g. those not attending, not contributing). Board membership brings standing and prestige in communities, and boards may need to consider options such as fixed membership terms or appraisal processes to ensure their membership is of the highest quality.

### Succession planning

- The board has a succession plan for retirement, legacy, and transfer of knowledge. Boards have a strategic approach and a plan for succession. Boards have open dialogue and debate around this subject with the chair taking the lead.
- A specific succession plan is in place for critical roles such as chair and CEO.
- The board has policy to guide succession, recruitment, skills mix and knowledge transfer and management. Succession planning also looks at core values (not just skills) noting:
  - ✓ Tactics could include 3 year rotating terms (staggering the retirement dates for continuity and seeking new members) or fixed maximum terms, capping of rotations.
  - ✓ Succession planning means a commitment to an ongoing skills mix rather than a historic lifelong entitlement (historically an organisation could have had long serving founding members or constituent members).
- Exit interviews of departing board members are used to capture knowledge, insights and perceptions and to engage an existing board member in articulating their legacy.

### Changing culture and service strategy

- The board recognises that the aged care providers overall success is based on organisational performance and its values/culture. The board has processes in place to self-assess the effectiveness of both.
- The board establishes forums to consider how key strategic issues linked to heritage and/or 'mission' of the aged care provider will impact on future strategy and culture of the organisation.

### d) Measures of governance performance

<i>Governance</i>	<i>High Performing Governance</i>
<ul style="list-style-type: none"> <li>▶ The board uses the induction process, board reviews and gap analysis to assess initial and continuing professional development needs (relevant to the aged care provider) and to enhance the relevant skills and knowledge of board members.</li> <li>▶ Expected board/aged care provider behaviour and integrity are clearly defined and embedded in</li> </ul>	<ul style="list-style-type: none"> <li>▶ Frequent discussion and communication of values, ethics and related issues is ensured.</li> <li>▶ Open dialogue, constructive challenge and reporting of concerns to prevent negative consequences is promoted and rewarded.</li> <li>▶ A strategic approach and a plan for succession, that includes consideration of current and future skill and diversity needs, is established.</li> </ul>

<p>board/organisational culture.</p> <ul style="list-style-type: none"> <li>▶ Ethical conduct is modelled by board.</li> <li>▶ Board requirements, composition and effectiveness criteria are planned and monitored to ensure business sustainability and continuity.</li> <li>▶ Board capacity and capability supported through targeted proactive processes to identify and address issues including: <ul style="list-style-type: none"> <li>✓ development of knowledge and skills including interpersonal skills and ethics,</li> <li>✓ barriers to participation in meetings, discussions, decision making,</li> <li>✓ independence in decision making, and</li> <li>✓ mix of skills and diversity.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Board charter/ manuals are periodically reviewed and updated to reflect changing board composition and the aged care provider's strategic directions.</li> <li>▶ Consideration is given to how ethics are factored into board selection, evaluation and education.</li> <li>▶ The board regularly and systematically assesses its own performance, as a whole and in terms of individual members.</li> <li>▶ New board members are encouraged to provide critical feedback on their perceptions of how the board is working.</li> <li>▶ Six aspects of culture are periodically surveyed and analysed <ol style="list-style-type: none"> <li>1. Ethical culture</li> <li>2. Ethical leadership</li> <li>3. Risk culture</li> <li>4. Board involvement</li> <li>5. Governance culture and management style</li> <li>6. Workforce engagement.</li> </ol> </li> </ul>
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## e) Questions

To promote board dialogue and enhance the progression to high performance ask:

- ▶ Has consideration been given to how the board is composed (and/or refreshed), and does the board have a view on;
  - ✓ What is the right amount and kind of diversity to have among board members?
  - ✓ What is the right number of directors to have on the board?
  - ✓ What are the appropriate skills, capability and capacity, having regard to the aged care provider, its purpose, operations and its needs?
  - ✓ Is there sufficient diversity of relevant experience and perspective, including issues such as gender?
- ▶ What is the optimal approach to ongoing board continuity and capability? Consider for example the board members terms of appointment, removal (including the circumstances in which this can occur) or staggering of appointment/removal to ensure continuity and minimise organisational disruption?
- ▶ How can leadership be managed for higher board performance?
- ▶ What are our expectations as a board about? As Zimmerman (2015) quoted:

*Boards should have a clear charter about expectations, conflicts, behaviours, meeting attendance, ongoing mandatory professional development, gender mix, appointment processes, skill sets, tenure, self and peer evaluation .*
- ▶ For 'not for profit' aged care providers:
  - ✓ Where does the organisational 'mission' as a 'not for profit' fit into the future of aged care services?
  - ✓ How might this impact on areas such as board membership and capacity building and servicing role for the whole community?

- ✓ Where does the concept of 'competition' and 'branding' fit within a 'not for profit' culture of community service provision and 'mission'?

## f) Governance in Action – stories and examples

### **Leadership culture**

XXX aged care provider is committed to providing 'visible leadership' whereby board members and the CEO are seen actively engaged in organisational and community activities and visible to staff, service users and the community.

### **Skills and experience of the board**

The board consciously considers the skills required to respond to a changing environment. It identifies the optimum skills mix to meet its strategic needs.

It assesses its current membership profile and plans for future recruitment to meet emerging needs. (e.g. using a skills matrix).

The organisation actively manages and has a clear cycle of renewal for its membership. This encourages sufficient focus upon retention of board knowledge and culture whilst allowing introduction of fresh perspectives and vitality.

This in turn strengthens the board's ongoing self evaluation of its governance.

Staggered terms promote continuity of the XXX aged care provider's narrative.

One or two members understand and articulate Government policy and accurately gauge its impact – this is a valuable contribution to the skills mix.

### **Ensuring culture of the organisation supports transparency and staff input**

The aged care provider conducts a comprehensive staff attitude survey every two years and captures data against core workplace attributes (e.g. level of communication).

The survey results are tracked, and the board sees it as a powerful tool. The board can then communicate back to the organisation and say 'this is what we saw, and this is how we are responding' This information is also a vital source to inform the strategy planning process. It brings the board in tune with the aged care provider and aligned with what is occurring at the front line, and reveals a future as others see it, providing diversity of views.

### **Ongoing education and capacity building of board**

XXX aged care provider is committed to ensuring all board members are highly skilled and up to date with current knowledge and expertise.

It encourages all members to participate in formal training programs including those targeting directors.

It provides opportunities for board members to see innovative practice by others e.g. visiting other aged care providers (state, national, international) to bring alternative experiences and perspectives back to the home organisation.

The board allocates time in its schedule of meetings for reviewing professional development and different

members take responsibility for choosing topics and leading discussions. Every board member contributes a paper they would like others to read.

Board members also participate in annual tours of aged care services and meet with staff and clients and listen to their views and ideas.

Recently the board devoted a session to reviewing some cutting edge research about aged care. The board organised a guest speaker from the university who had been involved in the research. The session explored the research findings and potential application to the practices at XXX aged care provider.

### **Importance of the Chair**

XXX aged care provider demonstrates clearly the importance of the role of an effective chair. The person has strong emotional intelligence and can encourage and manage debate that is focused on issues rather than personalities.

Board meetings are typically robust, the chair sees their role in prompting discussion and ensuring information is at an appropriate level and is targeted. The chair ensures that decisions are based on dialogue and critical thinking and so avoids 'group think'.

A guiding principle that is used to test decisions is that it is in the best interests of the aged care provider; fiduciary responsibility rather than sectional interests prevail. The chair's role, in synthesising and articulating the way issues have been debated and the core principles that have been used to guide decisions, gives the board confidence in their level of analysis.

### **Building a pool of prospective board members – recruitment and induction**

XXX aged care provider developed a matrix of the aspirational skills mix it needed to meet its strategic goals. It realised that it needed to build a pool of prospective board members for future recruitment.

It decided to invest in building its pool, and debated how to 'test out' potential new members. As a result it began a 'program' for potential new members or provide opportunities to get involved as a step to becoming a member of the board. Depending on skills and interests, prospective board members were invited to contribute or participate in subcommittee/s.

Service on subcommittees is a way of training and trialling potential new board members and also has other benefits by increasing diversity through the subcommittees.

In some cases, ideal candidates with different skills sets would be considered even though they don't necessarily have current knowledge of the aged care sector. Where such recruitment decisions support getting the right skills mix, the board ensures that new appointees are brought up to date with information and experiences in aged care services.

Once appointed, the chair takes new directors on a walking tour of organisation and explains how the business works, characteristics, facilities, activities etc. The new director also spends time with senior staff to ensure they have a good understanding of the organisation.

There is a clear education process for board members about the organisation, the industry, the management of the aged care provider, and each new director receives a package of important information such as roles, policies, delegations etc.

The board is aware that its 'story' or 'narrative' is a dynamic and vital part of 'who we are'. Rather than just keeping a passive record of the aged care provider's history it organises a series of conversations and meetings with key informants to get a dynamic picture of organisational knowledge.

### 3.10 The role of the South Australia Innovation Hub as a 'Community of Practice'

The concept of the SA Hub as a Community of Practice emerged directly from the innovation trial.. A principle aim of the SA Hub is to develop a new model for collaboration to support improved 'quality of care' and services for older Australians.

The concept that a Community of Practice can contribute to high performing governance is currently not addressed in the literature on governance. However, through involvement in the SA Hub, members experienced clear benefits by being involved and collaborating with different boards from varying aged care providers. This in turn contributed to the overall capability of the group.

SA Hub members acknowledged the benefits and potential of collaboration and dialogue with other aged care providers, and that this collaboration highlighted commonality and a shared commitment to building expertise and to continuous improvement. Collaboration and sharing of insights and expertise promoted sustainable communities and sustainable aged care providers.

A key objective of the SA Hub is to improve and sustain better outcomes for older Australians engaged with aged care services. This will in part be achieved through developing an 'earned autonomy' approach for aged care in support of the Government's deregulation and social policies.

Whether it be within a Community of Practice or as an individual aged care provider, a critical element to high performing boards is their intent and focus on good and better governance. Central to high performance is the leadership within and by the board, shared by and with the CEO and senior management group as they work towards continuous improvement in performance.

An earned autonomy approach offers 'lighter touch' regulation to higher performing aged care providers (notwithstanding key regulatory areas of oversight being maintained) and aims to:

- Encourage aged care providers to pursue better practice in consumer engagement and governance and improve service delivery outcomes for consumers.
- Support an expansion in innovative models of care and services in line with the increasing demands of an ageing population.
- Facilitate a more targeted approach to government regulatory activities to focus them on where they are needed whilst maintaining safeguards for consumers.
- Provide opportunity for mutual sharing, learning and innovation among SA Hub members and partners.

The SA Hub provides an opportunity to contribute to Government policy by:

- Assisting Government to understand what better practice in aged care corporate governance looks like, including the integration of consumer engagement.
- Developing better practice resources which may be used by Government to assist build industry capacity.
- Developing a governance framework which:



- recognises provider performance and supports market maturity; and
  - may be used by Government to augment earned autonomy criterion if it makes a decision to roll the policy out nationally.
- Providing advice to Government on the development and trial of alternative regulatory models such as co-regulation.

### Further potential of the SA Innovation Hub

The SA Innovation Hub provides a Community of Practice framework for the aged care industry and could be further extended. Promoting support and access for smaller aged care providers to such a Community of Practice can facilitate their journey towards high performance.

The SA Hub is still in its infancy and exploring its future potential. Some initial ideas, tensions and questions include:

- Taking the best practice governance challenges and dealing with them as a group rather than individually. Such contemporary topics shared in the SA Hub have included:
  - the need for a code of conduct,
  - management of conflicts of interest,
  - the change over time from executive to non executive directors,
  - the move to remuneration of directors in the not for profit environment,
  - diversity in membership and skills,
  - risk management,
  - both internal and external review of boards, the individual members, chair and CEO, and how to 'pass on' the ethos and heritage of an organisation to future boards, and
  - consumer engagement and governance.
- How the not for profit and for profit models can be accommodated.
- Potential for regional sub groups or networks as a means for more isolated aged care service organisations and their governance development, building on the collaboration that the two regional SA Hub member boards have commenced.
- Consider opportunity to work with peak bodies and their existing governance training programs (for example; ACS [SA & NT], LASA Victoria) and how this project informs these.
- Preparation of a five year strategic plan for the SA Hub, identifying areas of collaboration for members as a whole, that is, having a common mission.
- The SA Hub being a point of expert reference or support to other aged care providers wishing to access knowledge, examples, networks – whilst still respecting commercial-in-confidence matters.
- Resourcing innovation that is essential for moving forward but where there may not be sufficient resources by individual aged care providers (collaborating on innovation).



- Improving 'quality of life' and continuing citizenship as a driving principle.
- Standing by the most vulnerable including those of diverse backgrounds.
- Ensuring long term viability when profitability is low.
- The tension between challenging and lobbying Government when Government is the main source of funding. – the leadership role of the SA Hub in the dialogue with Government.
- How to ensure a continuous improvement frame of reference to high performing governance, realising that what we are doing well today may not be what is needed for tomorrow, the importance of meeting minimum compliance today to define and address moving beyond compliance tomorrow.
- Using the expertise and shared commitments to inform Government policy in how to better target regulatory policy and actions.

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## Additional resources

Principles and frameworks		
<i>Organisation</i>	<i>URL</i>	<i>Title</i>
International Corporate Governance Network (ICGN)	<a href="https://www.icgn.org/best-practice">https://www.icgn.org/best-practice</a>	Global governance principles 2014 and series of principles and guides
The Code Steering Group 2011	<a href="http://www.governancecode.org">http://www.governancecode.org</a>	Good governance: a code for the voluntary and community sector (version for small organisations) 2 <sup>nd</sup> edition
German Corporate Governance Code Commission	<a href="http://www.dcgk.de/en/code.html">http://www.dcgk.de/en/code.html</a>	German Corporate Governance Code
OECD	<a href="http://www.oecd.org/daf/ca/oecdprinciplesofcorporategovernance.htm">http://www.oecd.org/daf/ca/oecdprinciplesofcorporategovernance.htm</a>	OECD Principles of Corporate Governance
General information		
<i>Organisation</i>	<i>URL</i>	<i>Title</i>
Australian Charities & Not for profits Commission (ACNC)	<a href="https://www.acnc.gov.au/ACNC/Home/ACNC/Default.aspx">https://www.acnc.gov.au/ACNC/Home/ACNC/Default.aspx</a>	Website
Australian Institute of Company Directors (AICD)	<a href="http://www.companydirectors.com.au/Director-Resource-Centre/Corporate-Governance-Framework">http://www.companydirectors.com.au/Director-Resource-Centre/Corporate-Governance-Framework</a>	Website
Better boards	<a href="http://betterboards.net/">http://betterboards.net/</a>	Website
Blackhall and Pearl	<a href="http://www.blackhallpearl.com/category.php?category=Board%20Performance%20Insights">http://www.blackhallpearl.com/category.php?category=Board%20Performance%20Insights</a>	Various fact sheets
Brown dog consulting	<a href="https://www.youtube.com/watch?v=zpxBeq6W2i8">https://www.youtube.com/watch?v=zpxBeq6W2i8</a>	What is governance (video)
Canadian Coalition for Good Governance (CCGG)	<a href="http://www.ccgq.ca/">http://www.ccgq.ca/</a>	Website
Corp.gov.net	<a href="http://corp.gov.net/links-page/#Network">http://corp.gov.net/links-page/#Network</a>	Website links page
Governance Institute	<a href="http://www.governanceinstitute.com.au/knowledge-resources/good-governance-guides/">http://www.governanceinstitute.com.au/knowledge-resources/good-governance-guides/</a>	Good governance guides
Tools and training (free)		
<b>Organisation</b>	<b>URL</b>	<b>Title</b>
Institute of Community Directors (ICD)	<a href="http://www.communitydirectors.com.au/icda/tools/?articleid=1342">http://www.communitydirectors.com.au/icda/tools/?articleid=1342</a>	Board effectiveness quiz
Open SUNY, State University of New York	<a href="https://www.boardcheckup.com/">https://www.boardcheckup.com/</a>	Online board checkup tool
Open SUNY, State University of New York	<a href="https://www.coursera.org/course/nonprofitgov">https://www.coursera.org/course/nonprofitgov</a>	The Governance of Non-profit Organisations (online training)