2019 Governance Priorities & Practices Across Leading Health Systems

January 2020

The Academy
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Introduction

In an age of rapid healthcare transformation, Leading Health System (LHS) Boards of Trustees face unique challenges as they look to evolve and transform. Top areas of strategic focus include operational scale, growth and asset management, and the personalization of care and delivery. LHS leaders are increasingly aware of the need to adapt their governance strategies in order remain competitive in a complex market and to more effectively meet the needs of their communities.

Although LHS priorities often vary due to regional differences and unique market factors, most LHS leaders are working to develop solutions to common governance challenges, including board structure and composition, recruitment, succession planning, compensation, and continuing education. While there is variation in corporate governance practices and protocols across different industries, guidance targeted toward the LHS market is limited. LHS are forced to look outside the healthcare industry for solutions, often comparing governance practices and protocols to S&P 500 companies.

To address this need, The Health Management Academy (The Academy), set out to better understand what governance strategies LHS are implementing, and how these strategies have evolved over time. In 2019, The Academy gathered qualitative and quantitative insights from executives across the top LHS. The following report describes governance priorities and practices across the LHS market, using S&P 500 data as proxy benchmarks in the absence of established LHS benchmarks. Additionally, this report integrates findings from The Academy’s research conducted between 2015 and 2019 in order to assess the rate of change across LHS board priorities and practices.

Closing the Gap on Governance
Identifying Core Benchmarks Across LHS 200

<table>
<thead>
<tr>
<th>S&amp;P 500</th>
<th>LHS 200</th>
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<tr>
<td><strong>Board Structure &amp; Composition</strong></td>
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<tr>
<td>Board Size</td>
<td>✔️</td>
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<tr>
<td>Standing Committees</td>
<td>✔️</td>
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<td><strong>Recruitment &amp; Succession Planning</strong></td>
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<td>Board Diversity</td>
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<td>Compensation</td>
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<td><strong>Continuing Education &amp; Retreats</strong></td>
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<tr>
<td>Board Education</td>
<td>✔️</td>
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</table>
Research Findings Represent the Top 200 Leading Health Systems

The Academy captured executive perspectives across 25 health systems that are representative of a significant share of the LHS market

**Summary Statistics for Health System Sample**

- **255** Hospitals
- **$3.1B** Average Net Patient Revenue (NPR)
- **2.7M** Inpatient Admissions
- **$3.6B** Average Total Operating Revenue (TOR)

**Health System Size (TOR):**
- Small <$2B - 28%
- Medium $2–5B - 44%
- Large >$5B - 28%

**Executive Perspectives:**
- Chief Executive Officer
- General Counsel / Chief Legal Executive
- Board Chair
- Regional Chief Executive Officer
- Hospital President
- Director of Corporate Governance
- Board Liaison
- Executive Assistant / Governance Secretary
Key Findings

1. **Priorities & Challenges**
   Top governance priorities across LHS include implementing structural changes to the board, recruiting board members with new competencies, increasing board diversity, and establishing governance protocols and best practices.

2. **Board Structure & Composition**
   LHS boards have made several structural changes since 2015, including decreasing the average board size. The average LHS board size has decreased by 25% since 2015, yet is still nearly twice as large as S&P 500 companies.

3. **Recruitment & Succession Planning**
   LHS boards have increased diversity across board membership, closely aligning with S&P 500 benchmarks for age, gender, and race/ethnicity of board members.

4. **Evaluation & Compensation**
   LHS boards have increased board member compensation, with 43% of LHS providing board compensation today, an increase of 13% since 2015.

5. **Continuing Education**
   Most LHS hold retreats on an annual basis (81%), often using them as an opportunity to provide continuing education.
# Benchmarking Governance Practices Across LHS 200

**Using S&P 500 cohorts to identify key benchmarks of interest to LHS market**

## Structure & Composition

<table>
<thead>
<tr>
<th>S&amp;P 500¹</th>
<th>LHS 200</th>
</tr>
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<tbody>
<tr>
<td>Average Corporate Board Size</td>
<td>10.7</td>
</tr>
<tr>
<td>Max Board Size</td>
<td>18</td>
</tr>
<tr>
<td>Average Number of Standing Committees</td>
<td>4.2</td>
</tr>
<tr>
<td>Boards with Defined Term Limits</td>
<td>5%</td>
</tr>
<tr>
<td>Average Board Member Term Length</td>
<td>1 year</td>
</tr>
<tr>
<td>Average Frequency of Board Meetings (per year)</td>
<td>7.9</td>
</tr>
<tr>
<td>Average Age of First Time Directors</td>
<td>54.2</td>
</tr>
</tbody>
</table>

## Evaluation & Compensation

<table>
<thead>
<tr>
<th>S&amp;P 500¹</th>
<th>LHS 200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct Annual Board Assessment</td>
<td>98%</td>
</tr>
<tr>
<td>Conduct Annual CEO Assessment</td>
<td>--</td>
</tr>
<tr>
<td>Provide Compensation to Board Members</td>
<td>--</td>
</tr>
<tr>
<td>Use External Resource for Board Evaluations</td>
<td>13%</td>
</tr>
<tr>
<td>Total Average Compensation (Per Year)</td>
<td>$304,856</td>
</tr>
<tr>
<td>Boards Paying Committee Chair Retainer</td>
<td>97%</td>
</tr>
<tr>
<td>Boards Paying Committee Member Retainer</td>
<td>46%</td>
</tr>
</tbody>
</table>

## Recruitment & Succession Planning

<table>
<thead>
<tr>
<th>S&amp;P 500¹</th>
<th>LHS 200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversity of Board Members</td>
<td></td>
</tr>
<tr>
<td>Minority Board Members</td>
<td>19%</td>
</tr>
<tr>
<td>Female Board Members</td>
<td>26%</td>
</tr>
<tr>
<td>Female Board Chairs</td>
<td>5%</td>
</tr>
<tr>
<td>Board Members &lt;50 years old</td>
<td>16%</td>
</tr>
<tr>
<td>Boards with Mandatory Retirement Age</td>
<td>71%</td>
</tr>
<tr>
<td>Boards with Mandatory Retirement Age of 75+</td>
<td>46%</td>
</tr>
<tr>
<td>Boards with Mandatory Retirement Age of 72+</td>
<td>96%</td>
</tr>
</tbody>
</table>

## Continuing Education & Retreats

<table>
<thead>
<tr>
<th>S&amp;P 500¹</th>
<th>LHS 200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Length of Board Retreat</td>
<td>--</td>
</tr>
<tr>
<td>Average Frequency of Board Retreat</td>
<td>--</td>
</tr>
<tr>
<td>Board Education &amp; Development Committee</td>
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</tbody>
</table>

¹ 2019 United States Spencer Stuart Board Index
Priorities & Challenges
LHS Strive to Find the Right Members & Processes for Success

Top LHS Governance Priorities

1. Create a sustainable, forward-thinking governance structure

2. Identify and develop the right competencies among health system’s board members

3. Strive for board diversity

4. Ensure board focus is on governance (i.e., distinguish between governance and management)

5. Establish governance protocols and best practices

CEO Perspectives

“We have grown from a small hospital to a multi-billion dollar system, so I want to help the board reflect that change in the company.”

- CEO, Leading Health System

“How do we pay attention to cultural, religious, age, and economic diversity so we have a well-rounded board? What kind of leadership is required to do this?”

- CEO, Leading Health System

“Governance has an enormous impact on culture and strategic direction. Good governance determines how quickly you can move and focus on the right thing as a system.”

- CEO, Leading Health System

“What is the role of governance? Do we have our hands on the wheel or are we just functioning as guardrails for management?”

- CEO, Leading Health System
Top Governance Challenges Include Recruiting & Succession Planning

**Top LHS Governance Challenges**

- Finding board members with backgrounds in consumer experience, retail, change management, and digital technology
- Finding independent physician leaders from outside the region
- Finding board members to serve faith-based health systems
- Onboarding and providing education for new board members
- Planning for board member succession and leadership turnover
- Establishing robust board evaluation processes
- Building momentum for change

**Recruiting Board Members with a Broader Range of Competencies**

“We need to expand our strategy to recruit people with broader healthcare landscape experience, such as retail and health insurance, in addition to diversity in terms of gender, race, and ethnicity.”

- Board Chair, Leading Health System

**Robust Succession Planning**

“It used to be an old smoke-filled room type thing for the chair position, but we now have a program where the board chair and vice chair get re-elected together. People will put their hat in the ring for either of those positions. We eliminated annual votes.”

- Board Chair, Leading Health System

**Building Momentum for Change**

“We have long recognized that we needed to change our structure and processes, but it’s more clear that now is the time to do that work. We have run head first into a brick wall of old thinking, self-interest and unwillingness to evolve.”

- CEO, Leading Health System
Structure & Composition
Average Board Size Decreases But Is Still Larger than S&P 500

Average board size decreased from 25 to 18 over last five years

Today, the average number of board members for LHS is 18, a 28% decline from an average of 25 reported in 2015.¹ Despite this decrease, the average health system board continues to be nearly twice as large as the average S&P 500 board size, reported as 10.7 board members in 2019.²

A majority of health system respondents (71%) report that they had no plans to change their board size in the next 1-3 years. Though many participating executives expressed difficulty in managing larger boards and a desire to modernize by reducing board sizes, many reported experiencing significant resistance to change. Resistance often stems from interest in increasing diversity in skillsets, perspectives, and representation from the community. Additionally, executives are often hesitant to decrease board sizes and subsequently increase the workload per board member.

“When looking to restructure our board, we wanted it to be representative of the community, so we decided not to decrease the size.”

- Board Chair, Leading Health System

¹ 2019 United States Spencer Stuart Board Index
² Academy Proprietary Database. 2015-2019

*Note: Percentages may exceed 100% due to rounding.
Board Structures Evolve to Accommodate Health System Needs

Health systems are shifting fiduciary responsibilities from hospital boards to a central corporate board

Health systems are shifting responsibilities between their boards to better align strategy and operations at the appropriate levels. Corporate boards generally retain fiduciary responsibility, whereas health systems are shifting the focus of hospital boards to quality, physician credentialing, and community partnerships. Nearly three-quarters (71%) of health systems have a hospital board.

Only 29% of respondents report having a regional board structure. Many health systems report considering adding a regional board to help manage the size of their systems as they experience significant enterprise growth.

“Our system board articulated a strategic plan to each subsidiary board to ensure that they understand their role as a part of the larger system strategy.”

- CEO, Leading Health System

“We changed the focus of our local boards. We decreased the frequency of their meetings, and shifted the focus of those meetings to storytelling and community.”

- Regional CEO, Leading Health System

Percentage of Board Types Across LHS 200 (2019)

Most Common Board Structures Reported by LHS 200 (2019)
LHS Have Nearly 2x the Number of Board Committees as S&P 500

Majority (71%) of health system leaders have no plans to change board structure in the next 1-3 years

Committee Structures Vary Across LHS 200 and S&P 500

- Health systems report an average of 7 standing committees, almost twice the S&P 500 average of 4.2 standing committees.¹
- Executive committees of participating health systems have an average of 8 board members.
- Nearly three-quarters (71%) of systems cite no plans to change their number of board committees in the next 1-3 years. The remaining 29% of systems report plans to change their number of board committees in one year (19%) or in two years (10%).
- Less commonly reported committees include Research, IT, Social Responsibility / Community Benefit, and Faith & Health Ministries.

Most Common Board Structures Reported by LHS 200 (2019)

- Audit*: 100%
- Finance**: 100%
- Compensation: 80%
- Governance & Nominating: 75%
- Patient Care Quality & Safety: 75%
- Executive***: 70%
- System Strategy & Planning: 30%
- Board Education: 5%

¹ 2019 United States Spencer Stuart Board Index

Note: Multiple board committee functions may be represented on the same committee.

*53% have combined Audit & Compliance Committee

**37% include Investments as part of Finance Committee

***5% include Governance as part of Executive Committee
Average Board Member Term Length Is Down From 4 Years to 3 Years

Board member term limits are more often defined in LHS 200 than S&P 500

Board member term lengths have decreased to an average of 3 years in 2019, down from 4 years in 2015.² Average board member term lengths for health systems are longer than members of S&P boards, who are most commonly elected annually to one-year terms.³

Compared to S&P 500 boards – only 5% of which have explicit terms limits – 80% of health system boards set defined term limits to encourage turnover and increase board diversity. Alternatively, nearly two-thirds (61%) of health systems do not have a term limit for board committee chairs.

Additionally, 10% of LHS have an overall age limit for board members. Several members commented that their age limit is 75.

“There have been comments that we should not have term limits, but I think we need them. We have to be willing to risk losing some amazing board members, but we will just have to be more deliberate about succession.”

- CEO, Leading Health System

“We added term limits in order to increase the diversity of the board because we want to become a board that is reflective of the community we serve.”

- Board Chair, Leading Health System

² Academy Proprietary Database. 2015-2019.
LHS Board Meetings are Shorter and Less Frequent

Health system boards have altered their meeting cadence in order to help members balance the time commitment

Over the past few years, health system boards have shifted from convening 6 times per year on average, to convening members quarterly (or about 4-5 times per year) in 2019.² In comparison, S&P 500 boards report an average of 8 meetings per year in 2019.¹

Health system boards also seek to shorten meeting lengths in order to decrease the time commitment for board members. The number of boards with a meeting length of 4+ hours has decreased from 62% in 2015 to 43% in 2019.

“Having fewer meetings requires us to align more closely as a health system. The board enjoys it more because it’s less of a time commitment and the time we do have is more focused. Plus fewer meetings allows the board membership to be more diverse.”

- Regional CEO, Leading Health System

¹ 2019 United States Spencer Stuart Board Index
² Academy Proprietary Database. 2015-2019
Recruitment & Succession Planning
Diversity in Age, Gender, and Race/Ethnicity Increase Across LHS

Diversity across LHS boards is on par with S&P 500 benchmarks

**Race/Ethnicity Across LHS 200 and S&P 500 (2019)**

<table>
<thead>
<tr>
<th></th>
<th>LHS 200</th>
<th>S&amp;P 500</th>
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</thead>
<tbody>
<tr>
<td>White</td>
<td>80%</td>
<td>81%</td>
</tr>
<tr>
<td>African American/Black</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Hispanic/Latino</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Asian</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Other/Unidentified</td>
<td>1%</td>
<td>4%</td>
</tr>
</tbody>
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**Age Across LHS 200 and S&P 500 (2019)**

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<thead>
<tr>
<th>Age Group</th>
<th>LHS 200</th>
<th>S&amp;P 500</th>
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</thead>
<tbody>
<tr>
<td>59 and Younger</td>
<td>42%</td>
<td>18%</td>
</tr>
<tr>
<td>60 and Older</td>
<td>58%</td>
<td>81%</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Year</th>
<th>LHS 200 Female</th>
<th>S&amp;P 500 Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>16%</td>
<td>18%</td>
</tr>
<tr>
<td>2013</td>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>2015</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>2017</td>
<td>24%</td>
<td>24%</td>
</tr>
<tr>
<td>2018</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>2019</td>
<td>26%</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Race/Ethnicity:** LHS 200 boards have a comparable distribution of race/ethnicity as S&P 500 boards, with board members self-identifying as 80% White, 10% African American/Black, 2% Hispanic/Latino, and 1% Asian.¹

**Age:** LHS 200 boards skew younger in age, with 42% of members 59 and younger – compared to 18% among S&P 500 boards.¹ The remaining 58% of LHS 200 board members are 60 or older.

**Gender:** In 2019, more than one-quarter (26%) of members identify as female among LHS 200 and S&P 500 boards.¹,² Among LHS 200 board chairs, 19% identify as female and 9% as racial/ethnic minorities. Only 5% of board chairs identify as a female minority.

¹ 2019 United States Spencer Stuart Board Index
² Academy Proprietary Database, 2015-2019
Board Recruitment Aims to Increase Diversity and Geographic Representation

LHS seek to capture a wider range of experiences and perspectives

Health system leaders continue to emphasize the importance of increasing the age, gender, and racial/ethnic diversity of their boards, as well as developing an intentional recruitment strategy for new board members.

State and regional health systems are more likely to recruit locally for members, while large, multi-state health systems are more likely to recruit nationally for board members.

“Historically, we have a strong local presence, but in the last 2-5 years we have added 2-3 national board members as we have expanded our strategic focus. It’s important to have a combination of both perspectives.”

– General Counsel, Leading Health System

Board Recruitment Strategies

- Creating a board development committee to understand the pool of available board members for leadership and committee roles
- Recruiting new health system level board members from pool of hospital board members
- Looking at candidates outside of local region
- Developing a robust succession plan in advance of board openings

“Having a board development committee to tackle leadership succession means that we are more purposeful now about understanding who is in the pool of available board members for leadership and committee roles.”

– General Counsel, Leading Health System

Geographic Representation of Board Members Across LHS 200

- Health System’s State: 82%
- Health System’s Region: 12%
- National: 6%
Demand for Consumer, Technology, & Payer Experience Is on the Rise

LHS board recruitment strategies have increased focus on members with backgrounds in new or unique competencies.

When recruiting new board members, health systems are searching for an expanded range of competencies beyond common areas of expertise (e.g., finance, real estate, legal) in order to be successful in the changing healthcare landscape.

Leaders are seeking candidates with new or unique backgrounds to reflect these changes, including retail and non-healthcare consumer experience, digital technology, change management, and healthcare payer experience. Payer experience is particularly valuable to health systems that own or operate their own health plan.

“We are anxious to have people from the insurance industry represented on the board. Historically, this was not a priority, but due to the shift away from fee-for-service, we need that perspective. Particularly because we have our own Medicare Advantage plan.”

- Board Chair, Leading Health System
Almost Half of LHS Board Members Have No Background in Healthcare

To diversify board composition, LHS seek representation from outside the healthcare industry

Professional Experience Across LHS Board Members*

<table>
<thead>
<tr>
<th>Professional Experience</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-healthcare Background (e.g. finance, real estate, legal)</td>
<td>48%</td>
</tr>
<tr>
<td>Physician</td>
<td>18%</td>
</tr>
<tr>
<td>Academic / Health Policy Consultant</td>
<td>14%</td>
</tr>
<tr>
<td>Marketing &amp; Communications</td>
<td>9%</td>
</tr>
<tr>
<td>Technology</td>
<td>6%</td>
</tr>
<tr>
<td>Nurse</td>
<td>3%</td>
</tr>
<tr>
<td>Health Insurance</td>
<td>3%</td>
</tr>
<tr>
<td>Pharma / Medical Device</td>
<td>1%</td>
</tr>
<tr>
<td>Executive From Another Health System</td>
<td>1%</td>
</tr>
</tbody>
</table>

*Note: Percentages exceed 100% due to members with multiple areas of expertise.

"As board members roll off, we can begin to make changes to the board's demographics and competencies. There is still a lot of work to be done here."

- CEO, Leading Health System
## LHS Board Succession Planning Functions Vary by Role

### Most Common CEO Succession Planning Processes Across LHS 200 (2019)

- Review succession plan annually
- Prepare pipeline of candidates to be ready in one, three, and five years
- Develop a rigorous candidate interview and vetting process
- Require advanced knowledge of planned leave
- Organize a search committee to fill vacancies
- Develop a contingency plan for emergency scenarios

### Most Common Board Member Succession Planning Processes Across LHS 200 (2019)

- Review succession plans at regular intervals
- Prepare pipeline of candidates to be ready in one to two years
- Develop a rigorous candidate interview and vetting process
- Require advanced knowledge of planned leave
- Organize a search committee to fill vacancies
- Develop a contingency plan for emergency scenarios
- Set defined term limits
- Address gaps in board competencies and diversity (gender, age, race/ethnicity) as vacancies arise
- Establish conflict of interest policy in bylaws
- Identify extent to which replacement is immediately required

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"A few years ago, we had to increase our candidate sourcing across different disciplines. The board chair and I interviewed every potential candidate and selected four individuals to bring on that were staggered over the course of 3 years."

- CEO, Leading Health System

"Many organizations are tackling diversity at the same time, and we’re all chasing the same folks. We have to start grooming diverse candidates earlier."

- Board Chair, Leading Health System

"We have to be deliberate about succession planning way ahead of time."

- CEO, Leading Health System

"We had a succession plan in place and the transition went very smoothly, however, we do not have a new plan in place now."

- General Counsel, Leading Health System
Board Competency Needs Vary By System

“The advantage of having a national board instead of regional and local is that we can focus on board members' area of expertise and eliminate any political issues or personal agendas often encountered on regional or local boards.”

-CEO, Leading Health System

“We are looking for board members with experience in technology and innovation.”

-Chief Legal Officer, Leading Health System

“The challenge for me is that 38% of our employees are millennials. None of my executive leadership team are millennials, so how do we address that?”

-CEO, Leading Health System

“We wouldn’t want a payer on the board—it would be too much of a conflict.”

-General Counsel, Leading Health System

“We’re looking for experts in consumer experience outside of healthcare. We need people who think differently about the world.”

-CEO, Leading Health System
Evaluation & Compensation
Board Compensation Is on the Rise Among LHS

The majority (57%) of boards do not provide compensation to board members, however, many LHS are increasingly finding value in offering compensation. The remaining 43% of LHS compensate their board members, an increase of 13% since 2015.²

Health system leaders looking to recruit board members at the national level, or board members with a broader range of experiences and competencies, view board compensation as a key component to attracting a strong pool of candidates.

Of the health systems that provide compensation to board members, typically committee chairs receive the same compensation as non-chair board members. However, most board chairs receive additional compensation for their role to reflect the increase in responsibilities.

“Given the size and complexity of these entities, plus the time it demands of them to be properly prepared, the role is a heavy burden. If you want the caliber of board members necessary to navigate these waters, you’re going to have to pay for it.”

- Board Chair, Leading Health System

² Academy Proprietary Database. 2015-2019
CEO and Board Evaluations Are Primarily Conducted Internally

**CEO Evaluation Process**

- **68%** Internal
- **26%** External
- **5%** Both

**Board Evaluation Process**

- **63%** Internal
- **26%** External
- **11%** Both

*Note: Percentages may not equal 100% due to rounding.

**Most Health Systems Use A Formal Process for Evaluations**

For CEOs, the evaluation process is typically established in the bylaws or outlined in the supplemental governance guidelines set by the board. Though a majority (68%) of CEO evaluations are conducted internally, some systems use consultants to ensure evaluations are independent (e.g., Sullivan Cotter, Governance Institute, Integrated Health Solutions.)

Likewise, most (63%) health systems conduct internal board evaluations, although some conduct both internal and external assessments (11%). Examples of consulting firms engaged for board evaluations include Jensen Associates and Governance Institute.

**CEOs Subject to Additional Evaluation Tools**

Internal tools leveraged for CEO and Board evaluations include online or paper self-assessments, or other tools accessed through an online board portal. CEOs are often subject to additional internal evaluations, including: compensation committee evaluations, internal score cards, or reviews conducted by the Board Chair.

External evaluations for CEO and Board roles are conducted through consultant portals or online self-assessments.

“We eliminated auto-renewal of terms and conducted board evaluations prior to being asked back. The board was delighted by new stronger board members coming on and we are operating at an even higher level than before.”

- Board Chair, Leading Health System
Continuing Education & Retreats
LHS Board Retreats Serve as an Opportunity for Continuing Education

Most health systems report convening a board retreat, with all but one participating system holding the retreat off-site. Most systems hold retreats on an annual basis (81%), although some boards elect to host a retreat twice per year, every other year, or not at all.

The length of retreats varied significantly among systems surveyed, but 1.5 days was the most commonly reported length.

Most CEOs report using the first day of full board retreats to conduct onboarding processes for new board members and to provide education on governance best practices for the full board. Occasionally, the full board may be invited to onboarding sessions in order to provide continuing education on general healthcare knowledge.

“Continuing education is done through management presentations and retreats. Every board meeting we have an educational luncheon where there is a presentation on network priorities and issues.”

- Board Chair, Leading Health System

“We use our governance retreat to provide common education on best practices and report on where we are strategically. The other purpose is to get to know each other, give the board an opportunity to network, and build trust.”

- CEO, Leading Health System
LHS Seek to Revamp Continuing Education for Board Members

While health system leaders report structured onboarding processes for new board members (e.g., educational content on business model, financials), they highlighted continuing education programs as an area for improvement.

Only 5% of responding health systems report having a “Board Education & Development” standing committee with designated responsibility for developing a board education strategy. Many indicated that they rely on staff presentations at board meetings on an ad hoc basis to cover relevant onboarding information.

Examples of Board Education Include:

- Special informational sessions
- Designated time at the beginning of every board meeting for continuing education presentations
- Educational materials and healthcare-focused news articles distributed between board meetings
- Guest speakers at board meetings

“We offer to pay for board members to attend third party governance or healthcare specific trainings. But quite frankly, everyone is busy and it’s difficult to get people to do that, only a few people engage.”

- Board Chair, Leading Health System
Conclusions & Methodology
Health System Governance Practices Trend Toward S&P 500 Benchmarks

Gaps still exist in core governance benchmarks across the LHS market

<table>
<thead>
<tr>
<th>Structure &amp; Composition</th>
<th>S&amp;P 500¹</th>
<th>LHS 200²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Corporate Board Size</td>
<td>10.7</td>
<td>18</td>
</tr>
<tr>
<td>Max Board Size</td>
<td>18</td>
<td>28</td>
</tr>
<tr>
<td>Average Number of Standing Committees</td>
<td>4.2</td>
<td>7</td>
</tr>
<tr>
<td>Boards with Defined Term Limits</td>
<td>5%</td>
<td>80%</td>
</tr>
<tr>
<td>Average Board Member Term Length</td>
<td>1 year</td>
<td>3 years</td>
</tr>
<tr>
<td>Average Frequency of Board Meetings (per year)</td>
<td>7.9</td>
<td>6</td>
</tr>
<tr>
<td>Average Age of First Time Directors</td>
<td>54.2</td>
<td>--</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recruitment &amp; Succession Planning</th>
<th>S&amp;P 500¹</th>
<th>LHS 200²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversity of Board Members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minority Board Members</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Female Board Members</td>
<td>26%</td>
<td>27%</td>
</tr>
<tr>
<td>Female Board Chairs</td>
<td>5%</td>
<td>19%</td>
</tr>
<tr>
<td>Board Members &lt;50 years old</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>Boards with Mandatory Retirement Age</td>
<td>71%</td>
<td>--</td>
</tr>
<tr>
<td>Boards with Mandatory Retirement Age of 75+</td>
<td>46%</td>
<td>--</td>
</tr>
<tr>
<td>Boards with Mandatory Retirement Age of 72+</td>
<td>96%</td>
<td>--</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Evaluation &amp; Compensation</th>
<th>S&amp;P 500¹</th>
<th>LHS 200²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct Annual Board Assessment</td>
<td>98%</td>
<td>100%</td>
</tr>
<tr>
<td>Conduct Annual CEO Assessment</td>
<td>--</td>
<td>100%</td>
</tr>
<tr>
<td>Provide Compensation to Board Members</td>
<td>--</td>
<td>43%</td>
</tr>
<tr>
<td>Use External Resource for Board Evaluations</td>
<td>13%</td>
<td>26%</td>
</tr>
<tr>
<td>Total Average Compensation (Per Year)</td>
<td>$304,856</td>
<td>--</td>
</tr>
<tr>
<td>Boards Paying Committee Chair Retainer</td>
<td>97%</td>
<td>--</td>
</tr>
<tr>
<td>Boards Paying Committee Member Retainer</td>
<td>46%</td>
<td>--</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Continuing Education &amp; Retreats</th>
<th>S&amp;P 500¹</th>
<th>LHS 200²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Length of Board Retreat</td>
<td>--</td>
<td>1.5 days</td>
</tr>
<tr>
<td>Average Frequency of Board Retreat</td>
<td>--</td>
<td>Annual</td>
</tr>
<tr>
<td>Board Education &amp; Development Committee</td>
<td>--</td>
<td>5%</td>
</tr>
</tbody>
</table>

¹ 2019 United States Spencer Stuart Board Index
² Academy Proprietary Database. 2015-2019.
Methodology

In 2019, The Academy gathered qualitative and quantitative insights from executives across the LHS market. The following report describes governance priorities and practices in the LHS market, using S&P 500 data as proxy benchmarks in the absence of established LHS benchmarks. This report also integrates findings from The Academy’s research conducted between 2015 and 2019 in order to assess how LHS board priorities and practices have evolved over time. The study respondents represent 25 unique health systems across a range of executive roles including: Chief Executive Officer, Board Chair, General Counsel/Chief Legal Executive, Regional Chief Executive Officer, Hospital President, Director of Corporate Governance, Board Liaison, and Executive Assistant/Governance Secretary. The 25 health systems have an average Total Operating Revenue (TOR) of $3.6 billion and own or operate 255 hospitals.

This sample is representative of the largest 200 health systems in the U.S. The largest 200 health systems were classified as those with the highest TOR, as validated by 2017 health system financial statements and The Academy’s 2019 proprietary database.

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